INTERNAL

May 2023

Annual Report of the
Development Effectiveness Committee 2022

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<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AER</td>
<td>Annual Evaluation Review</td>
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<td>APPR</td>
<td>Annual Portfolio Performance Report</td>
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<tr>
<td>COVID-19</td>
<td>coronavirus disease</td>
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<td>DEC</td>
<td>Development Effectiveness Committee</td>
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<td>DEfR</td>
<td>Development Effectiveness Review</td>
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<td>DMC</td>
<td>developing member country</td>
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<td>FCAS</td>
<td>fragile and conflict-affected situations</td>
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<td>IED</td>
<td>Independent Evaluation Department</td>
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<td>NSO</td>
<td>nonsovereign operations</td>
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<td>PSOD</td>
<td>Private Sector Operations Department</td>
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<td>RTE</td>
<td>real-time evaluation</td>
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<td>SIDS</td>
<td>small island developing states</td>
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In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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I. INTRODUCTION

1. Following its terms of reference, the Development Effectiveness Committee (DEC) submits this annual report to the Board of Directors of the Asian Development Bank (ADB). The report covers the DEC discussions based on evaluation studies conducted by the Independent Evaluation Department (IED) pertaining to ADB policies, strategies, and completed operations. It covers discussions from the meetings held from 1 January to 31 December 2022. The Chair and members during this period were as follows:

   Director Weihua Liu (chair)
   Director Roger Fischer (vice-chair)
   Director Sameer Kumar Khare
   Alternate Director Karen Murray
   Alternate Director Kenzo Ohe (until 30 June 2022)
   Alternate Director David Cavanough
   Alternate Director Keiko Takahashi (from 1 July 2022)

2. The DEC met nine times in 2022 to review IED’s findings and recommendations on ADB’s institutional and development effectiveness; draw lessons for ADB’s future policies, operations, and practices; and provide feedback to IED and ADB Management (Appendix 1). It reviewed five IED evaluations: (i) a corporate evaluation of the one ADB approach; (ii) a thematic evaluation of the additionality of ADB’s nonsovereign operations (NSO); (iii) two sector-wide evaluations of the water and finance sectors; and (iv) the fourth corporate real-time evaluation (RTE) of ADB’s support for members during the coronavirus disease (COVID-19) pandemic.

3. This annual report summarizes the key points discussed by the DEC based on its review of IED reports, the 2022 Annual Evaluation Review (AER), the 2021 Development Effectiveness Review (DEfR), and the 2021 Annual Portfolio Performance Report (APPR).

4. ADB’s Board of Directors is responsible for approving the IED annual work program. After reviewing IED’s proposed Work Program, 2023–2025 and Budget 2023, the DEC recommended their approval to the Board. The Board approved these in November 2022.

II. KEY ISSUES AND FINDINGS FROM THE DEVELOPMENT EFFECTIVENESS COMMITTEE’S REVIEW OF SELECTED EVALUATIONS

5. The DEC discussions highlighted issues specific to projects and countries, as well as systemic factors affecting the development effectiveness of ADB operations. The following paragraphs highlight the DEC’s views as documented in the chair’s summaries of DEC meetings.

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2 The DEC 2022 meeting program is in Appendix 1. Links to disclosed reports, Management responses, and Chair’s summaries are in Appendix 2.
3 The RTE is not disclosed because it is based on early findings, is meant for deliberation and course correction, and does not include conclusive or final evaluative assessments or recommendations.
A. Corporate Evaluations

1. One ADB: An Evaluation of ADB’s Approach to Delivering Strategy 2030

6. The DEC reviewed and discussed IED’s corporate evaluation of the one ADB approach. While Strategy 2030 was launched in 2018, key reviews, pilots, and reform initiatives, to strengthen a one ADB approach remain ongoing. Hence, the report is seen as a formative rather than a summative evaluation, and the report assesses what lessons could be learned as processes evolve to apply the one ADB approach.

7. The DEC tasked Management to assess the resources required to implement its intended actions in response to the recommendations in the report and requested annual updates on the progress of initiatives.

8. The committee discussed the importance of the role of resident missions and country directors, and the need to empower them in furthering the one ADB approach and strengthening development impact. It highlighted the country directors’ resources and authority regarding staff allocation and reporting lines, allowing for flexibility and responsibility. The DEC highlighted that while ADB clients drive the demand for integrated solutions, ADB can encourage interest through stronger and more holistic policy dialogue.

9. The DEC emphasized that ADB should make a greater effort to make knowledge products accessible within ADB and to the public. Lack of incentives and resources to ensure quality was highlighted as obstacles, encouraging the establishment of more incentives for integrated work, and the DEC suggested to revisit ADB’s staff incentive framework and business processes to provide an enabling environment to pursue integrated solutions.

10. Committee members welcomed evidence of strengthened country level engagement by the Private Sector Operations Department (PSOD) in many developing member countries (DMCs) but expressed the importance of incorporating PSOD into country management teams as a full and equal partner. There was broad agreement that a greater focus on private sector development, increased private sector engagement on early-stage country diagnostic work, and strengthened links between PSOD and knowledge management units would improve ADB’s ability to deliver on Strategy 2030’s operational priorities.

B. Thematic and Sector Wide Evaluations

11. The DEC discussed one thematic evaluation of the additionality of ADB’s NSO and two sector-wide evaluations of water and finance.

1. Additionality of the Asian Development Bank’s Nonsovereign Operations

12. The DEC commended the relevance, timeliness, and quality of the evaluation. It noted the criticality of additionality in ADB’s NSO and the need to add value without crowding out the private sector.

13. Committee members emphasized the usefulness of concrete actions to ensure and improve additionality and made a call to Management for specific, timely, and clear actions to address the issues identified in the evaluation and to keep the DEC and the Board informed on the status of its action plan.
14. Members stated the urgent need to improve the articulation of additionality in approval documents, and they suggested creating a special section in the report and recommendation of the President incorporating information on additionality from the ex ante development impact framework.

15. DEC members had a range of views on whether a binary precondition of financial additionality should be required. However, they had broad consensus that (i) all ADB projects must bring some kind of additionality; (ii) the nature of additionality must be calibrated to the relevant market, including the country and sector context and the environment; and (iii) this additionality is dynamic over time.

16. The DEC supported the report's recommendations on better diagnostics to inform additionality as part of the country partnership strategy process in a one ADB approach; to strengthen the systems and processes to record, track, and report on additionality; and to build capacity through training.

17. In discussing the lack of portfolio mechanisms and its impact on how risk is approached, members requested portfolio tools be developed to assess nonsovereign (as well as sovereign) additionality and suggested that any sovereign funding provided to nonsovereign clients should be subject to the same standards around additionality as nonsovereign funding.


18. The DEC reviewed and discussed IED’s sector evaluation of ADB’s water sector and policy program, 2011–2021, and generally agreed with IED’s recommendation to consider updating the water policy. Management disagreed and referred to the flexibility of the sector guidance notes, including for water, which are updated regularly.

19. DEC members noted the criticality of water operations to DMCs, especially in the context of ADB’s commitments to addressing climate change adaptation and mitigation. They discussed climate and disaster risks and impacts on the sector, the need to build resilience, integrated water management, linkages with food security and energy, sector reforms and governance, rural water, and expanded private sector investment. They also discussed water sector sustainability, bearing in mind the complexity of the sector, and cross-border regional cooperation.


20. The DEC expressed strong appreciation for the fundamental role of the finance sector as an enabler of economic activity in all sectors and viewed the finance sector’s support for mobilizing funds and creating markets for private sector participation as crucial for ADB to become a climate bank and address infrastructure gaps. Committee members highlighted the cross-cutting nature of the finance sector and the need for integrated approaches.

21. Lack of implementation resources was identified by both DEC and Management as one of the main challenges in reaching goals and delivering on ADB strategies. The DEC suggested using the organizational review as an opportunity to assess staff resource requirements against sector priorities. Committee members noted the disconnect between strategies, priorities, and resources assigned—one of the findings of the report and many other evaluations—and they suggested that Management should estimate the costs of new initiatives and ensure the
necessary resources will be made available before signing off on new strategic documents, particularly where public commitments are being made.

C. **Real-Time Evaluation of ADB’s Support for COVID-19**

22. An RTE of ADB’s response to the pandemic was included in IED’s Work Program, 2021–2023, and approved by the Board of Directors in December 2020. The RTE provides observations and analyses of ADB’s support for members during the pandemic and the COVID-19 response programs as they are being implemented to ADB’s Board of Directors and Management for deliberation and course correction, if necessary. The DEC appreciated the usefulness of the RTE for underpinning Board deliberations on ADB’s pandemic response, while acknowledging that the RTE may not have the same methodological rigor as other forms of evaluation. The DEC discussed three installments of the RTE presented in interim notes to the Board in 2021 and the fourth interim note, focusing on ADB’s NSO support to the pandemic, in 2022. As was the case with the interim notes discussed in 2021, the fourth note was based on early findings and did not include conclusive evaluative assessments of the entire support or recommendations. Therefore, the interim reports were not disclosed.

23. The DEC found RTEs generally are a useful evaluative tool and encouraged Management to focus on opportunities to learn lessons from the overall RTE exercise. Amid the organizational review, committee members questioned what the appropriate scale, budget, and organizational structure for PSOD should be for ADB’s NSO teams to be client responsive and maximize development outcomes. They highlighted the usefulness of the report beyond addressing the private sector operations’ crisis response. The DEC requested Management to seek strategic clarity about what the institution wants from its NSO. Market and local presence were important considerations in the organizational review. ADB also needs to pay more attention to frontier markets, fragile and conflict-afflicted situations (FCAS), and small island developing states (SIDS), where according to IED’s findings the Faster Approach to Small Nonsovereign Transactions was not sufficiently used. The one ADB approach and the sovereign sector enabling environment support for NSO in these markets were stressed.

### III. ANNUAL REPORTS

24. The DEC discussed three corporate annual reports: the AER, DEIR, and APPR. The three reports are synchronized, and the DEC and the Board discuss them annually in close succession. However, this was not possible in 2022. Both the DEC and the Board expressed dissatisfaction with this and requested that it be corrected in future discussions. The DEC pointed out the importance of ensuring that all three reports are circulated to the Board in close succession to provide a full picture of ADB’s portfolio and the reasons behind the changes that occur. The Board suggested to consider discussing the three reports in one DEC session and in one Board session.

A. **2022 Annual Evaluation Review**

25. The AER consolidates issues and lessons from IED independent evaluations. The DEC discussed and appreciated the analysis and findings on ADB’s performance, the implementation of IED recommendations, and the special chapter on ADB support for FCAS and SIDS.

26. DEC members noted that while ADB’s performance in sovereign and nonsovereign operations have steadied or improved slightly in the most recent 3-year period, performance on effectiveness, efficiency, and sustainability remained low, as was the performance of NSO.
27. DEC members noted positively the improving rates of acceptance and implementation of IED’s recommendations but stressed the need to bridge the gap between acceptance and implementation of recommendations.

28. DEC members endorsed the main findings in the AER special chapter and acknowledged ADB’s increased strategic focus on FCAS and SIDS through the new FCAS and SIDS approach adopted in 2021. While acknowledging the unique challenges and context in FCAS and SIDS, DEC members encouraged ADB to take further steps to improve its support for and results in these countries. They noted the need for some situational flexibility in ADB’s business processes in these countries. Using policy-based lending for long-term policy dialogue and engagement was highlighted and more holistic and tailored approaches to assess the sustainability of FCAS and/or SIDS projects was requested.

B. Development Effectiveness Review and Annual Portfolio Performance Review

29. The DEfR and APPR reports are discussed together in a DEC meeting and in a Board meeting. The DEfR is also aligned with the ADB Annual Report through the mutual review of data points, messaging, and presentation. The two annual corporate performance reports complement each other and present a comprehensive view from Management on ADB’s performance in 2021. They flag achievements and areas for attention, highlight issues, and offer recommendations to guide Management’s decision-making.

30. Both reports recognized the need to improve project quality, including on readiness; enhance engagement with resident missions; transfer knowledge; and increase capacity. The DEC recommended that staff spend more time on location to strengthen project preparation and supervision and seek further resources to support this if needed. On project readiness, the DEC emphasized the need to further build capacity among staff and their counterparts in DMCs. It suggested providing better information on capacity constraints and how these will be addressed as part of Board approval. Given persistent low sustainability ratings of completed operations, some DEC members sought greater enhanced actions by the Sustainability Working Group and visibility of this work to the Board.

31. Committee members recognized the APPR as a value-added report offering a strategic overview and understanding of the composition and performance of ADB’s active sovereign and nonsovereign portfolios. Of particular value are the lessons and recommendations to direct the bank’s efforts toward improving portfolio quality and achieving intended developmental outcomes. The DEC highlighted the importance of adopting the APPR’s recommendations to improve implementation performance and overall portfolio quality in 2022 and beyond and to invest in strengthening the capacity of the executing and implementing agencies.

32. In the DEfR, the DEC noted that the renewed $100 billion climate change ambition has not been reflected as a target in the corporate results framework. DEC members also expressed concerns about NSO, specifically on the low success rate of completed operations and its low share against overall commitments. The pandemic continues to have an effect on NSO’s low share as borrowers requested ADB support in other areas and modalities.

33. Noting that the DEfR does not provide messages on some areas because no targets were set to base the assessment, the committee suggested that ADB consider setting targets on all operational priorities at the next available opportunity, either through the midterm review of Strategy 2030 or the development of the next corporate results framework.
IV. OTHER MATTERS

A. Independent Evaluation Department’s Emerging Strategic Directions, 2022–2026 and Evaluation Knowledge Management

34. The IED provided the DEC with an overview of its emerging strategic directions and presented its objectives, achievements, and new directions for evaluation knowledge management. Committee members stressed IED’s important role in helping monitor and report on ADB’s implementation of Strategy 2030 and the organizational review and reforms; and IED’s support for the pandemic recovery, addressing climate change, knowledge, and private sector work. The DEC recognized the importance of further strengthening the evaluation knowledge management program, in particular work to enhance knowledge and lesson sharing within ADB and among DMCs, stronger partnerships including with entities such as the Asian Development Bank Institute, and approaches to develop capacity in DMCs.

B. Governance

35. The DEC has had a recurring request for Management to be clear in its responses on agreeing and/or disagreeing with IED’s recommendations. It has also called on Management for specific, timely, and clear actions to address the issues identified in the evaluations and to keep the DEC and the Board informed on the status of its action plans.

36. DEC and other Board members put discussions on Board and Management interaction on Board-approved policies on the table. They viewed this as a fundamental governance issue and highlighted the importance of Board members having easy access to a comprehensive list of all Board-approved policies and strategies.

V. RECOMMENDATION TO THE BOARD

37. The DEC recommends that the Board approve the public disclosure of this annual report.
## DEVELOPMENT EFFECTIVENESS COMMITTEE MEETING PROGRAM, 2022

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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>14 February</td>
<td>Corporate Evaluation of the One ADB Approach</td>
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<tr>
<td>16 March</td>
<td>Thematic Evaluation of ADB’s NSO Additionality (2008–2020)</td>
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<td>5 April</td>
<td>2022 Annual Evaluation Review</td>
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<tr>
<td>13 May</td>
<td>2021 Development Effectiveness Report and 2021 Annual Performance</td>
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<td></td>
<td>Portfolio Report</td>
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<td>1 June</td>
<td>Real-Time Evaluation of ADB’s Support to the COVID-19 Pandemic: Fourth</td>
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<td></td>
<td>Interim Note to the Board</td>
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<td>10 August</td>
<td>Update on IED’s Evaluation Knowledge Management Program</td>
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<td>8 September</td>
<td>IED Work Program, 2023–2025 and Budget 2023</td>
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<tr>
<td>11 November</td>
<td>Sector-Wide Evaluation of Integrated Water Management: ADB’s Water</td>
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<td>Sector Policy and Program, 2011–2021</td>
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<tr>
<td>24 November</td>
<td>Sector-Wide Evaluation of ADB’s Finance Sector Operations, 2011–2021</td>
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LINKS TO THE REPORTS, MANAGEMENT RESPONSES, AND CHAIR’S SUMMARIES

1. **Corporate Evaluation of the One ADB Approach to Delivering Strategy 2030**
   
   
   
   Chair’s summary: ADB. 2022. *Chair’s Summary for the 14 February 2022 Meeting*. Manila.

2. **Additionality of ADB’s Nonsovereign Operations**
   
   
   
   Chair’s summary: ADB. 2022. *Chair’s Summary for the 16 March 2022 Meeting*. Manila.

3. **2022 Annual Evaluation Review**
   
   
   
   Chair’s summary: ADB. 2022. *Chair’s Summary for the 5 April 2022 Meeting*. Manila.

   
   
   
   Chair’s summary: ADB. 2022. *Chair’s Summary of the 13 May 2022 Meeting*. Manila.

5. **Update on IED’s Evaluation Knowledge Management Program**
   
   Chair’s summary: ADB. 2022. *Chair’s Summary for the 10 August 2022 Meeting*. Manila.

6. **IED Work Program 2023–2025 and Budget 2023**
   
   
   Chair’s summary: ADB. 2022. *Chair’s Summary for the 8 September Meeting*. Manila.


Chair’s summary: ADB. 2022. *Chair’s Summary for the 11 November 2022 Meeting*. Manila.


Chair’s summary: ADB. 2022. *Chair’s Summary for the 24 November 2022 Meeting*. Manila.