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**Chair's Summary for the 03 April 2018 Meeting**

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**2018 Annual Evaluation Review (AER) Special and Recommendations Chapters**

1. The Development Effectiveness Committee (DEC) discussed two chapters of the 2018 AER namely: (i) Quality of Project Design and Preparation for Efficiency and Sustainability, and (ii) Implementation of Independent Evaluation Department (IED) recommendations. The 2018 AER features a new format and template, including a two-page executive summary as DEC suggested.
2. **IED Findings and Recommendations.** The evaluation focused on what ADB could do at the stage of project design and preparation to improve efficiency and sustainability. It had done a quantitative analysis of its determinants based on IED materials, while noting also a significant increase in the ratings for project efficiency and sustainability over 2010-2017 as compared to the previous period 2001-2009. IED noted that management actions must have contributed to the significant improvements, but since efficiency and particularly sustainability ratings were still below the notional 80% of operations being satisfactory in these respects. Improvements should continue to be made in this area. Measures that had contributed to the improvements in the past were changes to the project design and preparation practices, provision of strategic guidance, change in sector focus, introduction of new modalities, and continuous business process improvements. To improve efficiency, IED suggested that ADB should continue with ongoing business process reforms, initiate new reforms to be responsive to context dynamics, and report progress regularly. The sustainability of operations, in turn, could be improved by systematically incorporating sustainability measures in project design documents. Implementation of IED recommendations stood at 90% due to strengthened IED-Management engagement.
3. **Management Response.** The 2018 AER was acknowledged as much improved. Management emphasized that design along with implementation affect efficiency and sustainability. IED's statistical analysis needed to capture other factors such as definition of sustainability and capacity of executing agencies to increase the value and practical use of the analysis. The generic use of 'efficiency' made some findings less relevant and misleading. Instead of testing for different variables (which led to findings that provide little value without further analysis), the analysis should have tested the anticipated causal model, and assessed for efficiency and sustainability using the same.
4. Management agrees with most of IED's recommendations except recommendation 4 which was viewed as impractical since it mentioned the outcome of actions without specifying said outcomes. Further, the time lag between the action and the outcome, and other factors might have affected the outcome. IED is also urged to be cautious when making its interpretations on factors influencing project/program performance, and make more evidence-based, rather than opinion-based, recommendations. For example, more evidence was needed to support the recommendation that inclusion of sustainability measures in board documents will improve sustainability.
5. In accepting Recommendation 3, management will undertake reforms to improve efficiency and sustainability in addition to the reform measures already taken from 2011-2017 (whose impact will still need time to come into full effect), which are as follows:
  - a. Empowered the resident missions and delegated authority to the project administration matters;
  - b. Collaborated with co-financiers to fund detailed engineering design and improve project readiness and efficiency;

- c. Deployed procurement specialists to resident missions and statutory divisions to reduce the end-to-end procurement time;
  - d. Expanded the TA-cluster concept to project preparation, technical assistance (TAs), reducing processing time;
  - e. Introduced a second-generation procurement reform to improve procurement efficiency and promote the use of country and agency systems to reduce the overall end-to-end procurement timeline;
  - f. Increased the use of country safeguard systems for planning and implementation of safeguards in ADB-financed projects;
  - g. Rolled-out the client portal for disbursements to process withdrawal applications quickly;
  - h. Streamlined the investment committee approval process; and
  - i. Supported departments to introduce and announce service-level standard for all transactions.
6. **DEC Discussion.** DEC members congratulated CWRD as the most improved operational department, despite having a number of challenging country programs. DEC encouraged management and staff to continue their efforts to improve the process and enhance efficiency and sustainability. It was agreed that the analysis incorporated factors/variables that were beyond management's control, which should be treated separately.
  7. DEC noted the 15% drop in success rate from 2016 to 2017, which IED explained was due to single-year performance fluctuations in project completion. For example, there were seven projects in the People's Republic of China in 2016 that performed well, but this dropped to three in 2017; also, transport sector projects dropped slightly.
  8. DEC welcomed the finding that ADB is pioneering in the field of gender and development, which IED clarified as due to ADB's effective mainstreaming of gender and development actions in operations – a significant number of projects get a gender action plan, which is being implemented.
  9. Remarking that effectiveness, efficiency and sustainability never achieved 80%, DEC raised the reasonableness of the 80% target, which according to IED pertained to the overall success ratio and not a target for efficiency, sustainability, relevance or effectiveness. IED explained that Management in its corporate results framework has set such a target since 2008.
  10. On project complexity and risks, management was reminded that the review's findings should not be interpreted as recommending to ADB to undertake simple projects (with one component, and with little to no risks). Instead, ADB is encouraged to engage in challenging projects by applying comprehensive and innovative solutions with adequate care, even if this will result in lower overall rating since this is where ADB's additional value lies. Management should practice risk projection with risk management and consider the risks of certain known cycles, such as elections, in coming up with action plans.
  11. DEC members reiterated the need for operations to have more access to technical assistance (TA) for project preparation and implementation. A review of capacity-building initiatives for key institutions was also suggested to see if these initiatives worked. This is because some institutions seem not to have improved even over a span of years.
  12. DEC suggested that a joint review and discussion in the Board of the annual reports comprising of the ADB Annual Report, SPD's Development Effectiveness Review, PPF's Annual Portfolio Performance Report, and IED's Annual Evaluation Review to be carried out. This would promote a holistic review of ADB's performance and identify areas needing improvement.

13. On recommendation 1, DEC noted the contradiction or potential inconsistency in the call for integration of social sector operations with hard infrastructure operations and the experience that complex projects had lower success rates (measured by the number of project components). As an example, IED cited a flood protection project in India, which involved the construction of canals and drainage reservoirs that was integrated with providing credits to farmers to access irrigation facilities or using the credits as seed money to produce agricultural goods.
14. On recommendation 2, DEC agrees that ADB should make business process reform a continuous and unending effort.
15. On recommendation 3, DEC welcomed the suggestion to improve systematic coverage of sustainability measures in project design documents by introducing a dedicated section in the RRP. Management agreed to the recommendation with a caveat that sustainability is not assured even then since many other contributing factors affect sustainability even after the RRP is finalized and approved by the Board.
16. On Recommendation 4, IED and management are encouraged to have the same understanding of what they are trying to accomplish to come to an agreed position and work together to get solutions that are outcome-measurable rather than output-measurable or input-measurable in order to make MARS an effective tool to strengthen learning and improve the performance of ADB.
17. **Next Steps and Other Business.** Management will incorporate project sustainability information in the board document, consider evaluating sustainability at project completion, and discuss with IED the definition of outcome and output.
18. The DEC Chair welcomed ED Shahid Mahmood to his first DEC meeting, and shared the latest DEC meeting schedule with the addition of DEC meetings on 20 June and on 29 June for PBLs. The meeting between DEC and Management was rescheduled to 16 May.