# 2013 Annual Evaluation Review

Independent Evaluation ADB

**Annual Report**
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# 2013 Annual Evaluation Review

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## NOTE

In this report, "$" refers to US dollars.

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# Abbreviations

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| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| AER | – | Annual Evaluation Review |
| ANR | – | agriculture and natural resources |
| CAPE | – | country assistance program evaluation |
| CPS | – | country partnership strategy |
| CPSFR | – | country partnership strategy final review |
| DMC | – | developing member country |
| ERD | – | Economics and Research Department |
| FCAS | – | fragile and conflict-affected situations |
| GACAP | - | Governance and Anticorruption Action Plan |
| GHG | – | greenhouse gas |
| GMS | – | Greater Mekong Subregion |
| IADB | – | Inter-American Development Bank |
| IED | – | Independent Evaluation Department |
| MARS | – | Management Action Record System |
| MDG | – | Millennium Development Goal |
| MFF | – | multitranche financing facility |
| NSO | – | nonsovereign operation |
| O&M | – | operation and maintenance |
| OCR | – | ordinary capital resources |
| OVE | – | Office of Evaluation and Oversight |
| PCR | – | project completion report |
| PEF | – | private equity fund |
| PPER | – | project performance evaluation report |
| PRC | – | People’s Republic of China |
| PSM | – | public sector management |
| PVR | – | project completion report validation report |
| SES | – | special evaluation study |
| STW | – | shallow tubewell |
| TA | – | technical assistance |
| WMIS | – | water supply and other municipal infrastructure and services |
| XARR | – | extended annual review report |

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## APPENDIXES

# Acknowledgments

This report was prepared by a team led by Walter Kolkma, Director, Division 1, Independent Evaluation Department (IED), under the overall guidance of Director General Vinod Thomas. Team members included Njoman George Bestari, Cheolghee Kim, Joanne Asquith, Linda Arthur, Andrew Brubaker, Jocelyn Tubadeza, Noel Gamo, Renato Lumain, Caren Joy Mongcopa, and Glennie Castillo.

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Valerie Reppelin-Hill peer reviewed the document from within IED.

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# Foreword

The greatest contribution of the Asian Development Bank (ADB) is in making a positive difference to the development effectiveness of investments in Asia and the Pacific. In this respect, last year's Annual Evaluation Review (AER) stressed the value of capitalizing on essential complementarities among investments. This emphasis on a balanced approach does not call into question the significance of selectivity and focus. Rather, it draws attention to the value of seeking interactions and synergies that tie investments to ADB's overarching goals of inclusive and sustainable growth.

There is concern, however, that the drive for selectivity has led to an excessive predominance of infrastructure operations, with five-sixths of total project financing in 2011 going to transport, energy, and water. Project approvals in 2012 indicate a better balance among sectors. To get the most development impact from its limited resources, ADB would want to press this direction further, blending infrastructure, human, and environmental investments—which is possible under the current strategic framework.

In this context, a recent evaluation of social protection indicates the importance of safety nets for the poor, while another on Millennium Development Goals calls for greater support for human development. The assessment is that ADB's support in these respects needs to be stronger given that Asia's social protection systems are inadequate in the face of global financial shocks and recurring natural disasters, and that performance in key aspects of human development is lagging despite rapid economic growth.

This AER puts a spotlight on the sustainability of infrastructure—a dimension of ADB operations that is vital for people's welfare. Weak capacity and inadequate budget allocations in some countries put road maintenance in particular at risk. Expanding the remit of project and sector risk assessments—currently focused on governance concerns—to cover sustainability issues could help in this respect.

An emerging concern for development effectiveness is the growing vulnerability of countries to financial, social, and environmental shocks. A special chapter in this report considers the need for explicit attention to the sources of such vulnerability for achieving more inclusive growth. As an aid to a stronger role in this respect, ADB could make use of vulnerability indexes to inform its country program strategies.

One of ADB's important strengths is the use of a results framework to guide its operations. It would pay to build on the progress being made at the institution in integrating inclusive growth and social protection into this framework, as well as in setting out a target for the sustainability of operations.

Vinod Thomas

Vinod Thomas
Director General
Independent Evaluation

# Executive Summary

The global context for this year's annual evaluation review (AER) remains overcast. The world economic and financial environment has continued to face uncertainties since 2008. Economic causes responsible for this include adverse external balances, sovereign debt burden, and deleveraging of banking and credit markets. Economic growth is slow in Europe, Japan, and the United States. With no quick road back to the rapid growth of before the crisis, investor sentiments are cautious.

These global concerns are weighing down on growth in Asia and the Pacific although the region has continued to outpace others. In addition, elevated food and commodity prices worldwide are squeezing the fiscal space and slowing policy reforms in the region. As a result, the policy environment is focused on tackling immediate concerns. In Asia and the Pacific, as elsewhere, slower growth prospects spell a longer road than previously envisaged to the elimination of extreme poverty, illiteracy, malnutrition, and ill-health.

The key challenges in this rapidly expanding region relate to lagging human development, extreme poverty, rising inequality, environmental concerns and climate change, and weak resilience to external financial crises and natural disasters. These in turn call for actions to eliminate the vulnerabilities that persist despite the continued growth path, by engaging in more risk-conscious and more effective public sector management. This is the backdrop against which the AER 2013 provides some lessons in development effectiveness.

The AER reflects on the performance of Asian Development Bank (ADB) operations based on analysis of Independent Evaluation Department (IED) databases and recent evaluations. It seeks to complement two main ADB publications—the Development Effectiveness Review, and the Annual Report on Portfolio Performance—in providing insights into ADB's progress in improving its development effectiveness.

This AER expands the narrative on outcomes and impacts by updating earlier findings on the sustainability of ADB-supported operations, with a focus on infrastructure operations. The AER also discusses recent impact evaluations conducted by IED and reports on such evaluations done by ADB. The AER's theme chapter discusses five IED evaluations conducted in 2012, elaborating on the issues connected with risk and vulnerabilities in Asia and the Pacific. Thus, a thread running through this year's AER is the connection among performance of operations, their sustainability, their development impacts, and the vulnerability of poor people and economies to shocks.

## ADB Performance

**Performance of country programs.** IED completed country assessments in 2012 for Afghanistan, Armenia, Azerbaijan, and the Kyrgyz Republic. ADB operated in a challenging environment in these countries as they are either in a protracted process of transition from a centrally planned economy to a market economy (Armenia, Azerbaijan, and the Kyrgyz Republic) or experiencing conflict (Afghanistan). Despite the challenges, ADB operations have been generally effective given their contribution to domestic, regional, and international connectivity; some improvements in basic education and health; access to electricity and water services; and protection from natural disasters and global shocks, among others. Overall levels of success have been highly mixed, however, when the programs' relevance, efficiency, and sustainability are taken into account. ADB support to Azerbaijan and the Kyrgyz Republic was rated *successful* while it was *less than successful* for Afghanistan and Armenia.

**Performance of sovereign operations.** Sovereign operations assessed by IED in 2012 had a success rating of 62%—through project completion report validation reports (66) and project performance evaluation reports. Since the early 1990s, IED rated 61% of the 421 sovereign operations it assessed as *successful* or better When combining the ratings for operations self-evaluated by operations departments with the ratings of operations evaluated by IED, the overall success rate has been 67% for operations approved in the 1990s and also 67% for operations approved in the 2000s. Thus there has been no evidence of a difference in performance between the 2 decades. Aggregate success rates, however, hide wide variations across countries and sectors, and some countries and sectors have improved, others declined in performance.

Best-performing sector operations over the past 20 years as per their success rates have been those in transport and information and communication technology, health and social protection (although very few), and multisector operations (half of which are emergency response operations, invariably successful). Energy and education operations used to be also in this group, but have declined in performance levels. Finance, industry and trade (a small sector), and public sector management (PSM) operations are historically the most problematic, with all other sector operations occupying a position in between, some with improving performance, notably agriculture and natural resources.

Best-performing country portfolios have been in the People's Republic of China (PRC), Tajikistan, and Viet Nam, with 88%–91% of operations completed since the 1990s rated *successful*; portfolios performing below average (with success rates lower than 50%) were a group of small Pacific islands, Pakistan, and the Philippines. Countries in fragile and conflict-affected situations had lower success rates. As with sectors, the performance of country portfolios can change considerably over time. For the three portfolios mentioned, the success rates are improving.

The extent of variety observed in sector and country portfolio performance over the years and among sectors and countries requires ADB to go beyond assessing the oscillating trend of corporate success rates. Several sectors and countries do relatively well to exceedingly well, others do poorly or are declining. More attention may also be useful in corporate reviews for preliminary assessments of active portfolios of countries and sectors, as performance can change rapidly.

The AER included a quantitative analysis, based on readily available data for some independent variables, which were assessed as to their relation to operational success. The performance of sovereign operations could be correlated with specific country conditions such as the rate of economic growth, and fragility and conflict situations—not surprisingly, operations in countries with higher growth over an extended period performed better, while operations in most countries in fragile and conflict-affected situations performed poorly. However, country classification—ordinary capital resources-only countries versus others—did not correlate with good success rates in a statistically significant way, pointing to more complex relationships between economic status and project performance.

Another finding this year is that about 12% of the sovereign operations that were self-assessed or independently evaluated as *successful* had poor sustainability ratings. The largest disconnects were found for operations in infrastructure sectors. More recent independent evaluations noted poor sustainability of project outcomes on account of inadequate cost recovery mechanisms, changes in local government structures, and weak institutions for public infrastructure. Infrastructure project sustainability relies crucially on maintenance budgets and reliable financing mechanisms.

**Performance of nonsovereign operations.** Seven new evaluations and validations in 2012 brought the total number of independently evaluated nonsovereign operation projects during 2006–2012 to 31. Their overall success rate was 68%, up from the 66% success rate of the 24 projects evaluated during 2006–2011.

ADB nonsovereign operations validated or evaluated in 2012 did reasonably well, with five out of seven being *successful* or *highly successful*, and six out of seven having good investment profitability and ADB additionality.

**Performance of technical assistance operations.** IED completed a special evaluation on the performance of technical assistance (TA) in 2007, and is conducting another evaluation on the role of TA in ADB in 2013. One TA cluster evaluation of six facility-type TA projects in the PRC was conducted in 2012, and it was rated *successful*. IED has rated the success of TA lower than the operations' self-evaluations have (78%); the 2007 study reported a historical 63% success rate, with a smaller special sample of 110 more recent TA projects in five countries rated at 73%. The success rate of all 13 TA projects approved in the 2000s and independently evaluated stands at 69% suggesting, overall, no major difference in performance from other types of operations.

## Sustainability of ADB Operations

The AER updated findings of a 2010 study on post-project-completion sustainability, focused on infrastructure operations, and presented a case study of road maintenance in Asia and the Pacific. Sustainability is a special concern: sometimes evaluations rate operations as *effective* or even *successful*, but as *less than likely sustainable*. Providing sustainability ratings may well be more challenging than other ratings, as they require making assumptions about conditions holding well into the future. Nevertheless, project completion reports, validations, and evaluations attempt to make a plausible case based on technical, financial, environmental, socioeconomic, and political considerations.

Sustainability rates have remained the lowest among the four evaluation criteria, and did not change much in the past 3 years, at 64% of operations being rated *sustainable* between 2000 and 2012, and 65% between 2000 and 2010. As with overall success rates, some sectors merit special attention: operations in water supply, agriculture and natural resources, and PSM all have sustainability rates of 50% or less. The relatively small difference with the overall success rate of 67% also does not bring out well enough that about 12% of operations are rated *successful* but are yet not assessed *likely to be sustainable*, which is a concern.

In four areas there are above-average proportions of projects rated *successful* and *effective* but *less likely sustainable*: (i) multisector operations (including area development projects), (ii) water and other municipal infrastructure and services operations, (iii) transport operations, and (iv) agriculture and natural resources operations.

**Road maintenance.** This AER looked into issues of road maintenance, and particularly the maintenance of roads that are constructed and operated allowing general access, and which therefore have no or limited revenue-generating capacity. Road maintenance is generally one of the most economically viable investments to make; a lack of it can erode both roads and their benefits quickly, and lead to a loss of capital.

Some 19% of ADB's loan- and grant-funded operations by financing has been in the road transport sector, one of ADB's most significant areas of investment. General access for road users and lack of a direct funding mechanism mean that there are sustainability risks inherent in the roads of a public goods nature. ADB's developing member countries (DMCs) have around 10 million kilometer of roads, half of which paved; a huge and growing maintenance burden. ADB-supported investment projects involved 2.4% of paved roads over 2003–2010.

ADB's road projects completed over 2000–2010 have had a comparatively high success rate, effectiveness rate, and sustainability rate, but almost a quarter of projects rated *effective* or *highly effective* were rated *less than likely sustainable* and lower. This is a higher disconnect than in most other sectors or subsectors and confirms that certain problems are particular to "common pool" road investments. Earlier, IED reported insufficient funding for operation and maintenance as the main factor in a low sustainability rating in the transport sector. Virtually all transport sector operations have been investment projects; although many include some policy support and capacity development elements, hardly any have been fully dedicated to policy support or capacity development. The number of program loans is also very small.

A desk review of country and sector programming, approval, and evaluation documents across 22 DMCs found recurring issues in the maintenance of publicly funded roads. The lack of availability of funds for road maintenance was reported for all country situations investigated—clearly a main issue. This also highlights the indirect nexus, explored this year, between financial shocks, government budgets, and sustainability of infrastructure operations reliant on such budgets. In the area of maintenance planning, some main issues reported were overloading, poor road design, and absence of a road asset management system.

In the area of road maintenance capacities, the main issues reported were limited capacity and number of qualified staff and the connected lack of institutional capacity, and the need for strong private sector participation. Interwoven were issues of weak governance, lack of transparency and/or risk of corruption, lack of quality contractors, and unavailability of advanced technology. Sometimes other issues affected road maintenance, notably war and/or conflict, or a natural disaster. All of these issues call for different types of actions, and suggest the need or opportunity for tailored support from ADB.

## Impact Evaluation in Operations and IED

IED has done seven impact evaluations since 2007, and completed three in 2012—on shallow tubewell irrigation in Nepal, and on microfinance in Pakistan and Viet Nam. ADB reports having completed eight impact evaluation studies recently, with results of three published so far. Another 26 are ongoing or planned, mostly focused on project operations in various sectors and countries.

The findings of IED's three impact evaluations in 2012 show the need for seeking out complementarities in sector choices and synergies in the inter-sector links. The evaluation of an irrigation project in Nepal demonstrates that investing only in shallow tubewells will not enhance farmers' productivity significantly in the event of severe power shortages and erratic supply of diesel fuel. Complementary projects need to invest in electric power supply generation to allow the pump equipment to run whenever needed. Access to seeds and fertilizer are also key ingredients for irrigation to allow farmers to transition out of poverty.

The two microfinance impact evaluations in Pakistan and Viet Nam showed that the small loan amount for which the poor are generally eligible is often insufficient to create significant welfare impacts. To reach the extreme poor, the approach would need to combine the provision of microfinance with social safety net programs. Intensive follow-up efforts are needed as well, and a bottom-up approach that includes the use of nongovernment organizations with experience in microfinance. Innovative approaches are also required, e.g., the provision of financial products and services through mobile phones and branchless banking.

Combined with the findings of three recently completed ADB impact evaluations, the various evaluations point to the highly variable development impact of ADB interventions, especially when undertaken in isolation. The findings confirm that development needs to come from a range of operations in various sectors and by attacking various binding constraints. Impact evaluations in this context would need to be carefully designed to explore a range of potentially explanatory variables.

A recent review of impact evaluations in the World Bank Group found 460 having been completed or in progress, mostly in operations and research departments. Most were funded through trust funds. The evaluation office of the Inter-American Development Bank (IADB) produced 52 working papers using rigorous evaluation techniques. The office is nonetheless winding down its program, as it now considers that it does not have a comparative advantage with randomized controlled trials. However, the initiative has been taken over by IADB operations departments. The office reports that more than 20% of approved projects now include rigorous impact evaluation designs.

The AER concludes that ADB (and also IED) is at the beginning in its experience with impact evaluations. It is on the right track, after an initial TA was approved in 2010, and a cluster TA in early 2013. More can be done, although the cost is high, and no trust-funded impact evaluation initiatives exist as yet. The developing practice of regional departments undertaking impact evaluations around their own operations could ensure better learning and cost effectiveness. IED aims to keep track of them.

## Vulnerabilities in Asia and the Pacific

Alongside an impressive economic growth since the 1990s, Asia and the Pacific also experienced global economic and financial crises as well as increasing incidence and impact of natural disasters, resulting in untold human suffering. Highly uneven progress against the targets of the Millennium Development Goals (MDGs) demonstrates the continuing vulnerability of the Asia and Pacific populations to systemic risks. Asia and the Pacific ranks among those regions with the lowest levels of social protection in the world. The prospects of continued global uncertainty and increased natural disaster impact emphasize the need to have efficient arrangements in place to support the poor, and effective longer-term strategies to build their resilience through enhanced human capital and broader access to economic opportunities.

IED evaluations from 2012 highlight various ways by which ADB has aimed to respond to vulnerabilities, including by (i) supporting social protection systems, (ii) building systems to respond to natural disasters and mitigate disaster risks, (iii) providing microfinance to the poor, and (iv) investing in health and education and reducing extreme poverty. ADB's performance in each was assessed in recent evaluations.

The Special Evaluation Study on ADB's Social Protection Strategy 2001 found ADB's support for social protection over the past decade disappointing. The idea of the strategy was to build up resilience in noncrisis years. But social protection-related stand-alone activities accounted for only a very small percentage of the ADB portfolio—much of this in response to the crisis of 2008–2010. Thus, ADB had not fully made the transition from alleviating the direct effect of crises and emergencies to helping DMCs build effective, national social protection policies and systems in noncrisis years.

A large body of impact evaluation evidence has documented the positive impacts of social safety nets, including conditional cash transfers. While evaluative findings for Asia and the Pacific are limited, evidence is beginning to emerge in the Philippines with a conditional cash transfer program launched in 2008 and supported by ADB, among other development partners. The program has been successful at targeting the poor, exceeding the performance of the longstanding, broad-based rice subsidy. The evaluation concluded that the objective of the Social Protection Strategy 2001 remained highly relevant to ADB.

ADB is responding to natural disasters by providing emergency responses to disasters as they occur, focusing on rehabilitation and development, by financing projects to ward against natural disaster risks (e.g., flood protection projects) and by "disaster-proofing" the design of various other types of projects. About two-thirds of disaster support is of the first kind, the rest of the second and third kind. IED's 2012 study on ADB's Response to Natural Disasters and Disaster Risks reported on ADB's success in providing relief and building back, but underscored the need for doing more in mitigating disaster risk and in warding off risks to the sustainability of the operations adapting to disaster risks.

In developing Asia, microfinance is widely seen as an important avenue for reducing poverty and lessening exposure to risks and vulnerabilities. About 2.7 billion people have no access to formal financial services. ADB's Microfinance Development Strategy of 2000 sought to ensure permanent access to institutional financial services for a majority of poor and low-income households and microenterprises.

IED's 2012 microfinance evaluation rated ADB's strategy *less than effective* in reducing risks and vulnerabilities for the extreme poor. The low score for results was due mainly to the weak development of support institutions and infrastructure, and the less-than-effective support for achieving institutional sustainability. Most importantly, the strategy provided limited outreach to the poor, and failed to reach the extreme poor, as was the stated objective of the microfinance development strategy.

Microfinance was found in practice to benefit households above the level of destitution the most, but it is still useful for that group in reducing risk and vulnerabilities, given that many events can drive them quickly back into destitution. The study noted that ADB was helpful in supporting microenterprises and better-off poor households with productive resources, although it could have tried more actively to reach out to the poor, especially women. Programs that successfully reach the poor, particularly the extreme poor, often combine access to financial services with social safety nets.

Vulnerability of the poor is linked, among other things, to lack of investment in human capital and opportunities for income generation and employment. IED's study of the MDGs found that ADB's support for poverty reduction was largely aimed at reducing infrastructure gaps, improving the context for private sector development, developing the financial sector, improving the environment, and improving governance. The study also took note of ADB's interventions directly targeted at the poor (classified as supporting MDG 1) to raise their income and employment. They included projects in agriculture, microfinance, and small and medium-sized enterprises, and comprised 12% of overall ADB financing. Another 10% of financing was for projects directly contributing to the human development MDGs, through projects aimed at education, health, and gender issues, and another 10% of financing for water supply and sanitation and slum development.

The MDG study found that while ADB may wish to continue to engage in directly targeted productive interventions to reduce extreme poverty, it should balance it with non-income human development support. While education is a core sector for ADB, its investment has been limited so far. Less has been done in health, and much more in water supply and sanitation. Given that ADB performs well when it does engage in these areas, and that there is high unmet government demand for them, ADB could do more to reduce the gaps in the human development MDGs and alleviate vulnerabilities.

A risk-based approach, going beyond the gross domestic product growth metrics, can help negotiate real opportunities and threats to the poor people's welfare as it cuts across a range of development sectors. The chapter draws attention to vulnerability indexes that can be used to address development issues and make development support choices.

## Management's Use of IED Recommendations

The AER validates ADB Management's actions taken on prior acceptance of IED recommendations made in evaluations. This year's validation of the action plans, as entered into the Management Action Record System (MARS) by operations departments, showed again robust Management acceptance of IED recommendations and a lesser but still reasonable level of implementation of follow up actions (23% disconnect between recommendations accepted and actions implemented). However, the system needs to continue to evolve and become more functional to add to the learning and accountability processes in ADB.

Many IED recommendations are specific to a country, sector, or theme. But their wider applicability is of interest from the point of view of ADB's institution building. Hence, it is important for operations departments to carefully review the operational environment on which the IED recommendation is based. Even very specific and timebound recommendations can hold wider lessons that should not get lost. Management could elaborate on the wider applicability of some of the recommendations made in very particular contexts.

Action plans responding to MARS and reporting progress need to keep in mind the basis for the IED recommendation and follow Management's articulation and justification of the recommendation well, to get better results and promote learning and greater accountability in operations.

# Management Response

The 2013 Annual Evaluation Review (AER) provides a synthesis of the main findings in evaluation studies conducted in recent years, and offers additional analyses on performance of ADB operations and sustainability in infrastructure projects. Management had responded to recommendations and suggestions made in individual studies used for this report. We therefore limit our response to the broad conclusions noted in the AER, and specific issues on ADB operations and sustainability.

## General Comments

**Blend of ADB operations.** The AER notes that the selectivity has led to "an excessive predominance of infrastructure operations," with five-sixths of total projects approved in 2011 being for transport, energy, and water. While noting an improved sector mix in 2012, IED continues to call for "a better balance of ADB operations among infrastructure, human, and environmental investments." It also stresses the importance of balancing ADB support for reducing income poverty with non-income human development support.

We would like to note that in discussing the desirability of portfolio mix, closer attention is needed to the nature of infrastructure investments. In our view, our infrastructure operations play an important role in promoting human development and environmental sustainability. For example, out of the total infrastructure financing approved in 2011–2012, close to 40% support environmental sustainability and climate change related operations; and more than 50% are designed to support human development by providing people with better access to water, electricity and transportation services, protecting them from disasters, and empowering women.

We agree that ADB operations should continue to aim at reducing extreme poverty as well as promoting human development. To ensure effectiveness, the sector composition of ADB assistance is defined through the country partnership strategy (CPS) process which demonstrates strong alignment with government priorities and close coordination with other development partners. At the same time, noting the stagnant investment in education, Management is encouraging operations departments to deepen support for education. We expect the share of education operations to increase during 2013–2015 compared to 2010–2012. We have also stressed in the Work Program and Budget Framework for 2013–2015 the importance of retaining flexibility in CPSs to provide support to the health sector.

**Complementarity.** We agree with the AER's call for greater complementarity among different sectors of ADB operations to achieve and sustain the intended welfare effects. While maintaining selectivity, we will continue to expand our effectiveness through better sequencing of our interventions and closer coordination with government and other development partners. We also agree with the AER on the importance of systematic assessment of risks and vulnerability, which can build on country analyses that underpin CPS, including economic, poverty, environment, and sector assessments.

## Specific Comments

**Assessment of ADB operations.** We value the assessments provided in the AER which supplement the findings of the recent Development Effectiveness Review (DEfR) reports and confirm the need for accelerating measures to improve project performance. However, to strengthen the AER's complementarity to DEfR and Annual Portfolio Performance Report, we suggest that future AERs focus on more recent trends of project success rates over shorter time segments. This may reveal more relevant lessons, particularly since ADB had undergone in the 2000s the reorganization and changes in its corporate strategy. We also note that the use of a longer timeframe in the AER led to different conclusions on sector performance from the findings in the 2012 DEfR. For example, the DEfR found improving trends over 2009–2012 in energy, industry and trade, and transport and ICT whereas the AER reported declining performance in these sectors.

**Sustainability.** We agree that sustainability in infrastructure projects is a critical issue. As noted in the AER, ADB has been making considerable efforts to improve maintenance and assets management through policy dialogues with DMCs during the CPS and country programming exercises. ADB has also reinforced staff capacity development and knowledge-sharing in these areas. For example, the Transport Community of Practice (CoP) has carried out training courses in road asset management over the past 2 years. Management has sharpened its monitoring on sustainability by adding a related indicator in the revised corporate results framework. We would welcome continued collaboration with IED on this important subject.

**Impact evaluation.** We agree with the overall assessment of impact evaluation (IE) in the AER. As noted in the report, currently IE program is at its beginning stage and growing gradually with the Economics Research Department providing technical support function and regional departments implementing the IEs. However, given the high cost required for the IEs and resource constraints, we would have to be selective in choosing the projects for the IEs while strengthening our efforts for wider dissemination of findings from completed evaluations through knowledge sharing opportunities such as workshops, brown bag meetings and technical training.

**Recommendations and Management's follow-up.** We agree that recommendations from a specific evaluation could be applicable to other sectors or themes where appropriate as proposed in the report. However, we also would like to note the unique sectoral, circumstantial and country specific context of our interventions, which often constrains broader application of specific recommendations from an evaluation. We would welcome further coordination with IED to explore ways to improve reporting on management responses and action plans in the Management Action Record System as discussed in the report.

# Chair's Summary: Development Effectiveness Committee

DEC discussed the 2013 Annual Evaluation Review (AER) which reflects on a number of topics, such as ADB's operational performance, sustainability of infrastructure operations, impact evaluations, vulnerabilities in Asia, and Management's follow-up to IED recommendations. The report seeks to complement the Development Effectiveness Review and the Annual Portfolio Performance Report to give an overall view of ADB's development effectiveness, from IED's independent perspective. The report is the second to be discussed by the full Board.

## Operational performance

DEC members considered that ADB is moving in the right direction to further improve its effectiveness. DEC appreciated the generally effective rating particularly in countries with challenging development situations such as Afghanistan. DEC noted that the report offers useful lessons for country programming, one of them being the importance of donor coordination and cooperation during implementation. DEC noted the lack of change in the success rate of sovereign operations (67%) over a two decade period and noted that fragile and conflict affected states are performing below most of the other DMCs.

DEC discussed several findings from the report, among others the fact that (i) non sovereign operations performed better compared with sovereign operations, considering the former are riskier; (ii) low income countries are performing better than lower middle income countries; and (iii) programs perform better than projects. DEC considered Management's explanation that non sovereign operations are revenue based transactions that are expected to generate profit in order to attract private sector participation so they are more likely sustainable. With regard to the second point, IED clarified that the ratings of Pakistan, the Philippines and Papua New Guinea brought down the average ratings of lower middle income countries, and the former two have had significant cleaning-up of non-performing portfolio, and with a streamlined portfolio were now on the upswing in terms of success rates. With regard to the third point, DEC considered Management's clarification that programs perform better than projects because programs have prior dialogue and actions for reforms, unlike projects for which most of implementation actions start after Board approval.

DEC noted IED's point that ratings should not be overemphasized as they do not fully capture impact. DEC expressed concern on the stagnation of success rates over 20 years at 67%. Management considered that the sustained performance ratio is in itself a measure of success, given that over the past 20 years ADB operations have become much more complex and challenging in a dynamic and changing region. DEC was pleased that Management agreed on the need to improve performance since the corporate target set in the results framework was 80%. DEC was informed that several initiatives have already been taken to improve the design and implementation of projects—including introduction of project readiness filters, greater emphasis on project implementation and procurement reforms— which should have a favorable impact on the ratings in years to come.

## Sector choices in country operations

DEC emphasized the need to seek out complementarities and synergies in sector choice and to improve coordination within departments working on cross sector projects. DEC supported the report's view that ADB should do more for inclusive growth and human development. Management considered that infrastructure plays an important role promoting human development and environmental sustainability, and that such linkages are now better monitored under the revised results framework. DEC also highlighted the need to seek complementarities and synergies in sector choice and between core and non-core sectors. In this regard, the DEC noted the importance of knowledge sharing between IED and staff and Management.

## Sustainability

DEC discussed the low ratings for the sustainability of the ADB's operations, which is raised as a concern in both the AER and the Development Effectiveness Review. The AER noted that sustainability is rated less than other evaluation criteria in country programs and in sovereign operations, and that 12% of successful operations were rated as *not likely sustainable* and 25% of projects had been rated successful but at the same time they were less than likely sustainable. On water, Management is taking an institution wide approach on the sustainability issue, including in the water sector, and that the new Water Operational Plan 2011-2020 sets out that ADB primarily works with utilities that are commercialized or are on their way to being commercialized.

DEC supported the focus of the review on sustainability in the transport sector and the proposal for increase in programmatic lending. With regard to sustainability of road operations, DEC discussed challenges such as the lack of maintenance fund as a key constraint and the need to increase policy and economic analysis and budget funding for road maintenance, as well as the need to take into account local constraints in fiscal policies. DEC recognized that road construction and maintenance are equally important but noted that the priority on either changes depending on the country's development level. DEC welcomed Management's refocus from a narrow focus on operations and maintenance to one focusing on improving overall road asset management, considering that the size and coverage of road networks have increased and ADB has become a smaller player and thus has less leverage. DEC was pleased to learn that project teams are now taking intervention upstream to the budget level by assisting governments in public financial management and governance systems.

## Vulnerabilities

DEC welcomed the discussion in the report on the strength of resilience for vulnerabilities based on social protection strategy, natural disaster risks, microfinance strategy and Millennium Development Goals, and supported the need for ADB to use approaches in programming that identify risks, threats and opportunities for poor people. DEC noted that vulnerability-related factors affecting the region could affect performance in the future, including environmental sustainability. DEC also noted that a division of labor is important in coordination with other development actors both in regional and in country efforts.

Some DEC members supported the proposal made in the report for ADB to take an increased role in the area of social protection due to its important role in reducing poverty, and the disaster proneness of the region, and emphasized the need to strengthen social protection systems in DMCs as a crucial part of ADB's inclusive growth agenda. Management agreed that vulnerabilities need to be addressed and indicated that sustained economic growth and continued reduction in poverty will strengthen the resilience of DMCs against shocks. Management was of the view that the approach to assist DMCs to strengthen resilience should be decided in the context of what ADB can do better and make a bigger impact as well as what governments prefer to borrow for.

## IED's recommendations and Management Actions

DEC discussed the 23% disconnect between accepted IED recommendations and implemented actions by Management, noting that a time lag may exist between committed action and corrective action completed. Some DEC members mentioned that it was reasonable that not all of IED's recommendations have to be accepted by Management. DEC continued to support IED and Management's effort to work together to arrive at a mutually agreed course of action. DEC emphasized that when a recommendation has been agreed to, it must be implemented. It was noted that while these actions are recorded in the MARS, it was useful for DEC to be briefed on progress, as had been the case recently with the follow up to IED's review of the Multitranche Financing Facility.

## Recognition of the role of the Annual Evaluation Review

DEC supported the presentation of the AER for discussion by the full Board, as it enabled the Board to have strategic discussions. DEC was also of the view that the findings of the report offer valuable lessons for project design and implementation. DEC also welcomed IED's intention to improve the quality of recommendations. DEC was pleased to see the take up of impact evaluation especially in regional departments and the coordination effort, which could be further improved. A DEC member proposed that the three reports on development effectiveness that complement each other - the Development Effectiveness Review, the Annual Evaluation Review, and the Annual Portfolio Performance Review - could be discussed together in a forum such as an informal Board seminar to provide the Board a more holistic picture of effectiveness but also for Board members to be able to reflect on the recommendations and conclusions of the three reports.

# CHAPTER 1

# Introduction[1]

1. Since 2008, when the global economic and financial crisis erupted, the world economy has continued to struggle. Uncertainty about the chances of a recovery still prevailed in 2012. Toward the end of 2012, some tentative improvements took hold of the global economy. The threats to the financial survival of the eurozone were reduced due to steps taken by the European Central Bank, a reduction in bond spreads took place, and stock markets started moving up. Still, a Cyprus banking crisis erupted in March 2013. The level of global trade grew by only 3.5% whereas, earlier, it had been growing at the rate of more than 6% per annum. This slowing of major industrialized economies—the European Union, Japan, and the United States—had a significant knock-on effect on developing countries, including those in Asia and the Pacific.

## A. Development Context of Asia and the Pacific in 2012

**The 2012 economic performance among developing countries was the lowest in 10 years**

2. In 2012, developing countries registered a growth rate of 5.1%, lower than the 5.9% in 2011. The 2012 economic performance among developing countries was the lowest in 10 years. Deceleration in industrial activity in developing countries has been particularly severe, with several implications for business, trade, and employment. Among other factors, a slowing-down of the trading partners caused the large economies of the People's Republic of China (PRC) and India to register declines in the range of 2%–3%.

3. However, oil prices have remained high over 2010–2012, and whether the present price fall stabilizes at the current lower level remains to be seen. Since 2006, the prices of rice, wheat, and maize worldwide have nearly doubled. Elevated commodity prices combined with uncertainties arising in the industrialized economies are adversely affecting the inflow of investments, credits, and trading in developing countries. Given the countercyclical measures taken in the 2008 downturn, some developing countries have already exhausted the fiscal headroom for new economic stimuli. As such they do not have sufficient resources to do so. Instead, they are under pressure to restore their monetary and fiscal buffers to be ready for any oncoming turbulence. This is because inflationary pressures in some countries are nearing 9%–10%, despite high policy rates imposed by the central banks.

4. After an impressive performance during the decade up to 2008, Asia and the Pacific economies not only lost some of their growth momentum but also face adverse and uncertain global markets, especially with the slower flow of bank credits[2] and

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[1] This chapter has been prepared based on documents, such as the World Bank's Global Economic Prospects, Volume 6, 2013; United Nations' World Economic Situation and Prospects, 2013; and United Nations Development Programme's (UNDP's) Human Development Report 2013. For a recent detailed review see Asian Development Bank (ADB). 2013. *Asian Development Outlook 2013—Asia's Energy Challenge.* Manila.

[2] Foreign direct investment inflows to South Asian economies fell by 17% in 2012, while international bank lending slumped by a high 34%.

investments. Government budgets are under pressure, for services as well as investment in and maintenance of infrastructure. The share of the working poor remains high. Most workers tend to be employed, but only in vulnerable and marginal jobs in the informal sector. Thus, insufficient job opportunities and growing inequalities continue to add to the problems of the economic crisis.

5. The protracted nature of the global economic crisis, especially the continued problems in the banking and finance sector, seems to have dented the global consensus on the need for long-term development support, and made policymaking more ad hoc and short term. This might detract from the earlier pursuit of poverty reduction and Millennium Development Goals (MDGs). The progress seems to be faltering precisely when the post-2015 agenda is struggling to take shape. Given that the Doha round of trade negotiations failed so far, it is important that the development community stays focused on the post-2015 agenda, to improve medium- and long-term prospects for global development.

6. There were fewer casualties in 2012 from natural disasters in Asia than in previous years, but they still claimed more lives than anywhere else in the world. Countries in the region reported 83 disasters—mostly floods—in 2012. The disasters killed about 3,100 people, affected 64.5 million, and caused $15 billion in damage. One of the region's hardest-hit countries in 2012 (and this past decade) was the Philippines. Since 2002, the country's 182 recorded disasters killed almost 11,000 people. Category 5 tropical cyclone Bopha in December 2012 killed more than 1,000 in Mindanao, with more than 800 remaining missing, a million displaced, and 216,000 houses damaged. Of the top five disasters that created the most damage in 2012, three were in the PRC, and the other two were in Pakistan and Iran. Pakistan suffered large-scale loss of life from floods for the third successive year; 480 people died. June-July floods in the PRC affected over 17 million people and caused the greatest economic loss in the region ($4.8 billion).[3]

**On the positive side, developing countries are playing a more important role as drivers of global economic growth**

7. On the positive side, developing countries are playing a more important role as drivers of global economic growth. Their share of global trade has increased from 25% in 1980 to 47% in 2010.[4] More importantly, a much larger component of this growing magnitude is now taking place among the developing countries themselves. Since 2010, more than half of the exports of developing countries go to other developing countries. Capital flows between developing countries are also increasing. A significant proportion of these export production and foreign investment activities takes place within East Asia, and while it may be centered on the PRC economy, such activities are also happening in Africa, Latin America, and South Asia. Product value chains of multinational goods and services are emerging as important determinants of commerce and economic growth worldwide.

8. While globalization continued to uncover growth opportunities in countries everywhere, and poverty headcounts continue to decrease, a larger share of the world's poor now reside in middle-income countries despite their fast-growing and more globally integrated economies. This has led many to believe that the focus of development policies combating poverty has to shift from the international to the domestic arena. This change in perspective provides an opportunity to make the development process more endogenous and growth more inclusive. Increasing the

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[3] United Nations Integrated Regional Information Networks. http://www.irinnews.org/report/97021/DISASTERS-Asia-s-2012-figures-and-trends.

[4] UNDP. 2013. *Human Development Report. The Rise of the South: Human Progress in a Diverse World.* New York.

policy dialogue with such middle-income countries, and a focus on policy reform and reduction in inequalities of various types, attains greater significance in this context.

9. After the leadership change in the PRC in 2012, certain new emphases in development policies may be in the offing in that country and in others. In the PRC, these are linked to support for rising wage levels, less emphasis on manufacturing, the increased role of services (hence more emphasis on skills and knowledge industries), and the restoration of the environment through better management of natural resources, including water, forests, and land. These are likely to determine the patterns of growth and economic development not only in the PRC, but also in several other countries that are part of the East Asian production networks, and beyond.

10. South East Asian economies gave solid economic performances in 2012. The subregion is well endowed with human and natural resources, and is expected to continue to perform well, assisted among others by the growth of the PRC economy and the opening of the Myanmar economy. Several Central Asian countries continued to enjoy a boom in their commodities in 2012, and these economies should continue to progress toward completing their transition to market economies. South Asian countries, which are home to the largest number of the poor in the world, slowed down in 2012 but will nevertheless continue to grow at more than 5% per annum, or even higher, if they continue to harness productivity-enhancing reforms and relieve infrastructure bottlenecks.

11. To be able to sustain more than half of the global population, the economies of Asia and the Pacific will need to switch to a type of economic growth that is less vulnerable to shocks and external crises; more inclusive; and more fiscally, environmentally, and socially sustainable. The key challenges that the region faces relate to human development, inequality and reduction of pockets of extreme poverty, the environment and climate, effective responses to external financial crises and natural disasters, and more effective public sector management (PSM). Development financing is likely to be particularly unpredictable, and the region will need to muster all the overseas' types of financing it can gather from outside it or within, despite the risks involved.

**Asia and the Pacific will need to switch to a type of economic growth that is less vulnerable to shocks and external crises**

## B. Purpose and Organization of this Report

12. In the context of the challenges described, this Annual Evaluation Review (AER) provides various evaluation topics for discussion and commentary, including a chapter on the sustainability of infrastructure operations based on Independent Evaluation Department (IED) databases and a special desk review of road maintenance issues, a chapter on vulnerabilities in Asia that draws on recent evaluations, and a chapter on Management's use of IED recommendations. The AER aims to complement two main Asian Development Bank (ADB) publications—the Development Effectiveness Review and the Annual Report on Portfolio Performance—in reporting on ADB's progress in improving its development effectiveness, from IED's particular perspective and sources. In line with the spirit of the 2008 evaluation policy, the review is offered to ADB's Board of Directors for discussion as it has the key responsibility to oversee ADB's evaluation work and assess the overall impact and quality of ADB's programs and activities as documented in evaluation reports. Like last year, the report reviews recent evaluations but does not give new recommendations for ADB Management. It offers lessons and suggestions for operations and strategy development. It also comments on selected issues relating to performance and suggests that Management investigate these further.

13. Chapter 2 comments on the performance of ADB as a key partner for the countries in the region. As ADB-supported operations are mostly led by government or the private sector, they also indirectly reflect on the performance of the public sector and, to a lesser extent, the private sector in Asia. The update on ADB's performance is based on analysis of IED databases and is informed by recent IED evaluations, including attention to validations of completion reports for sovereign and nonsovereign operations. Chapter 3 updates earlier findings reported in 2010 on the sustainability of ADB-supported operations, particularly infrastructure. Chapter 4 briefly discusses recent impact evaluations conducted by IED and reports for the first time on impact evaluations conducted by ADB. Chapter 5 discusses the findings of five IED evaluations conducted in 2012, concentrating on issues connected with risk and vulnerabilities in Asia, how they manifest themselves, and how they could be managed in a number of areas. The last chapter provides IED's annual reporting on the actions taken by Management on accepted evaluation recommendations. There are three appendixes. Appendix 1 has a list of all IED reports issued in 2012. Appendix 2 summarizes the recommendations of the major evaluations issued in 2012, along with the responses to these by Management. Appendix 3 contains a list of linked documents referred to in various places of this AER, with their hyperlinks.

# CHAPTER 2

# Assessment of ADB Operations

14. The assessment of ADB operations can be broken down into the assessment of performance of country programs, sovereign operations, nonsovereign operations (NSOs), and technical assistance (TA) operations.

## A. ADB Country Program Performance

**IED completed evaluations for Afghanistan, Armenia, Azerbaijan, and Kyrgyz Republic**

15. Assessments of country program performance in 2012 focused on four developing member countries (DMCs) in transition in Central and West Asia. IED completed country assistance program evaluations (CAPEs) for Afghanistan and the Kyrgyz Republic and validated country partnership strategy final reviews (CPSFRs) for Armenia and Azerbaijan. ADB operated in a challenging environment in these countries. Political stability and economic progress were affected by ethnic violence and revolts (Kyrgyz Republic), closed borders (Armenia and Azerbaijan), and civil strife (Afghanistan). Further, integration into the world economy carries with it not only opportunities but also risks, as a global crisis can end growth and send a country's economy into a tailspin (Armenia).

16. Despite the uncertainties, risks, capacity constraints, and governance issues, country assessments noted that ADB operations have been generally effective in achieving results. When also taking into account relevance, efficiency, and sustainability criteria, however, overall levels of success have been less uniform—support to Azerbaijan and the Kyrgyz Republic was rated *successful* but that to Afghanistan and Armenia *less than successful*.

17. **Kyrgyz Republic.** The CAPE found that ADB had facilitated the country's transition process. ADB operations in the country have improved transport corridors that substantially contributed to the country's domestic and regional connectivity. This helped generate regional trade and economic activities along roadsides. ADB support was able to help improve the institutional capacity needed to deliver public services that enhance inclusiveness. For instance, stronger capacity in education and health management improved enrollment and the quality of basic education and reduced infant mortality in some areas of the country. The state's role in the productive sectors was reduced, a basic budget law was established, and procurement procedures improved, as did the soundness and oversight of the financial sector. ADB also responded quickly to the government's requests for emergency rehabilitation support, and added value by supporting a disaster risk mitigation project.

18. Overall, ADB identified the right objectives but resources in some sectors were spread too thinly across many subsectors without sufficient inter-sector links to

reinforce the achievement of cross-sector outcomes and impacts. Progress was highly mixed in achieving the non-income MDGs. The overall assessment was still of a broadly successful program.

**Focus on development impacts and factor in sustainability issues at the design stage**

19. The CAPE recommended that ADB focus on development impacts and factor in sustainability issues at the design stage, by giving more emphasis to improving road maintenance and the sustainability of the existing road network (by working out road asset management reform with other key partners), while easing constraints to cross-border trade facilitation and improving road safety. The CAPE also recommended to (i) use capacity development TA systematically by integrating it into the overall country partnership strategy (CPS); (ii) move away from the extensive use of externally driven project implementation units, which are closed after project completion and not integrated into regular structures; (iii) improve the CPS results framework and continue assisting the country to improve results orientation and overall monitoring and evaluation; (iv) make climate change adaptation a theme in the next CPS; (v) and continue efforts to boost ADB's private sector operations.[5]

20. **Afghanistan.** The CAPE[6] observed improvements in the country's road and air connectivity and access to electricity through ADB support—particularly the 24-hour supply to Kabul. These were priority areas for ADB support. ADB's private sector operation has also been significant in the telecommunication industry and in expanding banking services. The CAPE nevertheless questioned certain ADB approaches, such as (i) a too long use of the emergency approach, leading to deviations from proper planning, project design, and implementation practices; (ii) a too heavy focus on public sector management in the first years, when spreading out the support over a longer period might have been better; (iii) centralized procurement practices unsuitable for the country's problems; (iv) the limited size and skill mix of the staff of the Afghanistan Resident Mission, compared with the portfolio; and (v) too much reliance on multitranche financing facilities (MFFs) in later years, despite limited local capacity. There was also less success in sectors with smaller financial support, leading to an overall assessment of ADB's work as *less than successful*.[7]

**ADB should help prioritize reforms needed for fiscal sustainability**

21. The CAPE recommended that ADB plan for 3-year periods only, strengthen the resident mission, help coordinate development partner efforts, continue with infrastructure support and capacity development in the government, but base sector strategies on analyses of industrial and agricultural demand, and socioeconomic needs. In the medium term ADB should help prioritize reforms needed for fiscal sustainability.

22. **Azerbaijan.**[8] The CPSFR, as validated by IED, noted positive results for ADB support in agriculture and natural resources (ANR), water supply and other municipal infrastructure and services (WMIS), education, and finance. Support for flood mitigation improved protection against recurring damage caused by floods, and water supply and sanitation projects were able to provide access to high-quality and reliable drinking water while integration of internally displaced persons was aided through the rehabilitation of schools and financing of small-scale enterprises. While the majority of ADB operations in Azerbaijan are still ongoing, the planned outcomes are likely to be

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[5] Independent Evaluation Department (IED). 2012. *Country Assessment Program Evaluation (CAPE): Kyrgyz Republic.* Manila: ADB.

[6] IED. 2012. *CAPE: Islamic Republic of Afghanistan*. Manila: ADB.

[7] The Management Response (available on the IED website), expressed concern about possibly misleading inference and impression emanating from the assessment, as very few projects have so far been completed, while projects are still ongoing, and there is a lack of data to assess outcomes and impacts.

[8] Management disagreed with some aspects of the Azerbaijan validation and with the downgrading of the rating from *successful* to *less than successful* for the Armenia program.

achieved given the initial results in selected sectors (roads, urban services, and power) and recent improvements in country portfolio performance. The validation recommended that special attention be given to the close monitoring of MFFs, and capacity improvements in executing and implementing agencies, and advised that should large delays build up or capacity is not improved in the medium term, ADB needs to be able to scale back MFFs. The report also recommended ADB support for diversification of the economy given the finite nature of oil and natural gas resources, and support for rural and small town development to improve the inclusiveness of growth.[9]

23. **Armenia.** The validation of Armenia's CPSFR highlighted ADB's contribution to the country's poverty reduction by improving (i) rural connectivity and international connectivity with the aviation services operation in Yerevan and adoption of the "open skies" policy, (ii) access to rural drinking water and reduction in water losses, (iii) the business enabling environment, and (iv) access to finance for small- and medium-sized enterprises. ADB's crisis support also eased the impact of the 2008 global economic crisis on the country's middle class and poor.[10]

24. Armenia's economic progress is encountering challenges due to lack of private sector development, public debt build-up, and closed borders with Azerbaijan and Turkey. The validation judged that there had been ad hoc decision making not sufficiently guided by strategic documents, with an unexplained shift from poverty reduction priorities to a more infrastructure-led focus on economic growth. The choice of instruments deployed was imbalanced and project readiness considerations were not incorporated in large MFF project designs. The program relied insufficiently on TA for the needed capacity development. The validation recommended monitoring ADB's public sector lending carefully, and employ small grants from ADB-managed TA trust funds for innovative approaches and knowledge products and services. Such grants could be used to enlarge the impact of ADB's investments. The validation also recommended expanding private sector operations.

25. **Sustainability a concern.** While physical investments were completed in various sectors in various country programs assessed, sustainability of the benefits remained a concern. Three of the four 2012 country performance evaluations and validations rated the programs *less than likely sustainable*. IED emphasizes that there is a need to systematically integrate sustainability safeguards in project design and implementation. IED has on various occasions suggested that the current risk assessment and management plans would benefit from more focus on sustainability. A more indepth discussion is presented in Chapter 3.

**Three evaluations and validations rated the programs *less than likely sustainable***

26. **Lack of strategic documents.** CPSs are important tools in crafting strategic directions as well as monitoring and evaluating ADB operations in specific countries. IED observed the lack of a CPS or strategic documents for specific periods of ADB operations in Armenia and Azerbaijan. ADB operations could have benefited from more analysis of what had (not) worked and more continuity in programming focus. In Afghanistan, the second CPS and sector results framework did not give due attention to the fact that the country was in a conflict-affected situation. This resulted in a lack of strategic approaches in ADB support and allowed for poorly designed projects that did not fully take into account the country's deteriorating security situation and the government's lack of absorptive capacity.

9 IED. 2012. *Validation of Country Program and Strategies Final Review for Azerbaijan*. Manila: ADB.
10 IED. 2012. *Validation of Country Program and Strategies Final Review for Armenia*. Manila: ADB.

27. **Lessons.** Lessons derived from these evaluations highlight the importance of sector choice and inter-sector links to achieve better development outcomes and impact. For instance, synergies between transport and energy projects could have been tapped for the development of the mining industry in Afghanistan. In the Kyrgyz Republic, health interventions performed better than those in other sectors and scaling them up could have contributed more to countrywide development impacts. Support for Armenia and Azerbaijan calls for supplementing infrastructure investments with capacity building and policy reform to achieve greater development impacts.

**Synergies in operations are promoted by coordination among development partners within and across key sectors**

28. Synergies in operations are promoted by coordination among development partners within and across key sectors. Initial enthusiasm shown by development partners for support to Afghanistan has led to high-level international coordination that achieved general consensus on the strategic directions and financial commitments to the country. ADB's programs were initially well coordinated with other development partners. However, during implementation, the level of coordination eventually weakened and links between ADB, the government, and other development partners had become non-existent, reducing development impacts. Weak coordination at the strategic level that allows development partners to provide parallel support in the same sectors also runs the risk of the government being able to play the partners off against each other (Azerbaijan). Strong cooperation among development partners can lead to joint planning and facilitate priority setting, especially for countries with serious absorptive capacity deficits (Kyrgyz Republic).[11]

29. These lessons are similar to those drawn from earlier country evaluations and validations. Thirty-six country programs have been assessed since 1998[12] and the overall historical country performance remained similar to last year's: 65% of country programs were rated *successful* and 35% *less than successful*.

## B. Performance of Sovereign Operations

**The success rate of sovereign operations as evaluated by IED in 2012 was 62%**

30. **Sovereign operation assessments in 2012**. IED issued 71 evaluation reports for sovereign operations in 2012—23% in ANR; 14% in transport and information and communication technology (ICT); 13% were multisector operations; 11% in WMIS; 10% in PSM; and 10% in education. The remainder of operations was in energy, finance, health and social protection sectors, or industry and trade. Five of the 71 reports concerned project or program performance evaluation reports (PPERs), the rest were project completion report validation reports (PVRs). The overall success rate of sovereign operations as evaluated by IED in 2012 was 62%. IED rated 61% of the 421 sovereign operations approved since the 1990s as *successful*.[13] Box 1 lists the five PPERs completed in 2012 for sovereign operations and offers key findings. Appendix 1 includes a listing of the 66 PVRs completed in 2012.

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[11] The Joint Economic Assessment in the Kyrgyz Republic served as the foundation for the government's 2011 reconstruction strategy and for a series of multipartner emergency operations.

[12] Two country assessments were not provided with ratings.

[13] IED assessed 239 operations in the 1990s, through mostly PPERs, and 182 operations in the 2000s, both through PPERs and PVRs.

**Box 1: Performance Evaluation Reports Completed in 2012 for Sovereign Operations**

**Philippines' Microfinance Development Program**—rated *successful (relevant, effective, efficient, sustainable).* The program contributed to a sustainable and diverse market-oriented microfinance sector with expanded outreach at competitive prices for the poor.

**Nepal's Kali Gandaki "A" Hydroelectric Project**—rated *successful (relevant, effective, efficient, likely sustainable).* The project added to the grid almost 592 gigawatt-hours per year since commissioning, benefiting consumers nationwide. However, the PPER recommended a $20 million dollar refurbishment.

**Marshall Islands' Skills Training and Vocational Education Project**—rated *unsuccessful (less than relevant, ineffective, less than efficient, less than likely sustainable).* The project did not achieve the intended outcomes: improved skills of well-trained workers for sustained economic and social development.

**Pakistan's Sindh Devolved Social Services Program**—rated *unsuccessful (less than relevant, less than effective, inefficient, unlikely sustainable)*—and **Pakistan's Punjab Devolved Social Services Program**—rated *less than successful (less than relevant, less than effective, less than efficient, less than likely sustainable).* The program in Punjab did better than the program in Sindh, which was *unsuccessful.* Both programs were to improve access and service delivery for education, health, and water and sanitation services through provincial policy reforms, and fiscal and technical support for local governments. Issues in program implementation ranged from complexity of design, inadequate risk assessment and management, and inappropriate modality, to capacity constraints and unfavorable political dynamics.

Source: Independent Evaluation Department. http://www.adb.org/site/evaluation/resources/1235

31. **Historical assessment of performance of sovereign operations.** The assessments in the rest of this section use aggregate ratings based on the latest rating of the project, and include those of unvalidated project completion reports (PCRs), PVRs, and PPERs.[14] The purpose of reporting the success of operations by decade of approval is that it allows analysis of the performance of individual operations prepared under similar policy conditions and business processes, while the big samples of operations in the two groups increase the confidence in the representativeness of the ratings.

32. Sovereign operations approved in the 1990s had a 67% success rate, and sovereign operations started and completed in the 2000s had the same success rate.[15] In terms of the value of the operations, 75% of the aggregate dollar amount disbursed was rated *successful* in either decade as well—indicating two things: (i) there has been little movement in success rates overall between the 2 decades in aggregate terms, and (ii) operations with larger dollar value tended to be more successful than operations with smaller dollar value. Appendix 3, Linked Document A, Table A.1 lists success rates by decade based on the aggregate amount of disbursements, showing that the success

**There has been little movement in success rates overall**

[14] PPER ratings, when available, replace PCR and PVR ratings. PVR ratings, when available, replace PCR or XARR ratings. This methodology is also used by ADB's Development Effectiveness Review. IED has issued PVRs since 2007. Historically, PPERs on balance downgraded the PCR rating in about 8% of cases, PVRs in the last 5 years in 11.6% of cases. PVR-PCR rating gaps have been mostly on account of differences in the ratings of project relevance. Appendix 3, Linked Document C provides a more detailed analysis of the differences in project success rates. Through the validation of at least 75% of all PCRs and 100% of XARRs, IED is working toward extending its evaluation coverage.

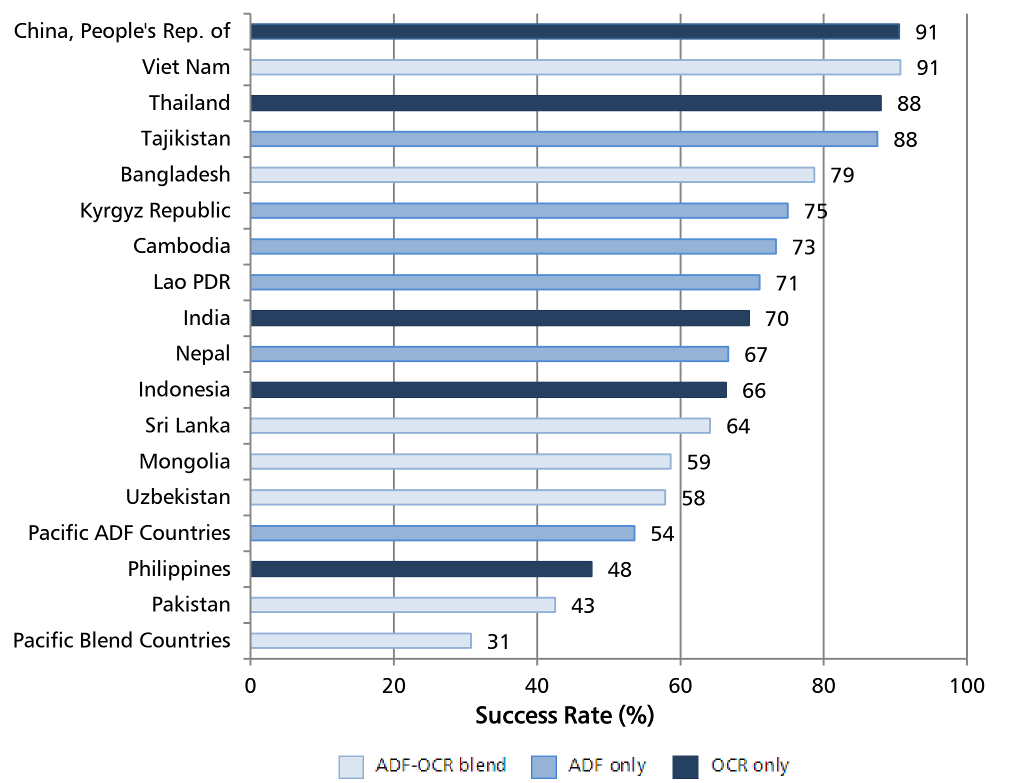
[15] This is based on 910 self and independently evaluated sovereign operations—loan or Asian Development Fund (ADF) grant-based programs and projects). Less than successful projects accounted for 26% of completed sovereign operations, unsuccessful ones for 7%. 568 assessed operations were approved in the 1990s, and 342 assessed operations in the 2000s.

rates have been consistently higher than those by number of operations since the start of ADB operations.

**Aggregate success rates hide great variations in success by sector and country of operations**

33. Aggregate success rates, however, hide great variations in success by sector and country of operations. They have been much higher historically in some sectors and some countries than in others, suggesting the need for significant special efforts in sectors and countries with weaker performance. For instance, success rates were notably high for the PRC, Tajikistan, and Viet Nam portfolios—ranging from 88% to 91%—while performance has been generally low for the portfolios of most countries in the Pacific, Pakistan, and the Philippines (Figure 1). Study of success rates by country portfolio shows also that eligibility for ordinary capital resources (OCR) or economic status of the country does not correlate well with success rates, as will be concluded later in a more statistically rigorous way (note the color distribution in Figure 1).

**Figure 1: Success Rate of Operations Approved in 1990–2010 for Selected Developing Member Countries** (%)




ADF = Asian Development Fund, OCR = ordinary capital resources, PDR = People's Democratic Republic.
Source: Independent Evaluation Department databases.

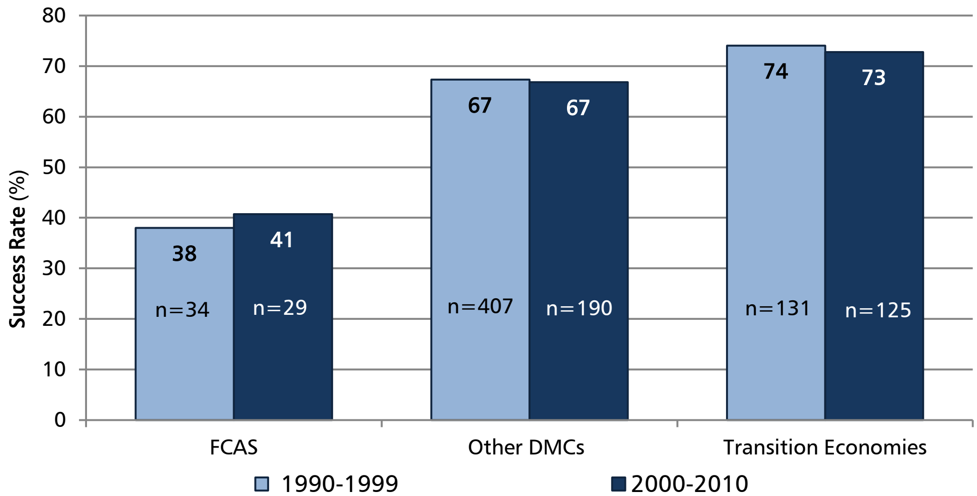
34. **Performance by groups of countries.** Performance across countries confirms that fragility and conflict situations influence the likelihood of successful project implementation—much more so than the economic status as such. Fragile and conflict-affected situation (FCAS) countries[16] have consistently performed poorly compared with other DMCs (Figure 2). A regression analysis conducted for this report bears this out. It

[16] As of 2011, among the DMCs considered fragile are Kiribati, the Republic of the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, and Tuvalu; classified as conflict-affected countries are Afghanistan and Timor-Leste.

confirms that FCAS countries' overall success rating for 2 consecutive decades is way below the performance of the rest of the DMCs. Rather than related to economic status (gross domestic product [GDP] per capita), FCAS countries' poor performance has been attributed to the nature of these countries—being small, isolated, and having underdeveloped markets and limited resources and infrastructure, or experiencing significant national or subnational conflict.[17]

**Fragile and conflict-affected situation countries have consistently performed poorly**

**Figure 2: Performance of FCAS Countries and Other DMC Groupings, by Decade of Approval (1990–2010)**




FCAS = fragile and conflict-affected situations, DMCs = developing member countries.
Source: Independent Evaluation Department.

35. Performance of DMCs other than FCAS has been consistent during the past decades with a 67% success rating.[18] Notably countries in transition[19] have pulled up their performance ahead of other DMCs in the last 2 decades with a 73% success rating. This rating has been achieved despite the challenges of transition journeys from centrally planned economies to more market-based economies, shifts from subsistence-orientation and autarky to greater trade-orientation and regional integration, and from agrarian to more urbanized societies.[20] In several transition countries, a relatively more educated workforce and higher planning or implementation capacities may have been influential. Specifically, project success ratings were good in Armenia, Georgia, Kyrgyz Republic, Lao People's Democratic Republic, Tajikistan, and Viet Nam. IED has a working paper on evaluation lessons on transition and its possible implication for Myanmar underway, targeted for completion within the year.

**Notably countries in transition have pulled up their performance ahead of other DMCs**

36. ADB regional groupings basically point to the same results where fragility and conflict situations affect performance, specifically in the Pacific and Central and West Asia (Appendix 3, Linked Document A, Figure A.1). In Papua New Guinea, for instance, design and implementation have been challenged by land ownership issues, tribal

[17] ADB. 2011. *ADB Engagement in Fragile and Conflict-Affected Situations* (ADF XI Replenishment Meeting held on 8–9 September 2011 Manila, Philippines). Manila.
[18] The overall success rating is still being pulled down by the low performance of the Pakistan portfolio.
[19] Defined here as countries in transition from being centrally planned to market-oriented. These countries include Armenia, Azerbaijan, Cambodia, Georgia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan, Uzbekistan, and Viet Nam.
[20] IED. 2013. *Working paper on Evaluation Lessons on Transition: Possible Implications for Myanmar* (draft).

conflict, and a difficult sociocultural and logistical environment.[21] Similarly, in the Marshall Islands, project performance is constrained by the country's small size with sparse population spread over various islands.[22] In Afghanistan, on the other hand, ADB operations are hampered as continuing hostilities reduce development impacts.[23]

37. When grouped according to income, both low-income and upper-middle-income countries have shown better operational performance than lower-middle-income countries (Appendix 3, Linked Document A, Table A.2).[24] Low-income countries' relatively good operational performance may be due most to these countries neither being fragile nor being in a conflict-affected situation (except for Nepal some time ago, and Afghanistan). However, despite the relatively good operational performance, the likelihood of project sustainability was lower for this group than for the other income groups.[25]

**ADB sovereign operations have shown considerable variation in performance within country groupings**

38. As mentioned, ADB sovereign operations have shown considerable variation in performance within country groupings, whether based on income levels or geographical proximity. This indicates that, more than economic status and spatial location, various other factors are important in influencing successful project implementation. The quality of governance can be thought of, conducive political conditions, and the level of implementation capacities.

**Declining performances in energy, education, finance, and industry and trade over the last decade**

39. **Performance by sector.** Although, overall, sovereign operations approved in the 1990s have had the same level of performance as those in the 2000s, significant improvements have been made over the period to the performance of multisector operations and operations in ANR, health and social protection, PSM, and WMIS (Figure 3). The success rate in transport, and ICT, slightly decreased, but it remains one of the top-performing sectors of operations at 84%. The improvements have been offset however by declining performances in energy, education, finance, and industry and trade over the last decade.

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[21] IED. 2008. *Validation Report: Nucleus Agro Enterprises in Papua New Guinea*. Manila: ADB.

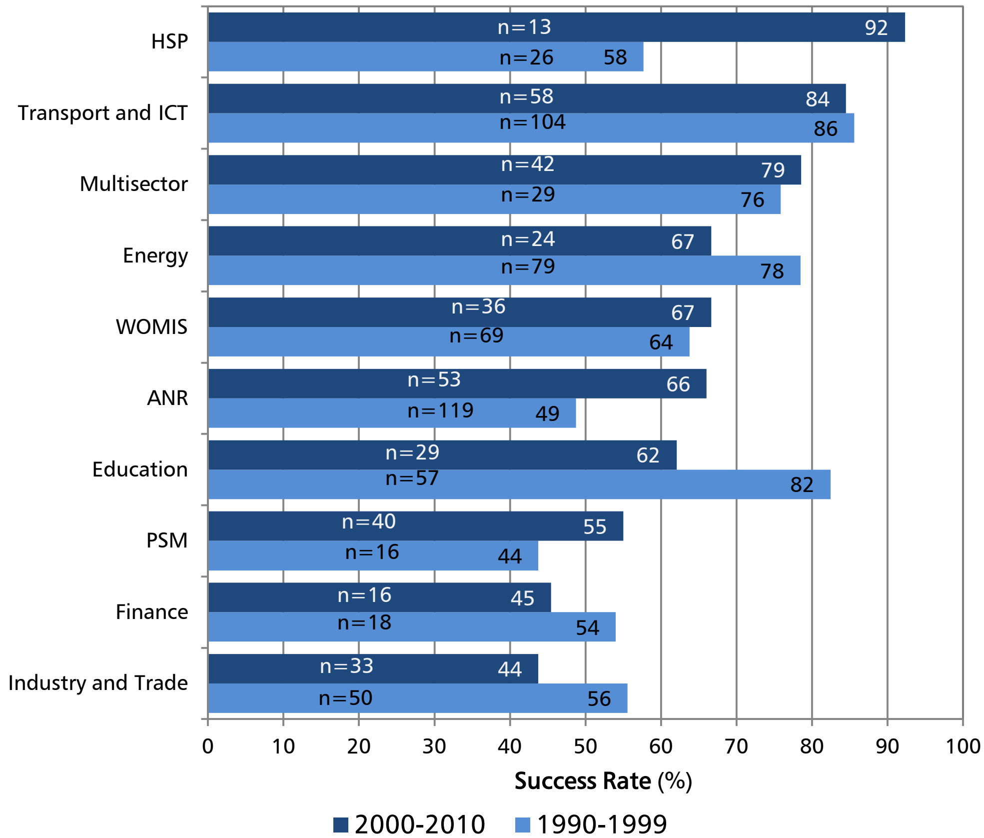
[22] IED. 2012. *Performance Evaluation Report: Skills Training and Vocational Education Project in Marshall Islands.* Manila: ADB.

[23] IED. 2012. *Validation Report: Afghanistan: Regional Airports Rehabilitation Project (Phase 1).* Manila: ADB.

[24] The overall success rating for 2000–2010, however, is subject to change as more ongoing projects approved during this period are completed and evaluated.

[25] Of completed projects in low-income countries, 22% are rated *successful* (or better) and *less than sustainable* or *unsustainable* compared with a lower percentage of other income groups—10% for lower-middle-income and 8% for upper-middle-income countries.

**Figure 3: Sector Performance of Sovereign Operations based on Project Success Ratings by Decade of Approval (1990–2010)**




ANR = agriculture and natural resources, HSP = health and social protection, ICT = information and communication technology, n = number of operations, PSM = public sector management, WOMIS = water and other municipal infrastructure and services.
Source: Independent Evaluation Department.

40. Irrigation, drainage and flood protection, livestock, forestry, and water-based natural resources management projects greatly influenced performance improvements in the ANR sector (Appendix 3, Linked Document A, Table A.3). These improvements appear to be related to better designs, i.e., being multifaceted and built on appropriate complementarities and value chains. [26] In the health sector, early childhood development, health systems, and social protection operations contributed to the sector's better performance. The 2012 AER reported that better partnerships with the private sector, nongovernment organizations, and local communities as well as strong government commitment, leadership, and capacity were factors that influenced successful project implementation. Most recent evaluations[27] confirm these factors as well and further note that (i) geographic targeting facilitated project administration and supervision and prevented duplication of support from other development partners; (ii) a focused approach enhanced ownership and also a high level of support

[26] IED. 2012. *2012 Annual Evaluation Review*. Manila: ADB.

[27] IED. 2012. *Validation Report: Social Security Sector Development Program in Mongolia*. Manila: ADB; IED. 2012. *Validation Report: Health Sector Reform Project in Tajikistan. Manila*: ADB; ADB. 2012. *Project Completion Report: Health Care in the Central Highlands Project in Viet Nam*. Manila; and ADB. 2012. *Project Completion Report: Woman and Child Health Development Project in Uzbekistan*. Manila.

both from government and local communities; and (iii) successful rationalization and restructuring of institutions was accompanied by adequate financing, capacity building, health reforms, and essential drugs and commodities.

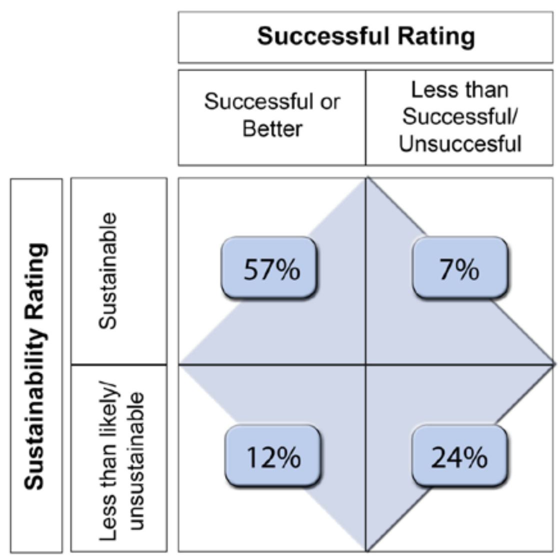
41. Multisector operations have also improved over the previous decade, to 79%, mainly due to crisis and emergency operations that performed well, as was also corroborated in 2012 by a special evaluation study (SES) on natural disasters and disaster risks.[28] Better performance in WMIS was evident in operations on slum upgrading and housing as well as waste management and sewage. Private sector involvement, and appropriateness of demand-driven community approach and participatory planning were among the strong features of these subsector operations.[29]

42. In PSM, programs related to economic and public affairs management have been able to improve the sector rating, although it retains a below-average overall success rating. The limited success of operations in the subsectors of public administration and public expenditure and fiscal management, have affected the rating. The public administration project in Viet Nam and the second phase of the governance reform program in Mongolia obtained poor success ratings due to complex project design, coordination problems, and lack of sustained government commitment.[30]

**Poor performance in the finance sector was on account of operations in banking systems, microfinance, and capital markets**

43. Poor performance in the finance sector was on account of operations in banking systems, microfinance, and capital markets, which were affected, among others, by the global and economic crisis in Pakistan and volatile political and economic conditions in Nepal and the Kyrgyz Republic. Finance sector operations had to also contend with design flaws (complex or overambitious), lack of government commitment (shifting of priorities or policy reversals), and capacity constraints.

**Figure 4: Success versus Sustainability Ratings of Sovereign Operations**




Source: Independent Evaluation Department, based on evaluation data from 2000 to 2012.

44. **Success rates and sustainability rates.** The rating of a project as *successful* does not necessarily also imply full sustainability of the outcomes in the medium and long term. While 57% of sovereign operations were rated both *successful* and

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[28] IED. 2012. *Special Evaluation Study (SES): ADB's Response to Natural Disasters and Disaster Risks*. Manila: ADB.

[29] IED. 2012. *Validation Report: Development of Poor Urban Communities Sector Project in the Philippines*. Manila: ADB; IED. 2010. *Performance Evaluation Report: Vientiane Urban Infrastructure and Services Project in Lao People's Democratic Republic*. Manila: ADB; and IED. 2010. *Performance Evaluation Report: Tianjin Wastewater Treatment and Water Resources Protection Project in People's Republic of China*. Manila: ADB.

[30] IED. 2012. *Validation Report: Support the Implementation Public Administration Reform Master Program in Viet Nam*. Manila: ADB; ADB. 2012. *Project Completion Report: Second Phase of the Governance Reform Program in Mongolia*. Manila.

*sustainable*, about 12% were rated *successful* but *less than likely sustainable* or *unsustainable* (Figure 4).[31] A similar experience was noted in the recent CAPE for the Kyrgyz Republic, given inadequate financing in the maintenance of infrastructure projects. Projects with poor success and poor sustainability ratings (24%) are on the other end of the divide. Most recent independent evaluations of projects in Pakistan and the Marshall Islands have reflected this experience on account of changes in local government structure, weak institutions, and inadequate cost recovery mechanisms.[32] Further discussions on sustainability issues are in Chapter 3.

45. **Factors that can influence performance.** The AER carried out a quantitative analysis[33] to assess the role of some country, sector, and project characteristics for which data was readily available (Appendix 3, Linked Document A, Section B). The following was concluded:

(i) Economic growth in a country has a strong positive relationship with project success—as the economic climate improves, the chances of project success also increase.

(ii) Among project characteristics, only the occurrence of one or more loan cancellations over the life of an operation was found to correlate negatively with performance. Loan cancellations are often related to problems with either project design or changing counterpart situations, and, not surprisingly, both have serious implications for project success, even though they may be appropriate to reduce the chance or level of failure.

(iii) The source of funding (Asian Development Fund [ADF] vs. OCR), type of operation (program vs. project), project cost, and partnership in financing do not influence project success to a statistically significant extent. In addition, the result indicated that implementation delay is not a significant detractor of project performance. All of these findings should have some implications for decisions to (a) choose ADF or OCR funds for funding (if a choice is possible), (b) go for a program or a project modality, (c) provide additional funds to operations, (d) look for partners, and (e) extend operations that are delayed or not.[34]

**The source of funding, type of operation, project cost, and partnership in financing do not influence project success**

(iv) The country's status of being in transition from a command to a market economy (i.e., having special policy or institutional challenges) does not jeopardize or favor project success.

46. A different kind of analysis was conducted on staff data, notably project administration staff tenure and project staff location (headquarters or resident missions) and their effects on project performance. Data on staff tenure was taken from IED's 241 PVRs (Appendix 3, Linked Document B). Results indicate the following:

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[31] Only includes self and independent project evaluations from 2000 onward, as the sustainability rating was introduced in that year. As of the end of 2012, there are 804 rated sovereign operations with both performance and sustainability ratings.

[32] PPERs on the Devolved Social Services Program in Pakistan (specifically in Punjab and Sindh) had a poor sustainability rating due to changes in local government structure and lack of local government framework, while a poor sustainability rating for the Skills Training and Vocational Education Project in Marshall Islands was attributed to weak institutions and inadequate cost-recovery mechanism, respectively. (For references to PPERs see Appendix 1.)

[33] Since the dependent variable, project success rating, is categorical, a logistic regression model was estimated. Appendix 3, Linked Document A (Section B) provides a detailed discussion of the methodology.

[34] A test of correlation between efficiency ratings and implementation delay confirmed that a longer completion period (than actually planned) did not affect the efficiency score and, in turn, the overall performance rating.

**The duration of staff tenure in projects declined from 1.9 years to 1.8 years**

(i) PVRs show that the relatively high staff turnover is an ADB-wide and sector-independent issue. The duration of staff tenure in projects with PCRs declined from an average of 1.9 years per project administration officer per project as found in last year's AER, to 1.8 years. PCRs validated in 2012 recorded the lowest average number of years spent by project officers.

(ii) Country differences are somewhat larger with 6.2 staff per completed project in Afghanistan, followed by the Lao People's Democratic Republic at 4.4, Pakistan and Nepal at 4.3, and the Philippines at 4.2. On the other hand, the tenure period was over 20% longer for projects in India, Mongolia, and Sri Lanka (at 2.2 or more years per officer), revealing more continuity in administration arrangements for such countries.

(iii) Any correlation between staff tenure and project success could not be established with statistical significance. The average number of officers per project and the average duration on the job of the project officers is quite similar for either *unsuccessful, less than successful*, or *successful* and *highly successful* projects. Nevertheless, as operations departments have commented, staff turnover does cause discontinuities in project implementation and even in client relationships.

(iv) Projects exclusively or predominantly administered in resident missions had a higher success rate (62%) than those exclusively or predominantly administered in headquarters (52%). However, the difference was statistically significant only at 10% level when tested. Given differences in levels of delegation of projects in different sectors, it is also likely that the two groups of projects are not entirely independent. Some have commented that projects delegated to resident missions are usually less complex with low implementation risk. IED's 2013 study on decentralization will further assess the effects of delegation.

**IED conducted an evaluation study of the MFF in 2012**

47. **Multitranche Financing Facility.** IED conducted a real-time evaluation study of the MFF in 2012[35] which had the objective of identifying issues, to improve the modality's effectiveness and efficiency. Following a 3-year pilot period, the MFF modality was mainstreamed in mid-2008. By the end of 2011, ADB had approved 66 MFF investment programs (in value about $32 billion). The number of countries in which the MFF modality had been introduced had increased from 6 in the pilot period to 14 by the end of 2011. Simultaneously, tranche approvals had grown from 17% of total loan/grant approvals in 2006 to 27% in 2009 and 37% in 2011.

48. The MFF is unique among the lending modalities offered by development partners in that it provides the comfort of long-term programmatic support to a DMC client but without entailing an additional cost burden on the client. Many clients favor it for these reasons. The World Bank has two similar investment lending modalities, which, however, do not announce a financing envelope up front.

49. Main findings of the evaluation study are reflected in Box 2. The study came to a number of recommendations (Appendix 2). The most important ones were to (i) apply the original standards set for the needed quality of prerequisites for MFF investment programs, (ii) manage the use of flexibility in the design and implementation of tranches, (iii) conduct appropriate midterm reviews for facilities, (iv) regularly monitor MFF portions not converted to tranches and take necessary steps to help ensure prudent lending planning and financial projections, and (v) ask proper

[35] IED. 2012. *Real-time Evaluation Study of the Multitranche Financing Facility*. Manila: ADB. The Board had requested an independent evaluation 3–4 years after mainstreaming the modality.

documentation from clients and make it immediately accessible in ADB. ADB's Management Response questioned some of the findings, but followed up with specific actions which are undertaken in 2013. This process is now underway. For example, in May 2013 a new Project Administration Instruction on scope changes was issued.

**Box 2. Evaluating the Multitranche Financing Facility (MFF) – Main Findings**

- MFFs are used highly flexibly over long utilization periods. Along with greater certainty for long-term funding, the flexibility enabled by MFFs is one of the key reasons for their increased acceptance and support in many developing member countries (DMCs). About 30% of all approved MFFs do not indicate a firm number of tranches or a range up front. Although up-front documentation is getting better, the flexibility accorded to the MFF program could compromise the programmatic approach originally approved.

- There was for a long time a lack of clarity on the nature of scope changes that require Board approval. Most tranche changes have been categorized as minor.

- The additional financing that is allowed within the MFF modality may have discouraged attention to proper tranche design or careful cost estimation.

- Sector strategies, road maps, or policy frameworks are not of the requisite quality in more than 20% of the MFFs seen.

- The documentation of MFFs does not always establish a link between institutional capacity due diligence work and the design of nonphysical investment components.

- In some cases investigated, technical due diligence seems not to have been conducted rigorously. Feedback is often via email, and records are not kept systematically.

- Economic due diligence of tranches was not always rigorous. Nearly half of second and further MFF tranches are approved in December. This affects commenting and follow up.

- The evidence is not clear on whether the modality has led to the expected savings in staff time for processing.

- It is not clear whether the expanded opportunities for cofinancing have materialized. The lack of an adequate information system did not allow an analysis of the levels of cofinancing achieved through the MFF modality in comparison with other modes.

- The rising number of MFFs adversely impacts ADB's ability to manage contingencies and headroom considerations. MFF investment programs lock up future finances and crowd out other lending. This may diminish ADB's ability to mount crisis-response operations.

Source: IED. 2012. *Real-time Evaluation Study of the Multitranche Financing Facility*. Manila: ADB.

## C. Performance of Nonsovereign Operations

50. IED completed two PPERs for NSOs and five validation reports of extended annual review reports (XARRs) in 2012. This brings to 31 the total number of independently evaluated NSO projects from 2006 to 2012 using the new criteria for evaluating NSOs.[36]

[36] The new evaluation criteria for evaluating NSOs—i.e., development outcomes and impact, ADB investment profitability, ADB work quality, and ADB additionality—were discussed in the 2012 AER. The guidelines for preparing PPERs on NSOs, which describe the four criteria in detail, are available on IED's's website.

51. The seven evaluated projects in 2012 comprised five finance and two infrastructure operations (Box 3).

**Box 3: Evaluations and Validations for Nonsovereign Operations, 2012**

**Equity Investment in Bank of China Ltd.**—evaluated as *successful.* The project contributed to the privatization of the People's Republic of China's (PRC's) commercial banking sector.

**Loan and Partial Risk Guarantee to AES Kelanitissa Ltd.**—evaluated as *less than successful.* The project constructed and operated a 163-megawatt combined cycle gas turbine power plant.

**Equity Investment in Asian Infrastructure Fund**—validated as *successful.* The Fund invested in 14 companies in 7 countries—8 in telecommunications, 4 in transportation, and 2 in power.

**Equity Investment in South Asia Regional Apex Fund**—validated as *less than successful.* The Fund invested in 39 companies in India in diverse industries such as telecommunications, software services, shipbuilding, power, information technology, education, and textiles.

**Equity Investment in Hangzhou City Commercial Bank**—validated as *successful.* The project supported the PRC government's efforts to reform its financial sector within cities.

**Equity Investment in Afghanistan International Bank (AIB)** —validated *highly successful.* The project helped in establishing AIB and helped reestablish Afghanistan's banking and financial sectors.

**Loan to and Equity Investment in China Gas Holdings (CGH)**—validated *successful.* The project supported CGH's investment plan for natural gas infrastructure projects in municipalities.

Source: Independent Evaluation Department. http://www.adb.org/site/evaluation/resources

52. **Overall ratings.** Of the seven evaluated projects in 2012, one was rated *highly successful*, four *successful*, and two *less than successful*. These were evaluated using the four main criteria of (i) development outcomes and impact, (ii) ADB investment profitability, (iii) ADB work quality, and (iv) ADB additionality. The public versions of the reports were sometimes redacted for reasons of confidentiality, hence the discussion below omits direct references to the projects to which the ADB investments contributed.

53. **Development outcomes and impact.** As in the previous year's assessment, the criterion of development outcomes and impact had the biggest influence of the four on the overall ratings of the seven projects evaluated in 2012—all five projects that had positive ratings in this aspect had *successful* or *highly successful* overall ratings, while the two projects that had negative ratings were rated *less than successful* overall. The latter was the result of their poor performance in business success and contribution to economic development. One of the two projects was a private equity fund (PEF) established in 1994. Similar to previous evaluations of PEFs created in the mid-1990s, the return on this fund was undermined by regional and global shocks and the poor performance by the fund manager. The other project, in the energy sector, similarly failed to provide a reasonable return on capital. Cost overruns, project delays, and higher-than-anticipated operating costs were the main reasons. This is the first infrastructure project rated *unsatisfactory* in business success and it contributed to the first instance that an infrastructure project was rated *less than successful* overall.

**All seven projects evaluated in 2012 had positive ratings for contribution to private sector development**

54. All seven projects evaluated in 2012 had positive ratings for contribution to private sector development. Two were rated *excellent*—one an infrastructure fund and the other an energy project. The infrastructure fund promoted institutional

development and innovation, increased competition in key investee markets, had a catalytic element, improved the regulatory framework in the project countries, and provided notable upstream and downstream links. Meanwhile, the energy project was pioneering and had a huge demonstration effect, helping introduce commercial lending to the natural gas distribution sector in the country (the PRC in this case).

55. As in previous assessments, all projects evaluated in 2012 had positive ratings in environmental, social, health, and safety performance since they all materially complied with most key standards of the host country laws and regulations, as well as those set by ADB at approval.

56. **ADB investment profitability.** Three of the seven projects were rated *excellent* in this category, all of them equity investments in financial institutions. Only one was rated *unsatisfactory*. This is the same PEF that underperformed in terms of business success. The resulting financial internal rate of return on ADB's equity investment in the fund was much lower than the target return stated in the report and recommendation of the President of the project.

57. **ADB work quality.** The same two *less than successful* projects reviewed earlier were rated *less than satisfactory* on this criterion. They both performed poorly in the areas of (i) ADB screening, appraisal, and structuring; and (ii) ADB monitoring and supervision. The PEF had project design weaknesses, specifically in the original structure of the fund and the timing of the capital calls and drawdowns, which eventually led to inferior returns. ADB could have provided better supervision to ensure that the fund manager adhered to the original investment policies and objectives of the fund. In the energy project, the assumption that the project plant would be operating at a high capacity factor was wrong. This resulted in overstated revenues and benefits, thereby undermining the financial and economic viability of the project. Failing to recognize the miscalculation under monitoring and supervision exacerbated the error.

58. **ADB additionality.** ADB again performed well in 2012 in this category—two projects rated *excellent*, four *satisfactory*, and only one *less than satisfactory*. In the positively rated projects, ADB finance was seen as a necessary condition for the timely realization of the projects, either directly or indirectly, by providing sufficient comfort to attract private financiers. In the two projects that rated *excellent*, ADB participation proved to be highly catalytic, leading to financing from additional strategic investors and commercial lenders. ADB also contributed significantly to project design and function, which in turn improved the projects' development impacts. For the lone project that was rated *less than satisfactory*, ADB was seen as playing a minimal role and the project was judged not to have been substantially inferior without ADB.

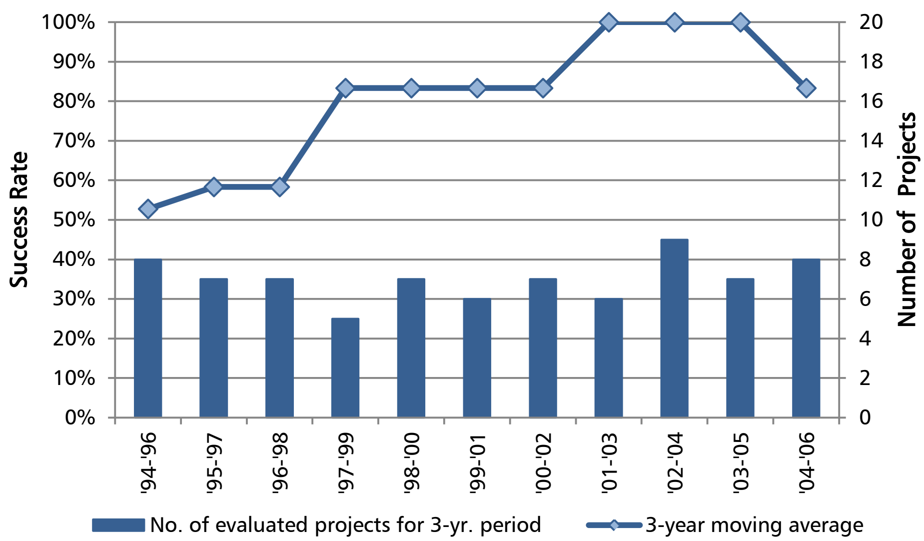
59. **Trends in performance.** On a cumulative basis, the success rate[37] of the 31 projects evaluated from 2006 to 2012 was 68%, slightly higher than the 66% success rate of the 24 projects evaluated from 2006 to 2011. Twelve of the 13 infrastructure projects evaluated (92%) had positive ratings as compared to 7 of 10 projects involving financial institutions (70%), and 2 out of 8 investments in PEFs (25%). Based on the approval years of the evaluated projects, there is an upward trend in the success rates. The 3-year moving average success rates of NSO projects steadily improved from 53% for those approved in 1994–1996, to 83% for those of 1997–1999, to 100% for those of 2001–2003 (Figure 5). This declined to 83% for those approved in 2004–2006 as a result of unsatisfactory performance of two financial institution projects. However, the

**The success rate of the 31 projects evaluated from 2006 to 2012 was 68%**

[37] Success rate is defined as the percentage of projects with overall ratings of *successful* or *highly successful* over the total number of projects evaluated for the period.

31 evaluated projects represent only 36% of the 86 projects approved in that period that are subject to independent evaluation[38] based on the new criteria. Thirty-seven of the 55 operations that have not been independently evaluated have either not reached early operating maturity or have reached it but do not yet have XARRs, while the other 18 do have XARRs that are due for validation within 2013.

**Figure 5: Success Rates of Nonsovereign Operations by Approval Year**




Source: Independent Evaluation Department.

## D. Performance of Technical Assistance

**IED conducted one TA performance evaluation in 2012, for six facility-type TA projects in the PRC**

60. IED conducts one or two evaluations of TA clusters a year, and does not validate Management's completion reports for TA—there are around 150 TA completion reports every year. IED conducted one TA performance evaluation in 2012, for six facility-type TA projects in the PRC.[39] This evaluation was of interest, as the TA projects experimented with a new approach. The TA projects featured a higher degree of decision-making delegation to executing agencies than was usual, and was set up as a flexible mechanism to improve client responsiveness through quick-disbursing funds for need-based activities. The subprojects for a range of implementing agencies were prioritized by the Ministry of Finance and selected jointly with the PRC Resident Mission on the basis of a set of predetermined selection criteria. The approach worked and the TA projects performed well overall and were rated *successful*, demonstrating that facility-type TA can be a model for some other countries with a central executing agency with good decision-making capacity, although it is labor-intensive for such an agency and also for the resident mission, which is expected to add value through the consultation and peer review process.

[38] Only 86 of the 144 NSO projects approved from 1994 to 2006 are subject to independent evaluation using the new criteria, and the 58 excluded are (i) 28 cancelled projects with no disbursement made, (ii) 19 projects that are dated and/or have data issues, (iii) 8 projects that have already been evaluated but using the old evaluation criteria, and (iv) 3 ADB contributions to the Asian Finance and Investment Corporation.

[39] IED. 2013. *Facility Type Technical Assistance in the People's Republic of China*. Manila: ADB.

61. **Lessons.** The evaluation report derived three lessons from the PRC experience: (i) introducing facility-type TA in middle-income countries increases goodwill for the wider ADB country portfolio; (ii) improved quality assurance of such TA projects is resource-intensive, but a must for success; and (iii) value addition by ADB on substantive issues is crucial to their eventual success. The evaluation recommended that ADB (i) continue to work with facility-type TA and strengthen the use of ADB staff and consultants to provide international perspectives, supervisory support, and peer review of locally produced studies; and (ii) improve the monitoring of subproject outcomes through sector and thematic assessments, and make these part of each facility-type TA.

62. IED's study on knowledge products and services in 2012[40] had a broader interest than TA, but noted that many such products and services have been funded by such ADB TA. ADB approved over 2,700 TA operations worth nearly $2.5 billion in the 2000s. In the past 5 years or so, ADB has approved an annual average of 300 TA activities worth just over $300 million; the average TA value is now just over $1 million. In any given year, there are about 1,000 active TA operations.

63. **Success rates.** Based on all completion reports available, the self-evaluation success rate (*highly successful* or *successful*) for the approvals in the 1990s was 80% and for TA approvals in the 2000s 79%. A small nonrandom sample of TA operations approved in the 2000s has been independently evaluated by IED; 13 TA activities were evaluated in 6 TA performance evaluation reports; 9 were *successful* (69%). A 2007 evaluation of TA performance reported a success rate for 185 TA independently evaluated from 1990 up until 2007 of 63%. The same evaluation rated 72% of a special sample of 110 more recent TAs in five countries as *successful,* as they had achieved strategic impacts and had transferred best international practice to DMCs. It can be concluded that independent evaluation's success rate for TA operations is between 63% and 72%, similar (and not worse) to that of loan and grant operations.

**Independent evaluation's success rate for TA operations is between 63% and 72%**

64. There have been several reviews and evaluations of TA over the past 15 years, in addition to the 2007 IED evaluation.[41] Many of the issues raised are persistent and recurring. The studies emphasized the strategic importance of TA to ADB's operations, and recognized that TA can contribute significantly to development results. They also found that TA was not realizing its full potential and identified concerns over the approach to TA and its effectiveness. Weaknesses found include (i) limited synergy between country-based operations and the regional TA program; (ii) long processing procedures; (iii) insufficient flexibility, and insufficient staff time devoted to implementation and supervision; (iv) one-off rather than programmed TA activities as part of a long engagement process; (v) suboptimal use of national consultants; (vi) insufficient ownership by DMCs and executing agencies; and (vii) weak follow-up on the implementation of results and recommendations and knowledge management.

65. Related to these findings, the Board and Management have, over time, raised similar concerns, notably (i) the TAs' role in knowledge creation and overall development effectiveness, and (ii) TA management issues such as the use of national versus international consultants and the use of consultants versus staff. In response to these issues, IED is doing a thematic evaluation study on the role of TA in ADB in 2013.

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[40] IED. 2012. *SES: Knowledge Products and Services: Building a Stronger Knowledge Institution*. Manila: ADB.

[41] Notably: ADB. 1997. *Review of the Bank's Technical Assistance Operations*. Manila; ADB. 2003. *Review of the Management and Effectiveness of Technical Assistance Operations of the Asian Development Bank*. Manila; Operations Evaluation Department. 2007. *SES: Performance of Technical Assistance*. Manila: ADB.

# CHAPTER 3

# Sustainability of ADB Operations

66. Development outcomes are greater and more reliable when investment and policy change activities result in a continuous flow of outputs, services, and net benefits over their intended lifetimes. In this chapter, sustainability refers to the continuity of project outcomes, regardless of whether the same agency undertakes both the investment and its subsequent operation and maintenance (O&M).

67. IED did an evaluation study on post-completion sustainability of ADB operations in 2010.[42] This chapter updates its findings. It primarily reports the latest sustainability ratings of operations, as provided by ADB operations departments and updated in a significant proportion of cases by PCR validations and some evaluations.[43] The section also reviews some sustainability factors for selected sectors and operations (primarily infrastructure); and reviews the recurring O&M issues in ADB-supported road operations.[44] Sustainability ratings may well be more disputed than other ratings, as they require making many assumptions about conditions holding well into the future. Nevertheless, sustainability ratings are a staple of evaluations conducted by all development banks. They are part and parcel of PCRs, PVRs, and project evaluations.

**For those projects with a sustainability rating, 64% overall rate are rated *most likely* or *likely* *sustainable***

## A. Sustainability Ratings for Sovereign Operations

68. As indicated earlier, 67% of completed sovereign projects since 2000 have been rated *highly successful* or *successful,* by either PCRs or IED validations or evaluations. For those projects with a sustainability rating, 64% overall are rated *most likely* or *likely sustainable*, somewhat below the equivalent proportion for overall success.[45] The extreme ratings on either side (*most likely sustainable*, and *unsustainable*) are not significantly dissimilar either.[46] The most important finding perhaps is that the difference with the situation reported earlier in 2010 was not large (65% was rated

[42] IED. 2010. *Post-Completion Sustainability of Asian Development Bank-Assisted Projects*. Manila: ADB.

[43] ADB has defined project sustainability as the probability that human, institutional, financial, and natural resources are sufficient to maintain the outcome achieved over the economic life of the project and that any risks need to be or can be managed.

[44] The selection of the sustainability and impact evaluation topics was influenced by Management's encouragement in the past for IED to present more findings in these areas. A more elaborate discussion of sustainability issues in road operations in particular was inspired by several Development Effectiveness Committee meetings in 2012, where committee members asked ADB and IED to investigate more systematically the issues connected with the sustainability of road investments. Appendix 3, Linked Document E has a longer discussion of issues in road maintenance.

[45] There are 830 PCRs from 2000 onward with overall success ratings, of which 804 have sustainability ratings. These figures include 195 PPER ratings of sustainability, and 222 PVR ratings. PVRs are based on the same information as PCRs. PPERs are based on later information than PCRs or PVRs.

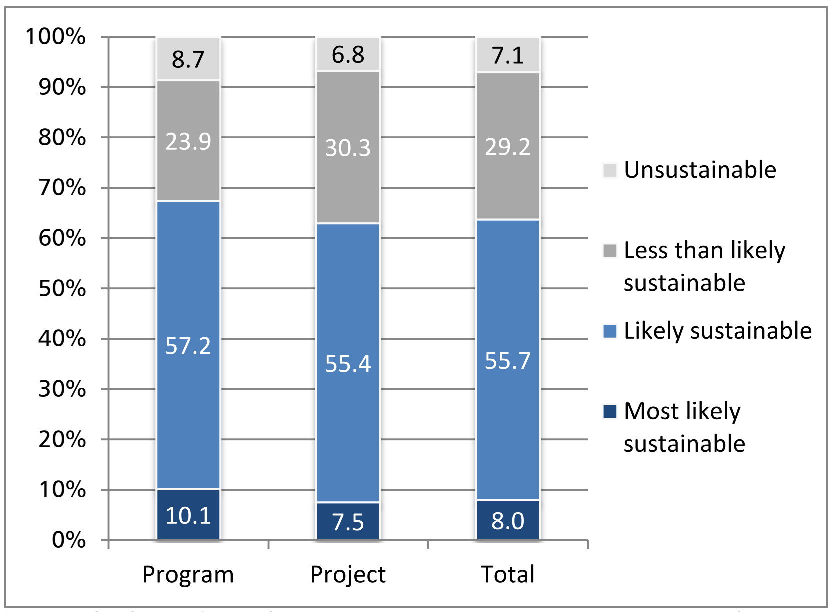
[46] While 7.5% were rated *highly successful*, 8% were rated *most likely sustainable*; and while 6% were rated *unsuccessful*, 7% were rated *unsustainable*.

*likely sustainable* then). The conclusion is that within the last 3 years, sustainability issues may not have significantly changed in the aggregate. But the picture for some sectors and countries did change significantly. In the following review, further detail will be provided, notably about the difference in sustainability between projects and programs, and better and poorer performing sectors and countries.

**More programs were judged *likely sustainable* than projects**

69. Sustainability of the outputs and outcomes varies by main intervention modality. More programs were judged *most likely* or *likely sustainable* than projects, 67% versus 63%, with 10% of programs in the top category (Figure 6). This is quite a surprising finding, different from the past, when fewer programs were rated *successful* and also fewer programs were rated *sustainable* than projects. The conclusion is that ADB programs have gradually done better. The main difference in the distribution of sustainability ratings between programs and projects is the higher figure of 30% of projects rated *less than likely sustainable*. Such a rating holds out the possibility of achieving greater sustainability through remedial actions within a project or sector. This is an argument for governments continuing to place high emphasis on policy and program reform, for the sake of improving sustainability of project investments.

**Figure 6: Proportions of Latest Sustainability Ratings for Sovereign Operations, 2000–2012, by Modality**




Source: IED database of completion report ratings: 138 program reports and 666 project reports with ratings.

**Sustainability varies strongly by sector**

70. Sustainability of the outputs and outcomes varies strongly by sector. Operations in health and social protection (81%), energy (79%), and education (76%) have the highest proportion rated *most likely* or *likely sustainable* (Table 1). Energy operations have the highest sustainability ratings among infrastructure operations. The electricity sector, for instance, generates revenues from customers that can be directly recycled for O&M, often works toward one national grid, and has the highest technical capacity and strongest organizations. At the other end of the scale, operations in water supply, with similar potential for revenue generation from customers, have nevertheless had the lowest sustainability ratings (49%), perhaps due to the more dispersed nature of water utilities in small towns and villages, where technical capacities are also lower and the opposition to central government tariff decisions is less organized. Operations

in ANR and PSM also had low sustainability scores at 50% and 54%. It is operations in these three sectors that have below-average proportions of sustainable ratings.

**Table 1: Sovereign Operations Rated for Sustainability, Approved 2000–2012 by Major Sector, from High to Low** (%)

| **Sector** (number of operations rated) | **Sustainable (MLS + LS)** | **Breakdown by Category** | | | |
|---|---|---|---|---|---|
| | | **MLS** | **LS** | **LLS** | **US** |
| Health and Social Protection (37) | 81 | 8 | 73 | 16 | 3 |
| Energy (84) | 79 | 19 | 60 | 19 | 2 |
| Education (83) | 76 | 7 | 69 | 19 | 5 |
| Transport and ICT (137) | 72 | 9 | 62 | 26 | 3 |
| Finance (59) | 68 | 3 | 64 | 22 | 10 |
| Multisector (61) | 66 | 7 | 59 | 26 | 8 |
| Industry and Trade (25) | 60 | 16 | 44 | 28 | 12 |
| Public Sector Management (50) | 54 | 12 | 42 | 32 | 14 |
| Agriculture and Natural Resources (169) | 50 | 3 | 47 | 41 | 8 |
| Water and Other Municipal Infrastructure and Services (99) | 48 | 5 | 43 | 40 | 11 |
| **Total (804)** | **64** | **8** | **56** | **29** | **7** |

ICT = information and communication technology, LS = likely sustainable, LLS = less than likely sustainable, MLS = most likely sustainable, US = unsustainable.
Source: Independent Evaluation Department (IED) database of completion report ratings, updated by IED ratings where available.

**Sustainability scores of operations vary strongly by country**

71. Sustainability scores of operations vary strongly by country as well, with economic status playing a more significant role than is the case for project success scores (para. 37) although other factors play a role as well. The composition of the biggest borrowers has changed over time, especially with the accession of transition economies. Of the 17 DMCs with 15 or more PCRs available over 2000–2012, the top four, with sustainability rates above 80% (PRC, Viet Nam, India, and Thailand), are classified currently as blend or OCR-only countries; two have no operations rated *unsustainable*. At the same time, the bottom four DMCs (Bangladesh, Pakistan, Papua New Guinea, Philippines) with less than 55% rated *sustainable* or better, are also classified blend or OCR-only countries. In between, there are three DMCs classified as blend or ADF-only with a rate greater than 70%, and five across all categories with a rate of 60% or more. However, relatively more ADF-only DMCs have lower sustainability rates (footnote 25). The conclusion is that sustainability may have as much to do with sector mix of operations, sector capacities, and governance, as with country economic status (fiscal space). ADB has most influence on the sector mix of operations.

72. Sustainability ratings correlate with effectiveness and efficiency ratings, but not strongly. An effective operation, delivering outcomes at the time of measurement, usually within a few months or years of project completion, is not necessarily sustainable in the longer term. Only 54% of operations are both rated *effective* and better, and *likely sustainable* and better, the best combination for making an eventual sustainable impact (Appendix 3, Linked Document D). More significant may be that 15% of effective operations are rated *less than likely sustainable* or lower; such operations run a significant risk that the effective delivery of outcomes will not be maintained into the future. Sectors showing high levels of sustainability have almost equivalent levels of effectiveness. However, in four sectors there are above-average proportions of projects rated *effective* but *less likely sustainable*: (i) multisector, (ii) WMIS, (iii) transport, and (iv) ANR. Their joint characteristic is that they include a large proportion of infrastructure operations.[47]

[47] The two most important components of many projects labeled as multisector are often roads and water supply and drainage.

73. Similarly, only 49% of operations are rated *efficient* and better, and *likely sustainable* and better, while 14% are rated *efficient* and better, but *less than likely sustainable* or lower (Appendix 3, Linked Document D). It is the same four sectors—multisector, ANR, transport, and WMIS—that have above-average proportions of projects assessed as *efficient* but *less likely sustainable*. These characteristics indicate that the economic resources being generated are not being devoted sufficiently to sustain outcomes. It seems to be "common pool" public good infrastructure and natural resource operations in particular that have problems with sustainability. Clearly, in energy operations more progress has been made in charging beneficiaries' fees for benefits distributed than in water supply and sanitation operations.

**Economic resources being generated are not being devoted sufficiently to sustain outcomes**

## B. Sustainability of Selected Infrastructure Operations

74. The earlier evaluation of post-completion project sustainability (footnote 42) identified both positive and constraining factors for operations. For programs, a government's strong ownership and commitment in design and implementation, and an absence of major policy reversals at the time of assessment, contributed to a *most likely sustainability* rating. Conversely, an *unlikely* rating was associated with a negative assessment of these factors, with cancellations of tranches or loans, or policy reversals; governments had changed or had not really supported the program. This would suggest that ADB needs to carefully look at the politics surrounding investment or reform, and conduct political economy analysis at times.[48] For programs rated *likely sustainable*, supportive factors also included the institutional capacity to implement reforms, the distribution of reform benefits, and sequencing—programs implemented as part of a series in a broader framework.

75. For investment projects rated *most likely sustainable*, a positive assessment of pricing and financial viability was most important, followed by O&M policies and financing. Projects rated *unsustainable* had a higher proportion of non-revenue-generating activities. Obviously, financial sustainability is facilitated when the government or project entity can charge for benefits for which there is a clear demand. Even then the policy, market, and regulatory framework remain important conditions, as are technical capacities for maintenance. O&M policies and financing are crucial where it is more difficult or politically risky to charge for benefits, such as is the case with most roads. Projects rated *less than likely sustainable* were mostly those where revenues could not be generated by charging beneficiaries directly for services, and where O&M policies and financing were constrained by limited government budgets, along with limited financial viability.[49]

**Fiscal sustainability is facilitated when the government or project entity can charge for benefits**

76. Taken together, factors relating to financial viability and O&M remained important to project sustainability, but sector context was also an important influence. Some sectors have fewer sustainability issues than others. The IED study recommended that the identified factors should be treated as risks at all stages of the project cycle, and managed through sector or thematic or project risk assessment and management

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[48] The Second Governance and Anticorruption Action Plan (GACAP II) review, to be finalized by mid-2013, is expected to recommend greater use of political economy analysis to inform governance risk assessments for country, sector, and project. Many projects involve reforms that are highly contested. Understanding the dynamics and power relationships of stakeholder groups, and the incentives within such groups for change, is essential for assessing what reforms are most likely successful and sustainable. ADB is finalizing a Political Economy Guidance Note on this.

[49] For revenue-generating projects, recalculated financial rates of return for projects rated *unlikely sustainable* were all lower than at appraisal; for those rated *most likely sustainable*, roughly half were higher and half were lower. The assessment of the overall financial status of the operating entity is also important.

plans. This was one of the purposes of ADB's Second Governance and Anticorruption Action Plan (GACAP II), which has put emphasis on such sector and project plans since 2006. The forthcoming GACAP implementation review is expected to recommend more emphasis on institutional risks during sector assessments. IED can support such an approach. Combined with more attention to political economy analysis, this should result in sector investments, reforms, and capacity development interventions with greater likelihood for sustainability in the long term.

Only 49% of the completed WMIS operations have been rated *likely sustainable*

77. **Water supply.** Only 49% of the completed WMIS operations have been rated *likely sustainable* or higher, the lowest level of all sectors. The 2010 evaluation of ADB's Water Policy and Related Operations had already found that "sustainability is one of the weakest aspects of ADB's water sector lending." [50] Earlier, high levels of sustainability were linked to the presence of experienced and skilled staff, and sufficient tariff revenues to cover O&M and depreciation costs; and unlikely sustainability resulted from problems with the delivery of physical outputs, insufficient revenues to fund O&M, and weak institutional capacity. The study concluded that sustainability can be reinforced by expanding coverage of urban water distribution networks, for urban growth and increasing affluence, and local authorities' support for the concept of viable water agencies or companies. For effective water agencies, issues around sustainability were found to be mainly financial; tariff reforms were the dominant covenant in water sector projects, and projects generally showed an appropriate balance between economic and financial returns. However, sustainability can be at risk despite adequate technical capacity if central government policies constrain tariffs.[51]

78. There are other systemic constraints in the water sector influencing sustainability, such as lack of revenue-generating powers and capacity of local governments, lack of discretion in personnel decisions, a low degree of community participation and beneficiary incentives to maintain project benefits, and lack of proper maintenance policies and procedures. Sustainability in urban services relies on substantial expertise, capacity building provided in all projects, and specific training in O&M of facilities. There is a need for more fiscal viability analysis in a medium-term framework and improvements in public resource management by local governments.

Clearly the energy sector has fewer problems with sustainability than the water sector

79. **Energy.** PCRs and evaluations have rated 79% of energy operations *likely sustainable* or higher. Clearly the energy sector has fewer problems with sustainability than the water sector, although it is also dealing with cost recovery and tariffs. ADB seems to have built up more experience in the energy sector in assessing and supporting the executing agencies, as the percentage of sustainable energy operations is high. Perhaps there are fewer such agencies and providers than in water supply, where every town may have its own agency. Energy agencies are often national agencies, and electricity investments mostly feed into the national grid. Technical capacity is often higher. PCRs indicate that, in general, project investments in energy have been technically sound and well-constructed, while sector assessments found that financial issues were more problematic than technical considerations. Financial difficulties could arise where revenues were a fraction of their long-term marginal cost, debt accumulated, and there was little history of significant changes in tariffs; lack of financial viability in turn can lead to low staff morale, lack of incentive, and loss of

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[50] IED. 2010. *SES: Water Policy and Related Operations*. Manila: ADB.

[51] In a specific case it was suggested that, where ADB may not be in a position to influence water tariffs, it should support water-tariff policy research; and at the same time initiate a twinning arrangement with a suitable water utility to learn modern practices in unaccounted-for water reduction (IED. 2010. *Performance Evaluation Report: People's Republic of China: Harbin Water Supply Project.* Manila: ADB).

technically competent staff. Sustainability was also affected by operational performance, such as system losses.

80. Broader policy dialogue, supported through program loans, with specific actions to improve institutional and financial sustainability of the sector, play an important role in ensuring the sustainability of investment programs. Prolonged government commitment is required, and a broad-based consensus among key stakeholders. Performance evaluations concluded that legal and institutional reforms, the regulatory regime, broad support from stakeholders, and human resource practices matter.[52] Without these factors, energy operations would continue to depend on extensive fiscal subsidies, without a guarantee of financial resources for O&M and reinforcement.[53] For projects in a more rural setting, factors of importance to sustainability were maintenance capacity and the availability of a good training program for rural technicians. Insufficient presence of these factors led to poor progress with off-grid renewable energy technologies.[54]

81. **Disaster risk mitigation projects**. IED's 2012 study on ADB's Response to Natural Disasters and Disaster Risks (footnote 28) indicated that a nontraditional area of intervention—i.e., disaster risk mitigation operations such as flood protection projects—had only a 45% sustainability rating, considerably lower than the average for ADB operations, despite a good overall success rate of 79%. This was attributed to the likelihood that projects that do not generate regular revenue and carry only potential long-term benefits may easily end up lower on the priority list for maintenance expenditure. The outputs and outcomes of flood protection operations in particular depend on long-term vigilance and a strong monitoring agency, a policy environment that favors continuous attention to maintenance, complementary components assuring that livelihoods are improved, and strong beneficiary participation in water management; all such conditions are challenging

**Disaster risk mitigation operations had only a 45% sustainability rating**

## C. Issues in Road Maintenance

82. For road projects, sustainability refers to the continuation of transport services, and corresponding benefits from the road facilities. Roads deteriorate through use and neglect; road maintenance keeps a road network and transport services operating, and avoids economic losses.[55] As shown time and again by economic analysis, road maintenance is generally one of the most viable investments to make; a lack of it can erode both roads and their benefits quickly, and lead to a loss of capital.

83. By amount, 19% of ADB's loan and grant-funded operations has been in road transport, one of ADB's most significant areas of investment. General access for road users and lack of a direct funding mechanism mean that roads of a public goods nature carry inherent sustainability risks. Freight and passenger road transport will continue to grow, along with motorization, and this affects the quality of road networks and requires their expansion. The previous AER reported that with comparable population densities, Western Europe has three times the road density of Asia with 20 times the

**19% of ADB's loan and grant-funded operations has been in road transport**

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[52] Other success factors for sustainability in the sector are profitable executing agencies with sufficient budgets for O&M; adequate consumer demand; skilled and competent staff; availability of appropriate technology and equipment; and a supportive local enabling environment.

[53] IED. 2011. *Performance Evaluation Report: India: Madhya Pradesh Power Sector Development Program*. Manila: ADB.

[54] IED. 2010. *Sector Assistance Program Evaluation (SAPE): Bhutan Energy Sector*. Manila: ADB.

[55] ADB. 2003. *Road Funds and Road Maintenance—An Asian Perspective*. Manila. Different road sections in a network are at different stages in "a cycle of accumulating roughness, despite routine and periodic maintenance, until they are restored to their original smoothness by rehabilitation."

GDP per capita. ADB's DMCs have around 10 million kilometers of roads, most of which public, and half of which paved; a huge and growing maintenance burden. ADB investment projects were working on 1.2% of these roads over 2003–2010 and 2.4% of paved roads over the same period.

**Road projects have a high success rate and sustainability rate, a high 22% of those rated *effective* were nevertheless rated *less than likely sustainable***

84. Although ADB's road projects completed over 2000–2010 have had a comparatively high success rate (84%), effectiveness rate (85%), and sustainability rate (72%), a high 22% of those rated *effective* or *highly effective* were nevertheless rated *less than likely sustainable* and lower. This points to certain problems particular to road investments. Earlier, IED reported insufficient funding for O&M as the main cause for low sustainability ratings in transport. Virtually all transport operations have been investment projects; although many include some policy support and capacity development elements, hardly any have been fully dedicated to policy support or capacity development. The share of program loans is also very small compared with that in energy and water.

85. Among DMCs, total road length, road density, proportion of paved roads, and number of vehicles vary enormously.[56] Where motorways or highways are tolled for the benefit of restricted access or for meeting debt payments, or providing a return on investment, revenues can be used for O&M of the roads. O&M of other roads, the vast majority, is not financed directly; it is funded by national and subnational government budgets. ADB reports confirm that lending for road maintenance activities can yield high economic returns on expenditures and have the added benefit of limited safeguard issues. Of nine loan projects that referred explicitly to maintenance (or equivalent) in the project title, only one was in category A for safeguards. Expected economic internal rates of return varied from 14% to well over 100%; and after completion in three cases, the minimum economic return was 39%.[57]

86. A desk review of country and sector programming, approval, and evaluation documents, undertaken for this AER across 22 DMCs,[58] found 16 recurring issues relating to the maintenance of publicly funded roads (Appendix 3, Linked Document E).[59] In the area of maintenance planning, the main issues reported were inadequate maintenance (18 times), overloading (17 times), poor road design (12 times), lack of road asset management system (11 times), untimely maintenance (7 times), and limited construction materials (4 times). In the area of road maintenance capacities, the main issues reported were limited capacity and number of qualified staff (17 times), lack of institutional capacity (17 times), need for strong private sector participation (15 times), weak governance (8 times), poor transparency and risk of corruption (7 times), lack of quality contractors (6 times), and lack of advanced technology (6 times). Unavailability of funds for road maintenance was reported for all 22 country situations investigated. Sometimes other issues also complicate road maintenance, notably war and/or conflict, reported in four countries; and the striking of a natural disaster, in five countries. Three illustrative cases show the range of problems of individual countries in resolving the issues around road maintenance; changes in road maintenance arrangements are part of an ongoing process (Box 4).

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[56] International Road Federation. 2012. *World Road Statistics 2012: Data 2005 to 2010*.

[57] Owing to the level of returns that can accrue from maintenance funding, a more reasonable discount rate determining the allocation of expenditures to road maintenance would be 20%–30%.

[58] Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, PRC, Fiji Islands, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Pakistan, Papua New Guinea, Philippines, Solomon Islands, Sri Lanka, Tajikistan, and Viet Nam.

[59] The review is based on available documents and may not be fully representative of the latest situation.

**Box 4: Three Illustrative Cases of the Problems in Road Maintenance**

In the **People's Republic of China** (PRC), revenues from tolls have generally been sufficient to ensure adequate maintenance of the expressway network. However, national and provincial roads without tolls and rural roads (ordinary roads), which comprise the majority of the PRC road network, have often been inadequately maintained, especially in the poorer provinces. In 2009, the government implemented the Fuel Tax Reform, which abolished several provincial road maintenance fees and tolls on ordinary roads, and increased central government revenues through motor fuel tax increases. The purposes of the reform were to simplify road sector tax collection, reduce fuel consumption, and increase national government influence over spending on road construction and maintenance. Some policy issues remain unresolved: (i) projected revenues under the new financing arrangements are insufficient to fund maintenance and construction; (ii) local government revenues and the ability of provinces and local governments to borrow have been reduced; (iii) provinces are not currently required to prioritize maintenance and tend to channel most available road funding to new construction; and (iv) the excise tax on fuel, which is charged as a fixed amount per liter, is losing purchasing power over time. In 2010, ADB provided technical assistance (TA) to PRC, which recommended policy reforms to increase road maintenance funding, improve financial sustainability, and reform road sector management.

In **Mongolia**, an assessment carried out by ADB in 2010 showed that national roads were receiving minimal routine maintenance and lacked periodic maintenance. Overall, maintenance financing was only enough to cover 20% of needs. A road fund created in 2004, based on fuel and vehicle-licensing taxes, enabled a temporary increase in maintenance financing. However, as in the PRC case, the fuel tax is a fixed amount per liter, so it is losing purchasing power over time. Thus road fund resources have declined in real terms, while the road network has been expanding. In 2011, the government adopted a new roadmap for road sector capacity development and reform. This roadmap includes policy actions to strengthen road maintenance, such as (i) institutional reform; (ii) establishing a fair, sufficient, and stable funding source for maintenance, with part of the proceeds to be used to fund a periodic road maintenance program; (iii) increased transparency and stakeholder participation by creating an independent body with stakeholder representation to control the use of road fund proceeds; and (iv) gradually changing from carrying out maintenance by force account to contracted-out performance-based maintenance. ADB TA supports the roadmap.

In the **Solomon Islands**, the primary causes of road deterioration are high rainfall, poor drainage, lack of maintenance, and poor construction, exacerbated by earlier civil conflict and natural disasters. Support was provided for developing the capacity of national contractors, consultants, and communities in supervision and quality control of labor-based, equipment-supported maintenance. A recent project completion report found that rehabilitation works had maintenance contracts at that time. However, the standard of work could be improved through upgrading contractor technical capacity and stronger supervision, and the road asset management unit did not have a dedicated budget and was significantly understaffed.

Sources: ADB. 2012. *Financing Road Construction and Maintenance after the Fuel Tax Reform.* Manila; ADB. 2012. *Mongolia Road Sector Development to 2016.* Manila; ADB. 2010. *Small-Scale Technical Assistance for Preparation of a National Road Sector Capacity Development Roadmap.* Manila; ADB. 2012. *Road Sector Capacity Development Technical Assistance*, financed by the Japan Fund for Poverty Reduction. Manila; Appendix 3, Linked Document E.

**Lack of sufficient maintenance funding, in particular, seems universal in Asia**

87. Lack of sufficient maintenance funding, in particular, seems universal in Asia. Road maintenance is a continuous process needing a regular and stable source of financing. Of fundamental importance is government commitment to the concept and benefits of road maintenance. For several countries, funding for road maintenance has increased, especially when the economy and government revenues were increasing.[60]

[60] The documents reviewed generally referred to nominal and not real expenditures over time, neither allowing for changing costs of maintenance inputs or relative to maintenance contract prices.

This may have been due to economic growth, better government decision making, better capacity, success of ADB interventions, or any other reason. However, nowhere was it claimed that funding was adequate to maintain the existing or expanding road networks in a serviceable condition. For this reason it was argued earlier that "without earmarking, there is only a small chance of DMCs' consistently allocating sufficient revenues to meet road maintenance needs" (footnote 55)[61]

**Setting up road funds was tried in at least 10 countries**

88. Setting up or intending to set up road funds, including road maintenance funds, was tried in at least 10 of the 22 countries surveyed: Bangladesh, Cambodia, Fiji, India, Lao People's Democratic Republic, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, and Viet Nam. All of these were "second-generation" road funds[62] based on fee-for-service arrangements, which however pose special management challenges and rely on continued consensus of all key actors, including road agencies, government, road users, and the business community. The general experience is that, even where second-generation funds have been established and work to some extent, road maintenance still remains underfunded. Measures to solve insufficient road maintenance funding generally hinge on specific revenue sources, such as vehicle or fuel taxes. However, substantial increases in fuel levies can have political ramifications, as a recent IED evaluation noted.[63] Where dedicated taxation charges fund general budget allocations, the funds may be consumed by public sector overhead costs rather than direct maintenance activities. This review still recommends a continuation of experiments with the establishment and improvement of road maintenance funds. The review also acknowledges that in some vulnerable countries, where road deterioration is mainly due to natural causes such as landslides (not traffic use) the maintenance budget can be substantially spent on emergency rather than planned maintenance. The road maintenance fund may need special arrangements in such cases.

89. The document review shows that all governments have taken some action to improve road maintenance. This includes preparing road maintenance plans, banning overloading, preparing for greater private sector participation, and in some cases increasing the budget for road maintenance to an affordable and sustainable level. ADB support is often given through TA, although institutional and financial changes can take time; a one-off TA schedule may not be consistent with political processes.

90. However, the review also suggests that there has been no big breakthrough in any of the DMCs; there may be factors and interests related to the political economy of the country that reinforce a focus on large construction and improvement activities rather than on the more widely dispersed and low-key "expenditure per kilometer" road maintenance. These factors are also at play in some developed countries; the United Kingdom and the United States are known to have major shortfalls in road maintenance financing at the moment. Road construction and improvement is politically more visible than less easily identifiable road maintenance. Several of the main issues relate to the broader aspects of maintenance planning, and the priority it is given institutionally and financially. Many road projects face sector issues that cannot be dealt with well in the context of a single project. The earlier referred to evaluation included in its recommendations the promotion of awareness of project sustainability within DMCs and ADB. If ADB is to play a larger role in road maintenance, there may be

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[61] The document also distinguished between mobility benefits for road users, and access benefits for those with frontage properties. Dedicated road user charges should fund the mobility percentage of road maintenance expenditures.

[62] First-generation road funds were tried from the 1970s, and relied on general transfers of funds from government treasury and donor grants.

[63] IED. 2010. *SAPE: Transport Sector in the Lao People's Democratic Republic.* Manila: ADB.

a need for stronger advocacy of awareness and priority increases, in addition to more political-economy-related assessments, production and dissemination of more evidence of the high economic rate of return of road maintenance, and more policy dialogue with governments to encourage assessments of the road network in a framework of fiscal sustainability and development needs.

91. Road maintenance is a continuous activity, with relatively small-scale operations in diverse locations, which can generate significant economic returns and contribute to safer and more environment-friendly outcomes. ADB may well need to consider spending more of its funding on road maintenance rather than road construction. Already a considerable number of investment projects in fact deal with major rehabilitation of roads that had dilapidated due to lack of regular road maintenance. Spending more on road maintenance may bring ADB into budget support territory, and thought needs to be given how to link this to reforms in road maintenance. Consideration could also be given to a diversification of lending modalities, specifically for the funding of road maintenance (sector loans, the recently piloted results-based financing for programs modality,[64] or program lending to remove policy and institutional constraints to road maintenance planning and financing); projects with provisions for maintenance contracting beyond the investment period; and longer-term forms of TA, or twinning arrangements with road agencies. ADB operations need to document capacity constraints and analyze these well before pursuing further investments. A balanced approach is needed: road infrastructure upgrades need to be accompanied by more targeted investment in maintenance of existing infrastructure, capacity building, and policy and institutional reforms.

**ADB may consider spending more of its funding on road maintenance rather than road construction**

92. ADB's Sustainable Transport Initiative, with an operational plan approved in 2010,[65] recognizes the importance of maintenance as part of developing a transport system that is accessible, safe, environment-friendly, and affordable. While preparing a shift toward rail and urban transport, the initiative intends to provide more support for asset management and road maintenance; through programs that help improve the systems for selecting, implementing, and financing road maintenance works, and to reduce maintenance backlogs. IED suggests that the plan be diligently implemented across ADB's operations departments, and that ADB have policy dialogue with governments also on the likely increasing cost of roads in the context of climate change.

93. ADB's transport community of practice has already started following up. It recently began a 2-year project to improve knowledge within ADB on road asset management. The Pacific Department recently issued a study on road maintenance.[66] Many projects are experimenting with pilots in performance-based road maintenance contracts. ADB should also consider converting the considerable tacit knowledge built up in road financing and maintenance issues in ADB into more codified knowledge. An IED study on ADB's knowledge products recommended ADB doing more work in this area (footnote 40). In one of its discussions in 2012, the Development Effectiveness Committee expressed the view that, given the volume of ADB resources going into the road sector, ADB should strive to become the knowledge leader in the sector. IED expects that ADB will monitor sustainability of operations better as a result of the addition of a sustainability rate target to the new ADB results framework 2013–2016.

[64] ADB. 2013. *Piloting a Results-Based Financing for Programs Modality*. W-Paper. Manila. Maintenance activities focus on existing road facilities, and therefore may meet the pilot period exclusions criteria of no category A safeguard activities, and no high-value contracts.
[65] ADB. 2010. *Sustainable Transport Initiative: Operational Plan. Staff Working Paper*. ADB.
[66] Serge Cartier van Dissel. 2013. *Encouraging Private Sector Development in the Road Sector in Pacific Island Countries.* Final Report. ADB, World Bank, Pacific Region Infrastructure Facility.

# CHAPTER 4

# Impact Evaluation in Operations and IED

Rigorous impact evaluations can provide more statistically robust evidence on development processes and assumptions

94. A focus on the results of ADB-supported operations in recent years has stimulated an interest in impact evaluations that attempt to measure development outcomes more rigorously than usually done in PCRs and PPERs and other evaluation studies. The advantage of rigorous impact evaluations is that they can provide more statistically robust evidence on development processes and assumptions. However, they are costly and difficult to do well. The key challenge in undertaking them is to isolate the impact attributable to a particular intervention by constructing a credible counterfactual analysis of outcomes, predominantly through identifying a treatment group of households or entities affected by project activities, and a separate but similar control group of households or entities in principle unaffected by project activities.[67] Ideally, impact evaluations use baseline data on expected effects prior to, and endline data some time after completion of, an operation; in effect, there are two stages to it. At the same time, impact evaluation methodologies have been adapted for when baseline data is not available. Nearly all impact evaluations in ADB are linked to an ADB-supported operation.

## A. Impact Evaluations by IED

95. IED is not involved in the design of programs or projects, and has had difficulties in determining whether baseline data had been collected and stored in individual cases. IED undertook three impact evaluations in 2012, all with quasi-experimental designs and with large surveys of thousands of respondents: (i) Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project,[68] (ii) Microfinance Sector Development Program for Pakistan, and (iii) Rural Enterprise Finance Project for Viet Nam. Some main findings of the irrigation evaluation are reflected in Box 5.

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[67] ADB. 2011. *A Review of Recent Developments in Impact Evaluation*. Manila.

[68] IED. 2012. *Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project*. Manila: ADB. The project, approved in 1998 and completed in 2007, also included all-weather road and contracted extension services components. Only half the planned road length was improved.

**Box 5: Impact Evaluation of Shallow Tubewell Irrigation in Nepal**

The shallow tubewell (STW) irrigation project in Nepal, in part of the Terai region where there is ample groundwater, provided STWs through loans without collateral to water user groups of 3–5 members; the average development cost per well was $555 equivalent. The impact evaluation compared results for 1,000 project farm households with a comparator group of 500 farm households that accessed STW irrigation with subsidized capital costs, and a control group of 1,000 similar households without access to irrigation. The evaluation found that providing STW infrastructure alone was not sufficient to generate tangible welfare impacts; irrigation was not the only missing ingredient. The evaluation found that project design had not factored in the key requirement for reliable energy to operate the STW pumps. Diesel prices had increased in real terms, while occasional and irregular diesel shortages did damage in making diesel-pump-based irrigation farming less secure than it should be. Power cuts averaged 16 hours a day when electric-pump-based STW irrigation is needed most. This caused many farmers to stop planting their entire plot. In addition, there were shortages of fertilizer during the critical application times. In combination, crop yield and cropping intensity remained much lower than expected.

Income impacts were still notable. The households with STWs provided by the project increased their crop farming income by over 50%; however, their crop farming income still constituted only 23% of overall income (at $1.26 a day per capita), which was broadly at the extreme poverty level. For farmers without STWs provided by the project, the crop farming income was only 12% of overall income—implying that these farmers, living at $0.89 a day per capita, had come to mainly rely on other sources of income.

Non-economic impacts were limited: child sick days and school absenteeism had not declined as a result of more farmer income, and firewood use remained the same. Overall, the evaluation concluded that STW irrigation is nevertheless viable for farmers, and a viable operation for government to support broadly, but without the need for direct capital subsidies, reducing the fiscal burden on the government.

Source: Independent Evalaution Department. 2012. *Impact Evaluation Study: Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project*. Manila: ADB.

96. The impact evaluations in Pakistan and Viet Nam were included as part of the evaluation of ADB's Microfinance Development Strategy 2000.[69] The broader evaluation of 78 projects in 21 countries assessed whether integration of microfinance into the formal financial system improved access to finance for the poor, and client welfare. The ex-post impact evaluation cases reinforced the overall conclusion (Box 6).

[69] ADB. 2012. *Microfinance Development Strategy 2000*. Manila; IED. 2000. *SES: Sector Performance and Client Welfare.* Manila: ADB. The Microfinance Sector Development Program for Pakistan was approved 2000 and completed 2008; the Rural Enterprise Finance Project for Viet Nam was approved 2000, and completed 2007.

**Box 6: Impact Evaluations as part of ADB's Microfinance Strategy Evaluation**

The impact evaluation assessed the effect of Asian Development Bank (ADB)–funded credits on clients, ADB premium effects (compared with borrowing from other sources), and spillover effects of ADB funds on nonclients. The client households in Pakistan, about 14% of them poor, borrowed an average of $170, using 90% for income-generating activities. Client households in Viet Nam, only 1.3% of them poor, borrowed an average of $3,349, using more than 80% for income-generating activities.

Overall, the client welfare impacts for household per capita income, enterprise income, per capita expenditure, and household enterprise employees, and a positive credit effect on the child weight-for-age indicator, were significant in Viet Nam, where households borrowed more and were able to invest more significantly in household enterprises. The greater impacts in Viet Nam occurred when the annual economic growth rate was roughly twice that of Pakistan, and despite the failure of associated technical assistance to establish rural business centers to support rural enterprises.

For Pakistan, impact results are weak for client households, despite the program loan component for establishing an enabling policy environment. For Pakistan, impacts were much weaker; a weak spillover effect for household enterprise employees and employment growth, a positive premium effect for households with savings accounts, and a mild negative effect for labor force participation by women. Jointly, there were no significant impacts for the education of school-age children outcome indicator. The study concluded that there might be a tradeoff between client needs on the one hand and the focus on financial system development on the other.

Source: Independent Evaluation Department. 2012. *Special Evaluation Study: Microfinance Development Strategy 2000: Sector Performance and Client Welfare*. Manila: ADB.

**IED's three impact evaluations clearly showed the need for seeking out complementarities**

97. IED's three impact evaluations clearly showed the need for seeking out complementarities in sector choices and synergies in the links. The evaluation of an irrigation project in Nepal demonstrated that investing only in shallow tubewells (STWs) and not in other inputs, such as electric power supply to run the pump equipment, will not enhance the farmers' productivity significantly in the event of severe power shortages. Access to seeds and fertilizer are also key ingredients for irrigation to allow farmers to transit out of poverty. Similarly, the microfinance impact evaluations showed that the amount of lending necessary to pull the extreme poor out of poverty generally exceeds their borrowing capacity. The approach would need to combine the provision of financial services with social safety-net programs, intensive follow-up efforts, and a bottom-up approach that relies on nongovernment agencies specialized in this. Innovative ways are required, using government-to-person approaches in combination with the application of technological solutions (mobile phones).

**Several recent impact evaluations found a lower scale of impact than expected**

98. Notable also is that several recent impact evaluations by IED found a lower scale of impact than expected.[70] Projects may support activities that constitute only a proportion of household incomes: in a case of rural electrification, nonfarm incomes accounted for less than a third of total household income; for the STW project, farm income was less than a quarter of total household income; in the Pakistan microfinance evaluation, the socio-economic impacts were very limited due to the small amount of microfinance provided to each household; in a rural water supply and sanitation case,

[70] This relates to the seven most recent impact evaluations by IED. Apart from the three already cited above, this includes IED. 2007. *Impact of Microfinance on Rural Households in the Philippines*. Manila: ADB; IED. 2009. *Impact of Rural Water Supply and Sanitation in Punjab, Pakistan.* Manila: ADB; IED. 2010. *Asian Development Bank's Assistance for Rural Electrification in Bhutan-Does Electrification Improve the Quality of Rural Life.* Manila: ADB; and IED. 2010. *Impact Evaluation Study on Asian Development Bank's Assistance for Low-Income Housing Finance in Sri Lanka*. Manila: ADB.

there was no impact on household incomes—the incidence of waterborne diseases did not decline (it was already low), and there was high under- and unemployment in the project area. The impact will depend on the nature of the intervention; for a low-income housing project, where only 1% of the recipients of housing loans were poor, and loans were spent predominantly just on house improvements, there were no significant impacts on higher welfare indicators. Impacts and their sustainability sometimes depend on the operations of community or user groups; in two cases, only 52% of community groups and 43% of user groups were partly or fully functional; the anticipated impacts of the project as a whole could not be achieved. Apart from any methodological limitations of these and other impact evaluations, the results should provide useful lessons about the design of future operations, and a more realistic understanding of the likely impacts from individual project operations. IED generally conducts 1-2 impact evaluations a year; in 2013, two are being undertaken in Bangladesh, one on impacts of rural roads, the other on secondary education.

## B. Impact Evaluations by Operations

**Recently, ADB Management has promoted impact evaluations by regional departments**

99. Recently, ADB Management has promoted impact evaluations by regional departments. Some funding for this, and the related workshop and training events, has come from regional and small-scale TA sources, including some administered by the Economics and Research Department (ERD).[71] Notably, in 2010 ADB approved a $1.0 million TA for implementing impact evaluations by regional departments. A TA approved in December 2011 of nearly the same amount aimed to fund training, workshops and seminars in evaluation and implementation of competitively awarded innovation evaluation grants for DMCs.[72] In February 2013, the ADB Board approved a cluster TA of $4.5 million for a 5-year period, in three annual subprojects of five impact evaluations each (plus training workshops and conferences).[73]

100. ADB's webpage on impact evaluation[74] lists 11 completed impact evaluations as of 21 November 2011, beginning with one in 2009. Also, 26 are listed as ongoing and planned as of that day, with various completion dates up to and beyond 2016. The South Asia Department and Southeast Asia Department account for over 70% of those listed; the rest are spread over the other regional departments and IED. There is likely to be some attrition or substitution among those listed as ongoing and planned. The evaluations cover a range of sectors and countries, but are predominantly focused on project operations, including subregional operations. Six of the 11 listed as completed have been issued publicly, including 3 from IED (IED issued 2 more after November 2012, which are not included in that listing). The three available studies issued by regional departments so far are briefly described in Box 7.

101. Combined with the findings of the five impact evaluations done by IED, the findings of the ADB impact evaluations point to the highly variable development impact of individual ADB interventions. The findings confirm that development needs

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[71] ADB. 2010. *Implementing Impact Evaluation at ADB. Technical Assistance Report*. Manila: ERD; ADB. 2012. *Developing Impact Evaluation Methodologies, Approaches, and Capacities in Selected Developing Member Countries. Technical Assistance Report*. Manila. Progress on the first of these, along with their status, can be found at http://www.adb.org/projects/44353-012/documents.

[72] ADB. 2011. *Technical Assistance for Strengthening Evaluation of Poverty Reduction Initiatives*. Manila. The TA is managed by jointly by the Central and West Asia Department (CWRD) and IED. IED has also undertaken training activities in Manila and, with initial funding of DMC, conducted impact evaluations in association with CWRD.

[73] ADB. 2012. *Developing Impact Evaluation Methodologies, Approaches, and Capacities in Selected Developing Member Countries*. Manila.

[74] Available at: http://www.adb.org/projects/44353-012/documents.

to come from a range of operations in various sectors and attacking various binding constraints. What is also clear is that impact evaluations need to be carefully designed to explore a range of potentially explanatory variables.

**Box 7: Three Impact Evaluations Recently Published by ADB**

An Asian Development Bank (ADB) evaluation activity under the Central Asia Regional Economic Cooperation (CAREC) Research Program was intended to demonstrate how a specific impact evaluation methodology could be applied to a road project. It primarily established baseline data for two road segments that will be rehabilitated. However, it also undertook a retrospective impact evaluation of a completed road rehabilitation activity, using two outcome variables, number of roadside services, and number and type of road accidents. The project had a significant positive impact on roadside facilities such as gas stations, hotels, and shops along the road alignment, corroborating the hypothesis that well-functioning roads are important for local economic development. There also was some evidence of an increase in road accidents along the road, especially between villages, but generally not with a high statistical significance level.

An ADB impact evaluation in Assam, India assessed fiscal consolidation through two outcome variables—ratio of own-tax revenues and ratio of interest payments to state gross domestic product—using a "synthetic control" state, i.e., a weighted combination of data from other Indian states. In 2000, Assam experienced stagnating tax and nontax revenues and growing expenditure; high debt servicing, and losses of public sector enterprises. The Public Resource Management Program being assessed focused on tax policy reforms, administrative changes, nontax revenue reforms, and debt restructuring. The main finding is that short-term gains have been realized, through revenue generation, but not as reduced interest payments. The evaluation did not comment on the sustainability of the reforms.

An ADB evaluation in Bhutan used several outcome variables to assess a training program in basic construction skills in terms of income increase and diversity, and lower housing repair costs. It was a 3-month training component of a rural skills development project implemented from 2007 to 2010. Partly owing to the time and costs of enumeration in an awkward terrain, a control group was constructed of non-trainees from the same area as the trainees. Overall, there is limited evidence of impact. Income diversification occurred for some subgroups—females, low-educated, carpentry and masonry trainees—and there were significant income increases and diversification for trainees returning to labor markets with few competitors. For future interventions, it was concluded that mechanisms for job placement and entrepreneur support should complement training activities, and labor market conditions in different locations should inform trainee selection.

Sources: ADB. 2010. *CAREC Research Program, 2009–2012: Impact Evaluation of ADB Projects in the CAREC Region. Final Report: Retrospective Impact Evaluation of the Almaty-Korday Road Project (Zhambyl Oblast)*. Kazakhstan; ADB. 2011. *Evaluating the PRMPA Using a Synthetic Control Group. South Asia Working Paper Series, no. 2*. Manila; ADB. 2011. *Can Skill Diversification Improve Welfare in Rural Areas? Evidence from the Rural Skills Development Project in Bhutan. ADB Economics Working Paper Series. No. 260*. Manila.

**ADB's ongoing impact evaluations are mostly at beginning stages**

102. ADB's ongoing impact evaluations are mostly at beginning stages, while the planned ones include those to start in 2015 and those that are currently collecting baseline data. They are reasonably widely spread in various sectors,[75] although less so across regions.[76] An interdepartmental committee is coordinating impact evaluations,

[75] Four are in agriculture, five in education and skills development, four in health and water supply, three in transport, three in energy, two in tourism, two in finance, and one in disparate fields such as climate change mitigation, social protection, and rural development more in general. Several are yet to be designed, so may be very uncertain at this moment.

[76] Some evaluations may not have been captured in the website listing. For instance, ADB will be funding the third phase of the impact evaluation of the conditional cash transfer program in the Philippines.

chaired by staff of the ERD. Overall, ADB's impact evaluation program is growing, but at a slow pace and, judging by the time it takes to publish findings, even some completed evaluations seem to experience difficulties as full knowledge products in their finalization and dissemination.

## C. Impact Evaluations by Other Development Banks

103. A recent assessment of the relevance and effectiveness of completed and ongoing impact evaluations in the World Bank Group found that the World Bank is indeed well ahead of ADB in that regard. The review found 460 having been completed or in progress, mostly in operations and research departments, very few in the Independent Evaluation Group itself. Within the World Bank it went from an average of 16 initiated per year over 1999–2004 to an average of 62 per year during 2005–2010. The World Bank created the Development Impact Evaluation Initiative in 2005, to increase the role of impact evaluation in the knowledge agenda, and this led to a quick increase of such evaluations. As a result of International Development Association negotiations, impact evaluations are further institutionalized under a strategic framework. The approval in 2007 of the large Spanish Trust Fund for Impact Evaluation at $14 million led to further systematization of the approach (it is now closed and followed by the multidonor Strategic Impact Evaluation Fund). Most funding now comes from trust funds and/or trust-funded impact evaluation initiatives. Other initiatives have also improved strategic prioritization of impact evaluation topics as well as coordination. In the International Finance Corporation, a new evaluation strategy was approved in 2012, moving in the same direction of a strategic framework.

104. Impact evaluations initiated over the past 5 years in the World Bank are better integrated with operations and covered a broader range of sector and knowledge priorities. However, a 2012 study concluded that, with some exceptions, there were as yet no formal and standardized mechanisms to ensure that all evaluations go through similar quality controls; and, in the case of World Bank impact evaluations, the feedback loop with project operations and learning was assessed as modest.[77]

105. The experience of the Office of Evaluation and Oversight (OVE) of the Inter-American Development Bank (IADB) with impact evaluations is also instructive. Since 2005 OVE has produced a series of working papers using rigorous evaluation techniques, to date with 52 impact evaluations, implying that they did 7–8 a year.[78] At this time, however, OVE is winding down its program, although it still expects to publish some seven in 2013, with special funds from a trust fund. OVE's stand now is that it does not have a comparative advantage, particularly with randomized controlled trials. These need to be done as part of project design, and OVE is limited in its ability to work on project design, due to conflict of interest (i.e., the need to later evaluate these). OVE has now replaced that line of work with the evaluation of project "clusters", which are more thematic, and based on the review of existing evidence, rather than on the collection of new data, as was done earlier in impact evaluations through large quantitative surveys.

106. OVE reports that IADB Management has taken it upon itself to conduct a significant number of randomized controlled trials in the context of its forward investment program. More than 20% of approved projects now include rigorous

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[77] World Bank. 2012. *World Bank Group Impact Evaluations: Relevance and Effectiveness*. Independent Evaluation Group. pp. ix, x.

[78] Available: http://ideas.repec.org/s/idb/ovewps.html.

impact evaluation designs. Publication of IADB's impact evaluations in peer-reviewed journals has increased markedly over the past 5 years. OVE concludes that its pilot experiment in 2005 has genuinely caught on in IADB, and that the next challenge is to find a way to make the best use of this evidence in the design of new operations.

**Impact evaluations are expensive and need to be well done to be credible and relevant**

107. The Independent Evaluation Group's review of World Bank Group impact evaluations and the experience of OVE make clear that ADB (and also IED) is at the beginning in its experience with impact evaluations. It is on the right track, now that a larger cluster TA was approved for impact evaluations done by operations departments and the ERD in early 2013. Impact evaluations are expensive, and need to be done well to be credible and relevant. Another positive development is that ADB established an impact evaluation committee with representatives from regional departments and other offices to mainstream impact evaluation in ADB operations. The developing practice of regional departments undertaking impact evaluations around their own projects should ensure that the need for building up useful knowledge guides which projects are assigned impact evaluations, and that the cost of the impact evaluation is related to the potential gains. For example, development impacts as quantified by impact evaluations could subsequently inform economic analysis.

# CHAPTER 5

# Vulnerabilities in Asia and the Pacific

108. Despite impressive economic growth since the 1990s, Asia and the Pacific have experienced global economic and financial crises as well as increasing numbers of natural disasters that caused untold human suffering and loss of life. The Asian crisis of 1997–1998 revealed that decades of solid economic growth and sound macroeconomic policies were not in themselves sufficient to provide protection against shocks. The more recent food, fuel, and financial crises further exposed significant gaps in the provision of safety nets to protect the most vulnerable from falling into destitution. In recognition of growing vulnerability, a consensus has emerged among the international financial institutions that building a country's resilience in the face of external and internal vulnerabilities should be part of the development process itself.

**Building a country's resilience in the face of external and internal vulnerabilities should be part of the development process**

109. This chapter is based on recent IED reports that have investigated these issues and provides a synthesis of the main findings.[79] They include (i) Special Evaluation Study on ADB's Social Protection Strategy 2001, (ii) Special Evaluation Study on ADB's Response to Natural Disasters and Disaster Risks, (iii) an IED working paper entitled "Implications of a Global Financial Crisis for Asia and the ADB: Lessons from Evaluation," (iv) Special Evaluation Study on ADB's Microfinance Development Strategy 2000, and (v) Thematic Evaluation Study on ADB's Support for Achieving the MDGs.

## A. Asia and the Pacific's Vulnerability

110. Asia has demonstrated that high economic growth rates over many decades can impressively reduce poverty. However, at the same time, millions continue to live in chronic poverty or are vulnerable to falling back into poverty in the event of a systemic crisis such as an economic downturn or natural disaster. Poverty relates to vulnerability as the poor are typically more exposed to these risks and have little or no protection against disease, unemployment, and disability in old age. The Asia and Pacific region has also been slow to invest in social protection, relying instead on a tradition of family-based support. The region ranks among those with the lowest levels of social protection in the world, alongside sub-Saharan Africa.

111. Uneven progress against the MDG targets demonstrates the continuing vulnerability of the Asia and Pacific populations to systemic and other risks. IED's most recent study on the MDGs shows that human development indicators for the region have improved but many remain off-track, while important elements that need to ensure environmental sustainability are being ignored in pursuit of rapid growth.

[79] The full studies are available at IED's website at http://www.adb.org/site/evaluation/main.

**Asia still accounts for two-thirds of the world's extreme poor**

112. The MDG study found that while Asia as a whole is on track to halve poverty by 2015, it still accounts for two-thirds of the world's extreme poor, with 760 million people living on less than $1.25 a day and 1.7 billion below $2 a day. [80] Moreover, over 500 million people live in slum conditions and lack access to basic infrastructure services. While significant gains in employment have been made in conjunction with poverty reduction efforts, 280 million workers earn less than $1.25 a day. Difficulties persist especially for young people entering the labor market, and jobless growth is a feature of many countries.

113. As the informal sector accounts for up to one-third of economic activity in the region, around 640 million workers are in vulnerable employment situations, many of them women. The International Monetary Fund has noted that growth of the informal economy deprives the exchequer of tax revenues, inhibits emergence of governance institutions, and limits resources for investments in human capital and other public policies to further poverty reduction.[81]

114. **Hunger and Malnutrition.** The rapid economic growth over the first decade of the 2000s has not been sufficient to halve (by 2015) the proportion of people suffering from hunger—an MDG target. More than 530 million people consume less than the minimum dietary energy, many of them children. Progress toward reducing hunger, as measured by the percentage of underweight children younger than 5 years of age, has been much slower, falling from 35% to 25%, not a halving to 17.5% as was the target for 2015.

115. **Primary school completion**. Although Asia and the Pacific has made much progress in the universal enrollment of male and female pupils in school, achieving retention in school until the end of the primary cycle continues to be difficult. Only two-thirds (26 of 40) of DMCs are expected to meet the target of primary school completion for boys and girls. Cohorts of children without schooling are susceptible to all kinds of negative social risks, including low earnings potential, and joining the ranks of workers in vulnerable employment.

116. **Child and maternal health**. The worst-performing indicators in developing Asia and the Pacific relate to maternal and infant mortality. In 2010, 2.5 million children died before reaching 1 year and 3.2 million before reaching 5. Although child mortality fell from 57 deaths per 1,000 live births in 2005 to 49 per 1,000 in 2010, the target of 29 per 1,000 by 2015 is out of reach. The situation is the same for the maternal mortality ratio. Among 33 developing economies with available data, 24 are not expected to achieve MDG 5 by 2015.

117. **Communicable diseases**. Progress in combating communicable diseases has been fractured. About 4.8 million Asian adults are living with HIV/AIDS. With increasing access to antiretroviral drugs for advanced HIV/AIDS infection, the trend in infection rates began to decline after 2009. However, this trend is now reversing in several countries. While the incidence of tuberculosis has declined, and the death rate due to malaria has dropped, these diseases continue to pose risks throughout the region.

118. **Water and sanitation services**. Improvement in water services has been satisfactory but that of sanitation services has been slow in both urban and rural areas.

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[80] Data in this section is based on ADB. 2012. *Key Indicators for Asia and the Pacific, 43rd Edition*. Manila.

[81] Anoop Singh, Sonali Jain-Chandra, and Adil Mohommad. 2012. *Inclusive Growth, Institutions, and the Underground Economy*. Washington, DC: International Monetary Fund. WP/12/47. February.

The region still has a large gap in sanitation services—roughly 780 million people (21%) have no access to efficient sanitation facilities.

## B. Regional and Global Risks

119. The prospect of increased global volatility emphasizes the need to have efficient arrangements in place to support the poor. As so many millions of people live in absolute poverty, even a small change in income can have a dramatic impact on welfare. In the absence of well-targeted social protection systems, a future systemic crisis in the region could plunge millions of households into poverty and destitution and prolong human suffering.

**Even a small change in income can have a dramatic impact on welfare**

120. One particular evaluation insight arising from the IED paper on "Implications of a Global Financial Crisis for Asia and the ADB: Lessons from Evaluation" was the critical importance of preparation. With preparation, relevant and effective interventions can be fashioned quickly in crisis conditions. Without it, there is a trade-off in the design and, in turn, the effectiveness of crisis support activities between speed on the one hand and quality and relevance on the other. In such circumstances, staff and the authorities will inevitably find themselves scrambling to put something together that will meet—or is seen to meet—the requirements of international finance institutions for crisis support, yet may lack the broader country ownership that is essential for sustained success. For ADB, the key preparation priorities were seen as investing in (i) forecasting systems—to position the institution to advise DMCs (and operational colleagues) on the forward risks of external shocks and the need for action; (ii) knowledge, resources, and instruments to support this; and (iii) relationships with clients and partners, so that ADB can act quickly and effectively in its areas of comparative advantage.

121. The time to think about how to reach the poor and the vulnerable and design affordable and well-targeted social protection is before, not after the crisis strikes. Global economic crises may well be becoming more frequent and more prolonged. During the recent dramatic increase in food prices, countries that had institutions in place that could efficiently lend assistance to the poor (like Bangladesh, Indonesia, and the Philippines) were well placed to assist vulnerable groups rather than boost poorly targeted and excessively costly consumer subsidies.

122. IED's SES on ADB's Response to Natural Disasters and Disaster Risks also found that it is the poor who are the most exposed and most vulnerable to such disasters, calling for special measures to reduce their exposure and to increase their resilience. In disaster-prone areas, it is also important to take preventive steps before disasters strike, through disaster risk mitigation and by building the resilience of the population.

## C. ADB's Role in Reducing Vulnerabilities

123. ADB has aimed to respond to vulnerabilities in various ways, including by (i) supporting social protection systems; (ii) building systems to respond to natural disasters and mitigate disaster risks; (iii) providing microfinance to the poor; and (iv) investing in health, education, and productive sectors which employ a lot of the extreme poor. ADB's role and performance in each of these was assessed in IED evaluations started in 2012.

**ADB has aimed to respond to vulnerabilities in various ways**

### 1. ADB Support for Social Protection

124. International evaluation evidence suggests that safety nets have a broad role to play in reducing poverty and in helping households manage risks. Safety nets are just one part of a broader system of social protection that helps shield people from a range of risks. Social protection systems are designed to (i) protect income and consumption in the face of shocks such as disease, unemployment, and disability in old-age; (ii) reduce poverty and deprivation by ensuring access to a basic set of goods and services, particularly health and educaton; and (iii) improve individuals' earnings opportunities through investments in human capital, access to credit, and making labor markets work better. [82]

125. Safety nets are generally non-contributory transfers targeted in some manner at the poor and vulnerable. They can include cash transfers and/or food stamps, in-kind transfers such as school feeding programs, price subsidies, cash-for-work programs, cash or in-kind transfers subject to conditionalities on education and health, particulary of children, and fee waivers for schools or health services.

**ADB had not fully made the transition to helping DMCs build national social protection policies in noncrisis years**

126. The SES on ADB's Social Protection Strategy 2001 found ADB's support for social protection over the decade disappointing. While the purpose of the social protection strategy was to build up resilience in noncrisis years, social protection-related stand-alone activities, comprising loans, grants and TA, accounted for only 2.5% of the total value of the ADB portfolio over 2002–2011. Much of this, however, was in response to the economic and financial crises, especially during 2008–2010. Thus, the evaluation concluded that contrary to its own strategy, ADB had not fully made the transition from ameliorating the direct effect of crises and emergencies to helping DMCs build effective, national social protection policies and systems in noncrisis years as part of the macroeconomic policy mix for achieving inclusive growth.

127. International evaluation evidence shows that well-designed safety nets i.e., carefully targeted transfers, have an immediate impact on inequality and extreme poverty, enable households to make better investments in their future, and help them manage risks. [83] Safety nets are not a panacea, however, and work best when combined with sound macroeconomic policies and sector policies that seek to improve the supply of quality health and education services more generally, remove discriminatory practices, and improve labor markets and the quality of employment. More lessons are in Box 8.

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[82] D. Robalino, L. Rawlings, I. Walker. 2012. *Building Social Protection and Labor Systems*. Washington, DC: World Bank.

[83] M. Grosh et al. 2008. *For Protection and Promotion: The design and implementation of effective safety nets*. Washington, DC: World Bank.

**Box 8: Lessons for Developing Safety Nets**

**Build resilience before a crisis occurs.** The poor have the least resilience to cope with a crisis and in the event of a shock can be driven into destitution, reducing their health and permanently harming the education and future prospects of their children. Even short periods of malnutrition can have adverse consequences for pregnant women and children under 5, affecting their lifetime opportunities. Economic growth on its own does not necessarily build resilience of the poorest or give them effective and affordable services. Evidence suggests that safety nets are effective in building such resilience.

**National social protection systems cannot be built by one-off crisis responses.** It takes time to build good safety nets, so it is important to build these in noncrisis periods.

**Sustain dialogue on social protection after the crisis.** Support for safety nets is highest during times of crisis but quickly dissipates thereafter. ADB needs to advocate for public investment in safety nets as part of the macroeconomic policy mix for achieving inclusive growth in noncrisis years. Safety nets can contribute to economic growth by protecting human capital, by acting as stabilizers of aggregate demand, and by improving social cohesion.

**Invest in impact evaluation.** Demonstrating that safety nets work helps build political support to sustain programs in noncrisis years and to ensure that they survive changes in government.

**Target the poor, especially women and children.** Safety nets can produce multiple positive effects, from increasing schooling and the use of health services by disadvantaged groups to delaying early marriages and empowering women's voice in families and communities.

**Well-designed, well-targeted safety nets can be an affordable investment.** Similar to programs in Latin America, the conditional cash transfer in the Philippines costs much less than 1% of gross domestic product, yet reaches around 15 million people (including 6 million children).

Source: Independent Evaluation Department. 2012. *Special Evaluation Study: Social Protection Strategy 2001*. Manila: ADB.

128. Safety nets, including conditional cash transfers, have been heavily researched and a large body of rigorous impact evaluation evidence exists, mainly based on programs in Latin America, where conditional cash transfer programs are more advanced. While impact evaluation evidence in Asia and the Pacific is thin, evidence is beginning to emerge in the Philippines, where the conditional cash transfer program, Pantawid Pamilya, was launched in 2008 with technical and financial support from the World Bank and the Australian Agency for International Development, with ADB support commencing in 2010.

**In Latin America, conditional cash transfer programs are more advanced**

129. The program has been successful at targeting the poor, exceeding the performance of the longstanding, broad-based rice subsidy. The first impact evaluation shows that the program increased preschool, elementary, and high school enrollments among poor families and narrowed the enrollment gap between poor and nonpoor households. Beneficiary households also spend more on health and education, and take their children for regular health monitoring. The attendance by beneficiary women at prenatal care and postnatal care is also higher than equally poor nonbeneficiary women. Preliminary findings also suggest that beneficiary children under the age of 5 eat more nutritious food than do equally poor nonbeneficiary children.[84] All of this helps reduce the vulnerability of the poor to shocks and increase their resilience, and helps the Philippines to move closer to achieving key MDGs.

[84] N. Chaudhury, J. Friedman, J. Onishi. 2013. *Philippines Conditional Cash Transfer Program Impact Evaluation 2012*. Washington, DC: World Bank.

130. The objective of the Social Protection Strategy 2001—to build social protection systems in noncrisis years to bolster the resilience of the poor so that they are better protected in the event of future crises—remains highly relevant to ADB's strategy. It remains relevant to the region, yet ADB has not been responsive in its implementation and needs to be more active in helping build demand for safety nets.

**The Social Protection Strategy 2001 remains highly relevant to ADB**

### 2. ADB Support for Disaster Management

131. Many of ADB's DMCs are among the most vulnerable to hydrometeorological and geophysical risks, with Bangladesh, the Philippines and Viet Nam in the top 10 of most international listings. IED's 2012 evaluation of ADB's Response to Natural Disasters and Disaster Risks included various listings of the many Asian countries with high risks. Maplecroft[85] recently showed that five of the six cities classified as "at extreme risk" on account of climate change are in Asia (Chittagong, Dhaka, Jakarta, Kolkata, and Manila). ADB is responding to natural disasters in two ways: (i) it provides emergency responses to disasters as they occur, focusing on rehabilitation and development; and (ii) it provides projects to ward against natural disaster risks (e.g., flood protection projects) and improves the design of various types of projects against the risk of a natural disaster (e.g., by climate-proofing road projects). About two-thirds of disaster support is of the first kind, the rest of the second kind.

**ADB has done well at natural disaster response**

132. IED's evaluation concluded that ADB has done well at natural disaster response, and has also supported DMCs internally in building better protection against disasters, thus helping reduce vulnerability. However, better surveillance and timely sharing of information could help people move to safety in time, e.g., tsunami monitoring and warning, and cross-border floods. Several disaster response projects also included elements dealing with disaster risk mitigation. When the 2005 tsunami in the Indian Ocean severely affected the population of several countries, ADB support did not only extend immediate relief to the vulnerable population, but also helped provide basic infrastructure and restore livelihoods.

133. Similarly, in some other countries, disaster risk reduction projects have performed well, e.g., risks of hydrometeorological hazards have been well mitigated by projects in Cambodia and the PRC, particularly through integrated water risk management and coastal management. In Indonesia, ADB started mitigating flood risks in the 1990s. ADB is now supporting integrated water management, flood, and coastal management projects in India.

134. The evaluation established ADB's success at disaster recovery operations—100% of disaster recovery projects were rated *successful*. Of projects classified as mitigating the risk of disasters, such as many flood protection projects, 78% were also *successful*, indicating ADB's good track record in reducing vulnerability to natural disasters. Successful interventions also helped protect the environment. However, as the sustainability sub-rating given to the disaster mitigating operations was only 45%, more needs to be done. Key studies and analyses have identified many developing countries of the region to be among the most vulnerable to adverse climate impacts.

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[85] Available: http://maplecroft.com/about/news/ccvi_2012.html

### 3. ADB Support for Microfinance

135. In developing Asia, microfinance[86] is widely seen as an important avenue for poverty reduction and lessening exposure to risks and vulnerabilities. About 2.7 billion people or 70% of the adult population in developing countries have no access to formal financial services, such as savings or checking accounts. The gap in access and in the use of financial services among the poor remains an important source of poverty, deprivation, and vulnerability.

**Microfinance is widely seen as an important avenue for poverty reduction and lessening exposure to risks and vulnerabilities**

136. IED's 2012 evaluation rated ADB's microfinance development strategy *less than effective* in reducing risks and vulnerabilities for the extreme poor. The low score for results was due mainly to the weak development of support institutions and infrastructure, the less-than-effective support for achieving institutional sustainability, and, most importantly, the limited outreach to the poor.[87] ADB's microfinance efforts were effective in Cambodia, Pakistan, the Philippines, and Tajikistan, where notable improvements in the policy, legal, and supervisory frameworks were achieved.

137. ADB support to microfinance operations generally failed to reach the extreme poor, as was the strategy's stated objective. The average penetration in countries with ADB support at the end of 2010 remained low, at nearly 20% of the population below the poverty line of $1.25 per capita per day. The client surveys in the six case countries[88] showed that fewer than 9% of microfinance clients lived below $1.25 per day, and fewer than 22% lived below $2 per day. Fewer than 15% of clients under the Pakistan program and less than 1.5% of clients under the Viet Nam program lived below the national poverty line.[89]

138. Effects on those that received microfinance were commensurate with the amounts received. In Pakistan, many received small loan amounts but the welfare effect was minimal. In Viet Nam, loan amounts for individual borrowers were much larger, and the welfare effects also more positive, but only few received such loans. This showed the limitations of the microfinance approach.[90]

139. ADB's support for promoting pro-poor innovations and financial technology in this field was mainly coursed through TA. The survey on the six case countries showed that sample client respondents had regular access to credit, but had limited access to other services such as deposit services, money transfers, remittances, and microinsurance. The focus was less on developing capacity for the poor to access and use financial services. Once again, projects focusing singularly on one input alone were assessed as *less than successful* due to the absence of complementary support.

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[86] ADB's microfinance development strategy of 2000 defined microfinance as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises."

[87] "Projects and programs usually did not monitor the poverty levels of participating households, nor did they establish baselines on the income levels of targeted households."

[88] Cambodia, Pakistan, Papua New Guinea, Philippines, Uzbekistan, and Viet Nam.

[89] Although the Consultative Group to Assist the Poorest (CGAP) earlier noted that clients of microfinance institutions usually fall in a band around the poverty line and the ultra poor are rarely reached by microfinance. CGAP. 2003. *Donor Brief No. 13.* Washington, DC.

[90] IED's 2008 study in the Philippines confirmed this as well: IED. 2008. *Impact of Microfinance on Rural Households in the Philippines*. Manila: ADB. See also: IED. 2007. *Effect of Microfinance on Poor Rural Households and the Status of Women*. Manila: ADB. Projects in the microfinance subsector had a success rate of 53% during 1990–2010. The latest program evaluation report confirming the limited coverage of the poor is in IED. 2013. *Philippines: Microfinance Development Program. PPER*. Manila: ADB.

**Microfinance in practice benefits households above the poverty line most**

140. Microfinance in practice benefits households above the poverty line most, yet plays an important role in reducing risk and vulnerabilities. The financial margin of comfort is always low in rural communities and slums, and a single crop failure, or a catastrophic health event, could drive a household previously above the threshold quickly into destitution. Well-designed microfinance programs for lower income households are an important defense against this. The study noted that ADB was helpful in supporting microenterprises although it could have tried more actively to reach out to the poor, especially women. Programs that successfully reach the poor, particularly the ultra-poor, often combine access to financial services with social safety net programs.[91]

#### 4. ADB Support for Human Capital and Poverty Reduction

141. Vulnerability of the poor is linked, among other things, to lack of investment in human capital. People with poor or limited human capital are not able to seize opportunities presented by growth, which in turn contributes to inequality. ADB tackles this issue through both direct and indirect interventions. The evaluation of the MDGs found that ADB's support for poverty reduction was largely aimed at reducing infrastructure gaps, improving the context for private sector development, developing the financial sector, improving the environment and improving governance.

142. Productively oriented interventions directly targeted at the poor (classified as supporting MDG 1), to raise their income and employment, mainly included projects in agriculture, microfinance and small and medium-sized enterprises, comprising 12% of ADB's overall financing during 2002–2011.[92] Projects and programs of this type completed in the 2000s were rated *borderline satisfactory* in the context of the MDG evaluation. Direct contributions to the achievement of human development MDGs were made through projects aimed at education, health, and gender issues, comprising around 10% of financing. Water supply and sanitation, and slum development comprised another 10% of overall ADB financing. Results of completed MDG operations in these areas were mostly *satisfactory* to *highly satisfactory*.

**ADB may wish to continue to engage in targeted productive interventions to reduce extreme poverty**

143. The study concluded that ADB may wish to continue to engage in targeted productive interventions to reduce extreme poverty, in particular poor areas or for particular categories of the poor. ADB has also engaged adequately in interventions directly combating hunger and malnutrition, which have covered areas such as child nutrition programs, food fortification, and food supplements in school programs. However, the amounts involved were small.[93]

144. While education is defined as a core sector under Strategy 2020,[94] ADB's investment in education has remained limited so far. Less has been done in health,

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[91] Syed Hashemi and Richard Rosenberg. 2006. Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services. *CGAP Focus Note No. 34.* Washington, DC. Consultative Group to Assist the Poor.

[92] Management has expressed the view that the study does not present a full understanding of ADB's strategic framework and the selective and focused approach adopted under Strategy 2020 to improve the development effectiveness of ADB's support to reducing poverty and achieving the MDGs. It also views the report as under-estimating ADB's indirect contribution and support to the MDGs, and as not substantiating the perceived high demand of clients for broader support to the MDGs by ADB.

[93] From 2002–2011, ADB approved 15 projects directly providing support to combat hunger and improve nutrition, for $317 million, and mainly to 7 countries. The majority were grants but represented only 5% of the total value. Eleven TA projects (for $13 million), 5 for countries and 6 regional in nature, were approved to provide research and advisory support to improve nutrition and ensure food security across the region.

[94] ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020.* Manila.

which at around 1% is a relatively small portion of ADB's support. ADB has done more in water supply and sanitation, important avenues for improving public health and reducing disease. Given that there is still high unmet demand from governments for donor support to both health and water supply and sanitation interventions, ADB could do more in these areas to reduce the human development-related MDG gaps and to minimize vulnerabilities.

## D. Conclusions

145. ADB operates in a highly vulnerable region where natural disasters, climate change, and economic shocks can rapidly reverse poverty reduction and undermine years of development effort in an instant. Preparation is everything and the time to develop approaches to vulnerability is now, before an event occurs. In terms of economic growth and poverty reduction, three messages are noted. First, economic growth in Asia and the Pacific has pulled millions out of poverty, but many millions remain left behind—the chronic poor, the disabled, and the elderly who are not able to take advantage of emerging opportunities. Second, programs and projects that seek to reduce poverty through resolving a particular binding constraint, such as the provision of microfinance, or the construction of a road or a tubewell, are not in themselves sufficient to reduce vulnerabilities. Third, international evaluation evidence shows that well-designed and targeted safety nets can reduce poverty and inequality, increase investment by the poor in human capital, and build resilience against future shocks.

**An approach centered on risk and vulnerability can generate a common framework for development issues**

146. Reducing risk and vulnerability is also a long-term issue, and as such promotes sustainable development. It is increasingly recognized that an approach centered on risk and vulnerability can generate a common framework for development issues, especially now that the world is looking for a cohesive platform for the post-2015 development agenda. A growing number of vulnerability indexes (Box 9) can be used to make development support choices, as an alternative or supplement to other methods such as economic status metrics or performance-based allocation.

**Box 9: Economic Vulnerability Index**

Since 1990, when Malta pointed out the need for a separate index to capture the economic vulnerability of small island states, the interest in such indices has grown. The first economic vulnerability index (EVI) was created in 2000 to measure the risk confronting the least developing countries. Since then EVI has been revised periodically.

EVI includes two groups of components with equal weights. One captures the size of the recurrent shocks and the other exposure to shocks. Recurrent shocks include natural shocks, and trade-related shocks with equal weights. The exposure index includes smallness in terms of population (50% weight), remoteness of location (25%), and structural features (25%) comprising merchandise export concentration and share of agriculture, forestry, and fishery in gross domestic product. In collaboration with the United Nations Department of Economic and Social Affairs, the *Fondation pour les Etudes et Recherches sur le Développement International* has now calculated a retrospective EVI on an annual basis covering 128 developing countries over the period 1975–2008, 28 of which are in developing Asia. Most countries rated highly vulnerable are in the Pacific region, but also included are the Maldives, Myanmar, and Mongolia.

EVI has spawned variations on the theme with the result that there is now a wide variety of vulnerability indices particularly factoring in exogenous macroeconomic and financial-flow shocks—including exchange rates. Examples include Water Vulnerability Index, Livelihood Vulnerability Index, Consumer Financial Vulnerability Index, Coastal Vulnerability Index, Output Vulnerability Index, and Physical Vulnerability to Climate Change Index. Some EVIs focus only on structural factors that capture vulnerability to external shocks, others include both structural and policy variables, thus straddling vulnerability as well as resilience. Of the five Independent Evaluation Department (IED) studies reviewed in this chapter, two (natural disasters and global economic and financial crisis) reflect closely on the structural factors; the others (Millennium Development Goals, social protection, and microfinance) reflect on the policies seeking to reduce economic vulnerabilities. Various development partners are discussing or devising their own indices. African Development Bank and the World Bank have been discussing the use of EVIs as a tool for aid allocations in lieu of a performance-based allocation. The recent Operational Plan for Enhancing Asian Development Bank (ADB) Effectiveness in Fragile and Conflict-Affected Situations notes that ADB is proposing pilot work on developing a fragility index in two developing member countries.

Sources: P.Guillaumont. 2011. *The concept of structural economic vulnerability and its relevance for the identification of the Least Developed Countries and other purposes (Nature, measurement and evolution).* United Nations Economic and Social Affairs, Committee for Development Policy, Background Paper No. 12. September; and ADB. 2013. *Operational Plan for Enhancing ADB Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

# CHAPTER 6

# IED Recommendations and Management's Follow-Up

147. This final chapter fulfills the 2008 Evaluation Policy's obligation to report on progress with the Management Action Record System (MARS). Through its recommendations, IED can have a direct impact on management decision making. Achieving an effective feedback loop between IED evaluations and ADB Management is important to improve the development effectiveness of ADB operations. Since 2008, IED has used MARS to track evaluation recommendations and their corresponding management responses, action plans and actions taken by Management.[95] (See Box 10 for characteristics and some general concerns.)

148. A considerable portion of IED recommendations in MARS is focused on the Strategy 2020 drivers of change and core areas of operations. This chapter assesses the due actions on recommendations made during 2009–2012 with particular attention to sector–specific recommendations. The discussion is organized into four parts:

**This chapter assesses the due actions on recommendations made during 2009–2012**

(i) an update on the trends in IED recommendations and management actions during 2009–2012;
(ii) an assessment of contributions to ADB operations by completed actions on sector-specific recommendations;
(iii) a look into recommendations not agreed to and actions not implemented[96] during 2009–2012; and
(iv) a commentary on the use of IED recommendations through a MARS-centered validation process.

[95] Direct access to MARS is available to ADB's Board and staff through an intranet link.

[96] In MARS, the wording for such cases is 'recommendations not adopted'. This refers to agreed recommendations that led to actions wherein the extent of implementation was less than 33% or where the recommendations were no longer relevant. See also footnote 85 of AER 2012. For ease of discussion, recommendations not adopted will be indicated as actions not implemented.

**Box 10: Tracking Management's Follow-up**

The Management Action Record System (MARS) is a computer-based tracking system designed and deployed to promote efficient use of evaluation information in the Asian Development Bank (ADB). A cornerstone of MARS is the buy-in from its stakeholders. Implementation arrangements allow active involvement by the Independent Evaluation Department (IED), Management, and concerned ADB departments. All evaluation recommendations are uploaded onto MARS, but only those that Management has agreed to are tracked. Focal points in implementing and coordinating ADB departments subsequently enter proposed action plans and action completion target dates in MARS. Management then updates the implementation progress of action plans at least twice a year. In January–February of each year IED validates the actions taken by Management, and reports on this in its Annual Evaluation Review.

Since its establishment in 2009, several initiatives have been undertaken to improve MARS in relation to its search performance, automated alerts, workflow and approval, summary reports facility, classification of recommendations, taxonomy updates, analytics/edit history, feature for complementary actions, and user guidelines. An Oracle-based MARS is set to replace the existing system, which is built on a Lotus Notes platform. MARS can be accessed by all ADB staff and the Board of Directors through the ADB intranet. Additionally, MARS has also provided an avenue for partnerships with other central evaluation units. Since November 2011, IED has helped the Inter-American Development Bank, which recently launched its own automated MARS. More recently, the African Development Bank asked IED for knowledge sharing on MARS. This follows up on an earlier presentation on MARS by IED staff in Tunis in December 2012.

In future, the practicability of MARS depends on several issues that need continuing attention: (i) the number of evaluation recommendations and action plans have implications on time and resources; (ii) ensuring consistency and quality of data entered into the system, including a clearer understanding between ADB Management and IED that actions taken shall be consistently assessed and validated in terms of the results achieved; and (iii) identifying the characteristics of recommendations and of implementation action plans that will have a positive impact on the quality of ADB operations and development results in developing member countries. On a number of occasions, Management responses emphasized that recommendations called for actions that Management had already initiated. Reporting progress on such superfluous recommendations would then bring an extra burden.

Sources: Independent Evaluation Department.

## A. Overview of Evaluation Recommendations

149. Management acceptance of IED recommendations improved to 97% during 2009–2012, from 92% during 2008–2011.[97] During 2009–2012, IED made 230 recommendations (in 58 studies), 7 of which Management did not agree to. By the end of 2012, Management actions on 174 of the 223 accepted recommendations were either due or completed. Along with 21 completed recommendations from approved evaluations in 2008,[98] the cumulative number of completed and validated recommendations in the MARS inventory is 195.

150. IED validation found that 74% of the agreed and due recommendations over 2009–2012 were fully or largely acted upon, compared to 73% over 2009–2011.

[97] Management was particularly receptive of recommendations from IED's knowledge program. The rate of agreement was 98% for special evaluation studies and evaluation knowledge studies and even higher at 100% for impact evaluations during 2009−2012.

[98] From the 103 (86 agreed, 17 not agreed) recommendations addressed to ADB by IED in 2008.

Twenty-three percent were partly implemented while around 3% were either not implemented or deferred. A greater part of both agreed or implemented recommendations continue to support Level 2 (sector and thematic contributions) and Level 3 (operational effectiveness) of ADB's corporate results framework. At the same time, recommendations with a cross-sector or multisector focus accounted for 45% of completed actions during 2009–2012. This is followed by recommendations regarding the infrastructure subsectors of transport, energy, and water, which together comprised 28% of the 195 recommendations completed to date. A more detailed discussion on recent trends in IED recommendations and management follow-up during 2009–2012 is available in Appendix 3, Linked Document F.

151. The quality and quantity of IED recommendations must be carefully managed to reinforce ownership by Management and to ensure the sustainability of the MARS tracking process. For now, the number of evaluation recommendations to be tracked has somewhat stabilized. Of the 230 recommendations made during 2009-2012, 174 have been completed and validated and will no longer be tracked in 2013. The remaining 56 will be tracked in the coming years along with recommendations from future evaluations. A summary of major evaluation recommendations and management responses in 2012 is presented in Appendix 2. In the context above, IED will continue to prioritize recommendations of direct practical significance.[99]

**There remains a gap between the rate of accepted recommendations and that fully or largely acted upon**

152. While 2012 again shows a very high level of Management acceptance of IED recommendations, the proportion of accepted recommendations that were fully or largely acted upon was 23% lower. A quick review of assessed and validated actions on recommendations since 2009 revealed that concerns on the quality and practicability of recommendations as well as the corresponding actions in general may have contributed to this gap.[100] The significance and causality of underlying issues pertaining to recommendations and actions may be the subject of a more in-depth review in the future.

153. An important aspect on recommendations was raised by an internal perception survey of IED held among ADB staff in 2011, that indicated areas for improvement in terms of the extent to which IED findings, lessons, and recommendations can contribute to or influence the design of new lending and nonlending operations, and modifications and/or revisions to ongoing operations.[101] To that end, IED has initiated adjustments to its work program, particularly its knowledge management strategies, and strengthened learning from evaluations (through proactive communication and appropriately packaged findings, lessons, and recommendations) to make these more relevant, responsive, and influential.

**IED will give further priority to improving the quality of recommenda-tions and monitoring**

154. In part due to the nature of the evaluation recommendations, the length of time indicated by Management to implement and complete actions against agreed recommendations already increased, usually from 1 year, up to 3 years (Appendix 3, Linked Document F). In future, IED will give further priority to improving the quality of recommendations and monitoring subsequent action by management. One of the decisions already implemented was for some evaluation reports that raise wider concerns (such as the 2012 AER and the Social Protection evaluation study) to not provide any recommendations but rather suggestions, so that Management had the

[99] Major evaluations on average usually yield 3–5 recommendations for consideration by ADB Management.

[100] 2011 and 2012 AERs have identified ambiguity of recommendations and actions; failure to consider implementation realities, resulting in unrealistic targets and timeframes; financial and human resource constraints; and viability issues as some of the factors affecting the implementation of recommendations.

[101] Towers Watson. 2011. *ADB Perception Survey for IED*. ADB. Internal, unpublished report.

option not to register direct actions in MARS.[102] This was done to avoid putting ADB Management in a position in which it would feel compelled to take rapid decisions on policy issues through the 2-week Management Response process. A more detailed review of the MARS validation process is in Section D of this chapter. Appendix 2 lists the IED recommendations made in major thematic studies undertaken in 2012 and the responses given to each by Management.[103] These are not discussed in this chapter.

## B. Actions Taken on Evaluation Recommendations

**Most recommendations were directed at infrastructure, finance, and PSM**

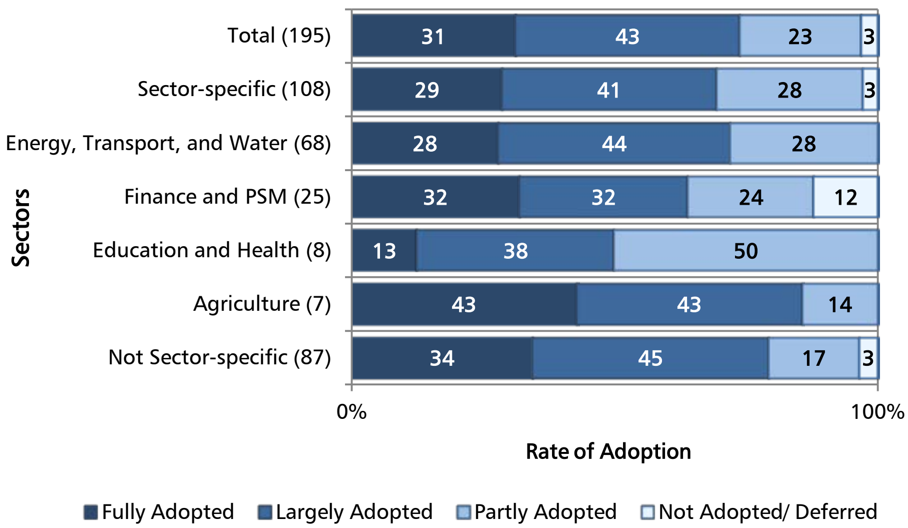
155. IED's validations of actions taken on IED recommendations demonstrate these actions' positive results through their influence on several Management decisions to improve ADB sector operations. Sector-specific recommendations, which comprise 55% of the MARS inventory of completed actions on recommendations during 2009–2012, have an implementation rate of 70% as compared with the ADB-wide average of 74%. (Appendix 3, Linked Document F) There are clear variations across the sector-specific recommendations (Figure 7). First, most completed recommendations were directed at infrastructure, finance, and PSM—ranging from 23% to 63% of total sector-specific recommendations, to only 7% for agriculture recommendations, with education and health recommendations at 7%.

156. Second, the actions in social infrastructure subsectors of education and health are at the low end of implementation, with only 51% of completed actions taken on recommendations during 2009–2012 being fully or largely implemented, while agriculture actions are at the high end with 86% implementation (Figure 7). In between, the rate of implementation for infrastructure and finance ranged from 64% for finance and public sector management to 72% for the energy, transport, and water sectors.

[102] Suggestions do not necessarily need to be followed up by actions recorded in MARS. IED is sometimes offering suggestions rather than recommendations so that Management has more freedom to respond.

[103] The actions recorded in MARS for accepted recommendations are internal and not individually disclosed (see also footnote 95).

**Figure 7: Distribution of Completed Recommendations by Sector and Adoption, 2009–2012**




PSM = public sector management.

[a] Not sector-specific recommendations cover diverse issues including country operations, portfolio management, results monitoring, and cross-cutting theme areas like regional integration, knowledge management, private sector development, capacity development, gender, and donor coordination.

[b] Of six recommendations not adopted or deferred, three are categorized as "not adopted."

Note: Figures in parentheses indicate numbers of recommendations. Percentages may not add up due to rounding.

Source: Management Action Record System.

### 1. Energy, Transport, and Water Actions

157. There are five main types of actions taken on recommendations in the energy, transport, and water sectors during 2009–2012.

158. **Actions that improve sustainability of outputs and outcomes.** A detailed look at the IED recommendations teaches that they have covered a number of issues on sustainability, in particular (i) quality of country and sector risk assessments, (ii) project-related complementarity and partnerships, (iii) adequate allocation for O&M costs, and (iv) developing realistic timetables to allow full attainment of benefits.

**Evaluation pointed to the need for enhanced quality of country and sector risk assessments**

159. Systematic risk identification and mitigation during country and sector programming can play a pivotal role in elevating sustainability of road transport, energy, and water operations.[104] Evaluation pointed to the need for enhanced quality of country and sector risk assessments (IED suggested that country risk assessments and management plans should go beyond governance concerns, as per GACAP II,[105] and aim for sustainability in project outcomes). To this end, it was reported in MARS that ADB's Regional and Sustainable Development Department had circulated guidance notes on road transport and electricity sector risk assessments to the regional departments.[106] Complementary to this initiative, MARS also reported that regional

[104] IED. 2010. *SES: Post-Completion Sustainability of ADB-assisted Projects*. Manila: ADB.

[105] ADB. 2006. Second Governance and Anticorruption Action Plan (GACAP II). Manila.

[106] ADB. 2010. *Guidance Note: Road Transport Subsector Risk Assessment*. Manila. ADB.2009. *Guidance Note: Electricity Sector Risk Assessement*. Manila.

**Regional departments have incorporated various quality assurance mechanisms**

departments have incorporated various quality assurance mechanisms in their operations (i.e., internal quality review and control systems of the Central and West Asia and the Pacific departments, staff mentoring system, and design monitoring framework training of focal points of the South Asia and Southeast Asia departments).

160. Project-specific complementarity and partnerships not only help reduce resource gaps and provide desired road transport, energy, and water project outputs and outcomes, but also do the groundwork for sustaining sector operations. Actions taken on five recommendations[107] showed that improving coordination, cooperation, and collaboration between the private sector, development partners, governments (national and local), nongovernment organizations, and local communities, can translate to more sustainable road transport, energy, and water projects that are adequately resourced, widely utilized, and better maintained.

161. Transport policies can contribute to efficiency gains in institutions but unclear policies can threaten the sustainability of transport sector operations. MARS reports that actions taken in response to two recommendations pertaining to policies on cost recovery and financial allocations for O&M programs have been hampered by the longer than anticipated time needed to engage Greater Mekong Subregion (GMS) countries in policy dialogue and come to a common agreement or action.[108] Similarly, evaluation found that the sustainability of energy sector operations can be hampered by a slow build-up of new investments in power generation. In Bangladesh, ADB's interventions in the energy sector are fully in line with agreed actions to be taken by Management, i.e., financing public sector power generation to complement efforts in soliciting private investments. But still, MARS noted that the use of innovative financing modalities for public sector power generating companies has yet to reap dividends, due mainly to the long gestation period needed to attract actual investments.[109]

162. **Actions that facilitate or capitalize on synergies.** Actions that capitalize on synergies between development interventions promote efficient use of investments and intensify development outcomes from both transport and energy sector operations. MARS reports that actions taken by Management on two recommendations (CAPE Cambodia and CAPE Maldives) can help improve complementarity and a sequencing of transport interventions by ADB, development partners, and the governments.[110] MARS also found that Management actions on an energy sector recommendation—to include using ADB's concessional resources as leverage—resulted in the mobilization of financing from the private sector and other development partners to fund power transmission and power development projects.[111]

163. **Actions that make capacity development more effective.** Country ownership of donor programs is a key feature of aid effectiveness. Three sector evaluations have acknowledged that the extent of ownership and support drawn from the host DMC

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[107] IED. 2009. *CAPE: Cambodia.* Manila: ADB; IED. 2009. *SAPE: ADB Support for the Transport Sector in Viet Nam*. Manila: ADB; IED. 2009. *SES: ADB's Contribution to Inclusive Development through Assistance for Rural Roads*. Manila: ADB; IED. 2009. *Impact of Rural Water Supply and Sanitation in Punjab, Pakistan*. Manila: ADB.

[108] IED. 2008. *Project Performance Evaluation Report (PPER): Phnom Penh to Ho Chi Minh City Highway Project in the Greater Mekong Subregion*. Manila: ADB; IED. 2009. *SAPE: Transport Sector in Cambodia–Focusing on Results*. Manila: ADB.

[109] IED. 2009. *SAPE: Energy Sector in Bangladesh*. Manila: ADB.

[110] IED. 2009. *CAPE: Cambodia*. Manila: ADB; IED. 2011. *CAPE: Maldives*. Manila: ADB.

[111] IED. 2008. *SAPE: Energy Sector in the Greater Mekong Subregion*. Manila: ADB. Other similar projects are not forthcoming for a variety of reasons. Replicating this in Lao PDR has been a challenge and this may be more difficult in a middle-income country.

government is critical to the success of any capacity development initiative.[112] MARS reports that Management responded by approving dedicated TA for Viet Nam[113] that would produce plans, guidelines, and other operational documents to strengthen capacities of transport and water sector institutions, and effect organizational changes. In response to a recommendation to increase the focus on the environmental sustainability of large hydropower development in Bhutan, environmental assessment instruments were developed and impact management capacities of nodal Bhutan environment agencies improved.

164. Proactive development coordination can play an important role in diagnosing capacity development needs and delivering effective solutions. Management reported difficulties in coordinating capacity development initiatives in road transport sector operations with other development agencies including the private sector. In the Lao People's Democratic Republic, Management's actions on a transport sector evaluation recommendation were affected when areas other than the desired coordinated capacity development received focus in the multiparty working group. Likewise, expected results from Management's actions on an energy sector recommendation for that country were delayed when the success of the action was affected by the participating private sector's abiding compliance to social and environmental safeguards.[114] In the case of a water sector recommendation, Management agreed to develop a focused and long-term vision of ADB's role in capacity building in Indonesia, i.e., strengthening country training systems and expanding their accessibility, but being cognizant of the resources and time needed to attain this.[115]

165. **Actions that maximize the benefits of regional integration.** Within the auspices of an existing cross-border agreement, trade facilitation is the element that can take regional cooperation to another level. Trade facilitation would entail, among others, developing border infrastructure and transport corridors with an eye on trade potential. Its effectiveness is ensured by robust synergies with transport-infrastructure-related investments. Accounts from several evaluation reports have so far registered initial improvements in and diversification of livelihood activities in the impact areas, and increasing trade between cooperating DMCs. In response to four recommendations on furthering trade facilitation,[116] Management incorporated a trade facilitation component in its Central Asia Regional Cooperation program that would improve cross-border facilities, as well as approve a project to mitigate infrastructure constraints in Mongolia; supported the establishment of a regional body that will bring together business interests from GMS countries; and implemented regional TA projects that harmonize customs and quarantine and product inspection standards in the PRC and Mongolia.

**Trade facilitation is the element that can take regional cooperation to another level**

[112] IED. 2009. *SAPE: ADB Support for the Transport Sector in Viet Nam*. Manila: ADB; IED. 2009. *SAPE: Urban Services and Water Supply and Sanitation Sector in Viet Nam*. Manila: ADB; IED. 2010. *SAPE: Energy Sector in Bhutan*. Manila: ADB.

[113] TA 6711-VIE: Policy Advisory TA for Strengthening Institutional and Financial Arrangements, Operation and Maintenance, and Governance in Road Transport; TA 7885-VIE: Support to Central and Local Governments to Implement Urban Environmental Improvement Programs.

[114] IED. 2010. *SAPE: Energy Sector in Lao People's Democratic Republic*. Manila: ADB.

[115] IED. 2010. *SES: Indonesia: Has the Multi-subsector Approach been Effective for Urban Services Assistance?* Manila: ADB.

[116] IED. 2009. *PPER: Almaty-Bishkek Regional Road Rehabilitation Project in Kazakhstan and Kyrgyz Republic*. Manila: ADB; IED. 2008. *SAPE: Transport and Trade Facilitation in the Greater Mekong Subregion—Time to Shift Gears*. Manila: ADB; IED. 2008. *SAPE: Transport and Trade Facilitation: Potential for Better Synergies in Mongolia*. Manila: ADB.

166. Two evaluation recommendations placed emphasis on ADB's role as honest broker to facilitate power trading. [117] MARS reports that Management actions included the completion of a regional energy trade study for Bangladesh and the strengthening of regional power trade coordination arrangements for GMS countries.

167. Nonetheless, the existence of a cross-border agreement between or among regionally cooperating countries does not quickly translate into benefits, particularly in transport sector operations. Management experienced that threshing out the details of mechanisms for cross-border road transport services, vehicle specification and control, and transit traffic may require prolonged discussions and negotiations.[118]

**ADB has already embarked on an initiative to enable monitoring of GHG impacts using systematic indicators**

168. **Actions that take into account climate change and promote environmental sustainability.** Thematic evaluations have recommended that ADB assess the implications of future projects with significant greenhouse gas (GHG) impacts or savings, while deepening its GHG-efficient investments to meet the end goal of mitigating climate change for sustainable development. MARS reports that ADB has already embarked on an initiative to enable monitoring of GHG impacts using systematic indicators (i.e., serve as benchmarks for measuring compliance) as well as mainstreamed a methodology for measuring reduction of GHG emissions in concept papers and reports and recommendations of the President for energy projects and developed indicators on energy sector operations (i.e., energy sector and climate change) for use during planning, processing, and implementation of future projects.[119] Similarly, MARS reports that ADB continues to consult with other development banks working on related activities to explore the feasibility of including specified indicators for monitoring carbon emissions from transport investments. ADB is also assessing the suitability of different modeling tools for application in ADB projects.[120]

169. The same thematic evaluation also found that standard financial products and lending modalities may not readily support expanded lending in new or pioneering areas. For example, scaling up investments in industrial energy efficiency improvement, to promote GHG efficiency, requires the development of a suite of lending modalities that meet specific requirements of industrial energy efficiency projects. Progress has been made in an ongoing ADB TA in terms of promoting and scaling up investments in clean energy and capacity building. While MARS reports that related initiatives support development by ADB of a range of appropriate lending modalities, IED validation found only a few accomplishments thus far on promoting industrial energy efficiency.[121]

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[117] IED. 2008. *Regional CAPE: Greater Mekong Subregion: Maturing and Moving Forward*. Manila: ADB; IED. 2009. *SAPE: Energy Sector in Bangladesh*. Manila: ADB.

[118] IED. 2009. *PPER: Almaty-Bishkek Regional Road Rehabilitation Project in Kazakhstan and Kyrgyz Republic*. Manila: ADB.

[119] IED. 2009. *Evaluation Knowledge Brief (EKB): Greenhouse Gas Implications of ADB's Energy Sector Operations*. Manila: ADB.

[120] IED. 2010. *EKB: Reducing Carbon Emissions from Transport Projects*. Manila: ADB.

[121] Of late, ADB has not done much in industrial energy efficiency. There were several such interventions in the late 1980s and early 1990s in the PRC. Recently, ADB has provided three loans to the PRC in this subsector—one each in Guangdong, Hebei, and Shandong, for a total of $300 million. In Indonesia, the Southeast Asia Department provided $30 million to Indonesia Exim Bank in 2011 that targeted energy efficiency in the industrial sector. The department is working on an energy efficiency project in Viet Nam in the iron and steel industry and cement industries.

### 2. Finance and Public Sector Management

Actions focused on reinforcing core governance activities

170. Actions taken on recommendations implemented in these areas focused on reinforcing core governance activities, pushing for public sector reforms, being responsive to DMC reform needs, and establishing financial-crisis response mechanisms in ADB and DMCs.

171. **Actions that reinforce core governance activities.** The country evaluation of Cambodia noted that fostering good governance standards in the sectors of ADB's support is important for the success of finance and public sector operations.[122] MARS reports that Management incorporated a comprehensive governance risk assessment and risk management plan and the recommendations of other analytical studies into the new CPS (2011–2013) of Cambodia. This paved the way for projects that reinforce core governance activities in project management, public finance management, deconcentration and decentralization, and ADB's GACAP II.

172. **Actions that ensure progress and continuity of public sector reforms.** A thematic evaluation acknowledged that a long-term but necessary purview of public sector reforms may be pursued for optimum impact.[123] MARS reports that actions taken by Management have secured the continuity and progress of reform initiatives in the Pacific DMCs. These included: (i) stocktaking and assessment of the current state of reform progress and stakeholder support as basis for further support; and (ii) a mix of program, project, and TA operations that are harmonized with other development partners and in line with ADB areas of comparative institutional advantage.

173. **Actions that ensure responsiveness to reform needs.** Thematic evaluations have emphasized the need for allocating enough financial and human resources to strengthen ADB's responsiveness to DMCs' reform needs. However, because of competing priorities for limited resources Management has been constrained to implement actions to strengthen private equity fund operations.[124] Management also preferred to deal with justice reform demands on a case-to-case basis, even though a thematic evaluation proposed that ADB take an informed strategic view of justice reform requirements by DMCs. The decision meant losing the opportunity to proactively respond to the DMC demands for justice reforms.[125]

174. **Actions that strengthen financial-crisis response mechanisms.** Findings from a thematic evaluation stressed the need to build and strengthen the resilience of sector operations to regional financial shocks and crises.[126] Management positively responded by (i) establishing a crisis-response window for ADF-eligible DMCs to provide assistance at suitable cost and tenor, (ii) mainstreaming the Countercyclical Support Facility as a flexible crisis-response lending instrument to help ADB respond to future financial crises, and (iii) strengthening macroeconomic and financial sector surveillance and surveillance capacity development to help DMCs better prepare for and manage future crises.

[122] IED. 2009. *CAPE: Cambodia: Growth and Sector Reform*. Manila: ADB.
[123] IED. 2009. *SES: ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila: ADB.
[124] IED. 2008. *SES: Private Equity Fund Operations*. Manila: ADB.
[125] IED. 2009. *SES: ADB Technical Assistance for Justice Reform in Developing Member Countries*. Manila: ADB.
[126] IED. 2011. *SES: Asian Development Bank's Response to the Global Economic Crisis of 2008–2009*. Manila: ADB.

### 3. Education and Health

**Actions call for a more strategic results orientation**

175. Actions taken on recommendations in education and health call for a more strategic results orientation and complementarity or convergence of initiatives within and between different sectors.

176. **Actions that help focus strategic operations.** IED country and sector evaluations have stressed the need for ADB to clearly define and harmonize targets in education and health results frameworks that link ADB's and other development partners' priorities to government priorities and strategies.[127] MARS reports that Management actions to refine the results framework, including partnership and implementation arrangements in Bangladesh, will likely contribute to more effective implementation of future programs. MARS also reports that Management actions to facilitate the inclusion of health sector targets in the Greater Mekong Subregion Regional Cooperation Strategy and Program have paved the way for continued health sector operations in the GMS.

177. **Actions that avail of synergies for optimal use of resources.** IED evaluations have indicated that complementarity and convergence of initiatives within and between sectors make the achievement of desired development outcomes more likely.[128] MARS reports that results in Bangladesh and Cambodia in this area are slow to materialize because of the time needed to harmonize the nature of support, timing, and collaboration or cofinancing arrangements between the major development players.[129]

### 4. Agriculture

178. **Actions that show the path toward sustainable sector growth.** IED sector evaluations for Nepal and Cambodia have stressed the need for rural infrastructure and credit investments so as to enhance the strategic focus and impact of agriculture operations.[130] MARS reports that Management has incorporated an investment program into the Nepal CPS 2010–2012 that provides greater focus on rural infrastructure, including rural roads, community-based irrigation, and agricultural marketing infrastructure. The program, which highlights the importance of connecting the dots between growth, inclusiveness, and capacity, also coordinates with and complements support by other development partners. To enhance access to rural credit in Cambodia, Management has outlined in a proposed program the plan to support access to credit by farmers, cooperatives, and processors within the rice value chain, including crop insurance.[131]

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[127] IED. 2008. *SAPE: Education Sector in Bangladesh: What Worked Well and Why under the Sector-Wide Approach?* Manila: ADB; IED. 2008. *Regional CAPE: Greater Mekong Subregion: Maturing and Moving Forward*. Manila: ADB.

[128] IED. 2008. *SAPE: Education Sector in Bangladesh: What Worked Well and Why under the Sector-Wide Approach?* Manila: ADB; IED. 2009. *CAPE: Cambodia: Growth and Sector Reform*. Manila: ADB.

[129] The South Asia Department has clarified that harmonization in the education sector has improved under sector-wide approaches. A similar approach is evolving in secondary education and in skills development. However, it seems not easy to harmonize the education sector with other sectors, although there are possibilities of synergy with water, sanitation, and health (school health).

[130] IED. 2009. *SAPE: Agriculture and Natural Resources Sector in Nepal*. Manila: ADB.

[131] IED. 2009. *SAPE: Agriculture and Rural Development Sector in Cambodia*. Manila: ADB.

## C. Recommendations Not Agreed and Actions Not Implemented

179. **Recommendations not accepted by Management.** By the end of 2012, Management had agreed to all but seven recommendations. During 2009–2010 it disagreed with five recommendations, but agreed with all in 2011. The reasons for disagreement were previously discussed in the 2012 AER. Management did not agree to another two recommendations in 2012. One was about strengthening the management and operational procedures of the Afghanistan Infrastructure Trust Fund and the resident mission in Kabul to play a more engaged role in supporting the Afghanistan program, the other about conducting facility-wide midterm reviews of ongoing MFF programs and formal reviews at any time deemed appropriate. Management responded that the first recommendation had issues regarding its validity and appropriateness with respect to country context; and the second was deemed redundant given existing procedures.

Management had agreed to all but seven recommendations

180. **Accepted recommendations not implemented at due date.** At the same time, Management had reported progress on all but three recommendations. From 2009−2012, actions on two recommendations from a thematic evaluation on private equity fund operations were not implemented because Management did not provide the requested resources. A third recommendation from a sector assistance evaluation on urban sector and water supply and sanitation in Bangladesh—i.e., to review complementarity of assistance channeled through the Local Government Engineering Department with the Bangladesh Municipal Development Fund mandate, and compatibility of the financing conditions of the urban infrastructure to be provided—was judged not implemented because not enough progress was reported on the planned action.

## D. Contributing to Learning and Accountability

181. As demonstrated by Management compliance through MARS, ADB's response to independent evaluation has been encouraging over 2009–2012. IED's indicators on the use of recommendations show robust acceptance and a reasonable level of implementation thereafter.[132] However, for the MARS process to become a significant contributor to an effective evaluation feedback loop, there are still hurdles to clear (Box 10). An IED review of completed actions on recommendations due in 2012 showed that while the tracking process itself is fundamentally sound, there are specific operational issues (Appendix 3, Linked Document F). Some lessons from the evolution of MARS are emphasized in Box 11 below.

For the MARS process to become a significant contributor to an effective evaluation feedback loop, there are still hurdles to clear

[132] The Review of the Development Effectiveness of the Asian Development Bank (2006–2010) prepared by the Canadian International Development Agency concluded that ADB has effective evaluation systems and their results are consistently used to improve effectiveness, notwithstanding important weaknesses in local systems for results-based management and monitoring.

**Box 11: Learning from the Management Action Record System (MARS) Experience**

Independent Evaluation Department's (IED) operational experience offers some lessons for the continuing evolution of MARS:

1. **Operationalizing the recommendation.** IED must link its recommendations with the underlying factors analyzed in in the main text, so that their subsequent implementation would remain closely tied to the underlying rationale. Some evaluation reports are already doing so by indicating relevant paragraph numbers from which the recommendation stems. Some evaluations elaborate steps to illustrate what could be undertaken to operationalize a recommendation.
2. **Generalizing the recommendation.** IED assumes that recommendations for a specific sector or thematic issue can sometimes be also applied to other sectors or themes, with some modifications. Management should consider generalizing the recommendation, where appropriate, when formulating its response and adjust the action plan accordingly. Depending on the prevalence of the issue, actions for some country or sector can be generalized to usefully apply also to other countries or sectors. Management's response should therefore preferably clarify the extent to which its acceptance of a country-, theme-, or sector-specific recommendation might be applicable to a larger set of countries, themes, or sectors.
3. **Assuring the quality of the action plan.** Operations departments need to prepare the action plan in full, with all necessary details (such as inherent implementation realities that could affect planned actions), and also explain how Management ensures that it will be carried out.
4. **Reporting the progress.** The reported progress needs to relate to the action plans more coherently while also retaining links with the underlying rationale.
5. **Validating the progress.** Caution is needed. Some actions taken and satisfactory progress claimed are difficult to validate by IED because they may require a field visit or a separate study. For example, MARS reported progress in improving design and monitoring frameworks, baseline data, and monitoring and reporting systems. IED finds this difficult to validate without an independent study.

Source: Independent Evaluation Department.

182. **Formulating the recommendations.** While IED recommendations are usually specific to the particular subject of the evaluation study, these often have applicability to a larger number of potential cases, either in other countries or other sectors or themes. It is this feature of wider applicability that is of interest from the point of view of institution building, although the specific recommendation may be valuable as such for its contribution to solving a specific problem. Indeed, evaluation has greater value when its recommendations are recognized as having wider applicability to future situations and other circumstances.

Conditionality is not readily apparent in MARS

183. **Receiving Management's commitment.** An ADB Management that accepts and contextualizes IED recommendations makes a valuable step in the introduction of new practices. IED observed that Management's comments on its recommendations (often saying "Management agrees but…") provides useful insights about how it articulates the context of these recommendations and links them with an ADB-wide perspective and ongoing activities in a specific sector or country. Some practical matters here relate to the recommendation and its management response. First, Management rightly provides conditional agreement to several recommendations. However, this conditionality is not readily apparent in MARS, which simply records whether management has agreed or not. Second, how relevant are the response reports on

actions already taken if these actions are comprehensive. It also needs to be followed by acknowledging what more needs to be done (as it sometimes does).

184. Third, there are reports that are not subject to a Management response or public disclosure as to ADB views on validation. In such cases, their recommendations are not being tracked by MARS and must be followed up in different ways (e.g., CPSFR validation reports of which the recommendations feed into new CPSs). ADB Management will need to look carefully into the types of studies that it wants to respond to. This it should determine even in the absence of a particular IED request for it. (The new Operations Manual section on independent evaluation will require IED to request management responses for all evaluations including CPSFR validations.)

185. **Ensuring an appropriate action plan.** Action plans on recommendations need to name some specific activity that should be taken in response to the recommendations. IED's review of 2012 actions found that, while management responses are positive, constructive, and helpful in determining the scope of actions, often the reported actions are already ongoing activities or activities that had been identified earlier as being in the pipeline.[133]

186. This observation can mean two things: (i) the recommendation was not appropriate, as Management was already doing what IED recommended; or (ii) Management is not taking the right (additional) action. IED cannot judge the former option well and may look further into this in a future review. But the second option does seem to apply at least in some cases. In several action plans, the link with the diagnostic analyses in the IED study may not be clearly articulated. For instance, one cannot also tell if the main thrust of the action was ADB-wide or if it pertained to one specific department. When action plans are also developed in the form of a set of varied actions, the link to the diagnosis and recommendation may not be apparent. Furthermore, in cases where the stated actions refer to future approvals of operations for dealing with a recommendation, it is not clear whether it is a substantive action or not, focusing as it does on inputs rather than outcomes to be achieved.

187. **Reporting on progress and validation.** Annual reporting by Management about actions undertaken or progress registered toward meeting the objectives of recommendation often, and understandably, follows a similar pattern to that of the formulation of the action plans themselves. The lack of connection with the background of the recommendation and the Management response makes the progress report difficult to read, understand, and validate. Those in operations reporting in MARS seldom refer to lack of progress, if for some reason the implementation had run into some difficulty, and do not generally provide analysis of what the obstacles may have been.

**Those reporting in MARS do not generally provide analysis of obstacles**

[133] It should be noted that Management has an agreement with IED that the latter will not be consulted or taken into account when formulating the actions.

# Appendixes

# APPENDIX 1. IED REPORTS COMPLETED IN 2012[a]

**Table A1.1: Evaluation Studies**

| Type/Title | Approval Date |
|---|---|
| **A. Special Evaluation Study (5)** | |
| 1. Microfinance Development Strategy 2000: Sector Performance and Client Welfare | 06- Sep-12 |
| 2. ADB's Response to Natural Disasters and Disaster Risks | 09-Oct-12 |
| 3. Asian Development Bank: Social Protection Strategy | 26-Oct-12 |
| 4. Knowledge Products and Services: Building a Stronger Knowledge Institution | 14-Nov-12 |
| 5. Real-time Evaluation Study of Multitranche Financing Facility | 21-Dec-12 |
| **B. Country Assistance Program Evaluation (2)** | |
| 1. Kyrgyz Republic: Evolving Transition to a Market Economy | 13-Aug-12 |
| 2. Afghanistan | 17-Oct-12 |
| **C. Country Partnership Strategy Final Review Validation (2)** | |
| 1. Azerbaijan: Validation of the Final Review of Country Operations 2000–2011 | 26-Oct-12 |
| 2. Armenia: Validation of the Final Review of Country Operations 2006–2011 | 12-Nov-12 |
| **D. Sector Assistance Program Evaluation (1)** | |
| 1. The Asian Development Bank's Support for the Transport Sector in Sri Lanka | 24-Apr-12 |
| **E. Impact Evaluation Study (1)** | |
| 1. Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project | 27-Dec-12 |
| **F. Evaluation Knowledge Study (1)** | |
| 1. Support for Agricultural Value Chain Development | 22-Oct-12 |
| **G. Project/Program Performance Evaluation Report (7)** | |
| **1. Sovereign Operations (5)** | |
| i. PAK: Sindh Devolved Social Services Program | 29-Jun-12 |
| ii. PAK: Punjab Devolved Social Services Program | 20-Sep-12 |
| iii. RMI: Skills Training and Vocational Education Project | 12-Dec-12 |
| iv. NEP: Kali Gandaki "A" Hydroelectric Project | 27-Dec-12 |
| v. PHI: Microfinance Development Program | 27-Dec-12 |
| **2. Nonsovereign Operations (2)** | |
| i. PRC: Bank of China Ltd. | 11-Dec-12 |
| ii. SRI: AES Kelanitissa Power Project | 12-Dec-12 |
| **H. Annual Report (1)** | |
| 1. 2012 Annual Evaluation Review | 29-May-12 |

ADB = Asian Development Bank, NEP = Nepal, PAK = Pakistan, PCR = project/program completion report, PHI = Philippines, PRC = People's Republic of China, RMI= Republic of the Marshall Islands, SRI = Sri Lanka.

[a] All evaluation reports are available at www.adb.org/site/evaluation/resources.

Source: Independent Evaluation Department database.

**Table A1.2: Validation Reports**

| Loan/Grant No. Country | Project Name | PCR Circulation Year |
|---|---|---|
| **A. Project Completion Report Validation Reports for Sovereign Operations** | | |
| 1548 MON | Ulaanbaatar Heat Efficiency Project | 2008 |
| 1583 INO | Rural Income Generation Project | 2008 |
| 1663/1664/1665 PHI | Metro Manila Air Quality Improvement Sector Development Program | 2008 |
| 1706 PNG | Employment-Oriented Skills Development Project | 2008 |
| 1725/2013 CAM | Provincial Towns Improvement Project | 2008 |
| 1794 CAM | Provincial Power Supply Project | 2008 |
| 1953 CAM | Commune Council Development Project | 2008 |
| 2228 INO | Development Policy Support Program | 2008 |
| 1667 PHI | Agrarian Reform Communities Project | 2009 |
| 1718 VIE | Teacher Training Project | 2009 |
| 1750/1751 PHI | Technical Education and Skills Development Project and Fund for Technical Education and Skills Development | 2009 |
| 1753 CAM | Stung Chinit Irrigation and Rural Infrastructure Project | 2009 |
| 1814 PRC | West Henan Agriculture Development Project | 2009 |
| 1864/1865 CAM | Education Sector Development Program | 2009 |
| 1928 PAK | Punjab Road Development Sector Project | 2009 |
| 1972/1973 VIE | Agriculture Sector Development Program | 2009 |
| 1978 INO | Small and Medium Enterprise Export Development Project | 2009 |
| 1997 AFG | Emergency Infrastructure Rehabilitation and Reconstruction Project | 2009 |
| 2095/2284 VIE | Small and Medium-Sized Enterprise Development Program (Subprograms I and II) | 2009 |
| 2158 FIJ | Alternative Livelihoods Development Project | 2009 |
| 2160/G0001 MLD | Tsunami Emergency Assistance Project | 2009 |
| 2305/2394 INO | Second and Third Development Policy Support Programs | 2009 |
| 2221 INO | Rural Infrastructure Support Project | 2010 |
| 2126 INO | State Audit Reform Sector Development Program | 2010 |
| 1883 VIE | Central Regional Livelihood Improvement Project | 2010 |
| 1770 INO | Marine and Coastal Resources Management Project | 2010 |
| 1932/2118 VIE | Second Financial Sector Program Loan Cluster-Subprograms 1 and 2 | 2010 |
| 2282 PHI | Power Sector Development Program | 2010 |
| 1952 BAN | Rural Infrastructure Improvement Project | 2010 |
| 1812 PNG | Provincial Towns Water Supply and Sanitation Project | 2010 |
| 2140 AFG | Andkhoy-Qaisar Road Project | 2010 |
| 1767 SRI | Protected Area Management and Wildlife Conservation Project | 2010 |
| 1985 PRC | Hebei Province Wastewater Management Project | 2010 |
| 2222 VIE | Greater Mekong Subregion: Kunming-Haiphong Transport Corridor – Noi Bai-Lao Cai Highway Technical Assistance Project | 2010 |
| 1755 NEP | Small Towns Water Supply and Sanitation Sector Project | 2010 |
| 1849 SRI | Southern Province Rural Economic Advancement Project | 2010 |
| 1924 PRC | Efficient Utilization of Agricultural Wastes Project | 2010 |
| 1873/1874 FSM | Private Sector Development Program | 2010 |
| 1745/1746 PHI | Pasig River Environmental Management and Rehabilitation Sector Development Program | 2010 |
| 2054 TAJ | Health Sector Reform Project | 2010 |
| 1842 UZB | Urban Water Supply Project | 2010 |
| 2529/2530 ARM | Crisis Recovery Support Program | 2010 |
| 1771 BAN | Chittagong Hill Tracts Rural Development Project | 2010 |
| 2531/2532 GEO | Growth Recovery Support Program | 2010 |
| 1989 LAO | Greater Mekong Subregion: Northern Economic Corridor Project | 2010 |
| 1811 NEP | Corporate and Financial Governance Project | 2010 |
| 1146 PAK | Chasma Right Bank Irrigation Project (Stage III) | 2010 |
| 1716 SRI | Coastal Resource Management Project | 2010 |
| 1736 MON | Cadastral Survey and Land Registration Project | 2010 |
| 1787 PAK | North-West Frontier Province Barani Area Development (Phase 2) | 2010 |
| 1835 PRC | Yellow River Flood Management (Sector) Project | 2010 |
| 2093 UZB | Second Textbook Development Project | 2010 |
| 1836/1837 MON | Social Security Sector Development Program | 2010 |
| 2543 KAZ | Kazakhstan Countercyclical Support Loan | 2010 |

| Loan/Grant No. Country | Project Name | PCR Circulation Year |
|---|---|---|
| 2105 AFG | Regional Airports Rehabilitation Project (Phase I) | 2011 |
| 1963 UZB | Small and Microfinance Development Project | 2011 |
| 2097 NEP | Subregional Transport Facilitation Project | 2011 |
| 2094 PRC | Guangxi Roads Development II Project | 2011 |
| 1880 VIE | Third Provincial Towns Water Supply and Sanitation Project | 2011 |
| 2127 INO | State Audit Reform Sector Development Program (Project) | 2011 |
| 1840 NEP | Teacher Education Project | 2011 |
| 1768 PNG | Microfinance and Employment Project | 2011 |
| 2005 LAO | Northern Area Rural Power Distribution Project | 2011 |
| 2063 PHI | Development of Poor Urban Communities Sector Project | 2011 |
| 0002-SF INO | Earthquake and Tsunami Emergency Support Project | 2011 |
| 2024 PRC | Xi'an Urban Transport Project | 2012 |
| **B. Extended Annual Review Report Validation Reports for Nonsovereign Operations** | | |
| 7101 Regional | Asian Infrastructure Fund | 2009 |
| 7199 AFG | Afghanistan International Bank | 2010 |
| 2255/7244 PRC | Municipal Gas Infrastructure Development Project | 2010 |
| 7105 IND | Sara Fund | 2010 |
| 7240 PRC | Bank of Hangzhou | 2011 |

AFG = Afghanistan, ARM = Armenia, BAN = Bangladesh, CAM = Cambodia, FIJ = Fiji, FSM = Federated States of Micronesia, GEO = Georgia, IND = India, INO = Indonesia, KAZ = Kazakhstan, LAO = Lao People's Democratic Republic, MLD = Maldives, MON = Mongolia, NEP = Nepal, PAK = Pakistan, PHI = Philippines, PNG = Papua New Guinea, PRC = People's Republic of China, SF = special funds, SRI = Sri Lanka, TAJ = Tajikistan, UZB = Uzbekistan, VIE = Viet Nam.

# APPENDIX 2. RECOMMENDATIONS FROM KEY EVALUATIONS CONDUCTED IN 2012 AND MANAGEMENT RESPONSES

### TABLE A2. SUMMARY OF ENTRIES MADE IN THE MANAGEMENT ACTION RECORD SYSTEM FOR SPECIAL EVALUATION AND IMPACT EVALUATION STUDIES

| No | Report Title/ Recommendation | Management Response |
|---|---|---|
| Recommendations Accepted or Agreed to by Management | | |
| | Special Evaluation Study (SES) on ADB's Response to Natural Disasters and Disaster Risks | |
| 1 | Country strategies for developing member countries subject to risk of natural disasters **need to include a natural disaster vulnerability assessment, and the risks need to be appropriately addressed by the investment programs planned**. This is important to ensure attention to natural disaster risks, and the mainstreaming of the consideration of such risks into ADB operations. | **While Management agrees with the importance of placing strategic priority on risk assessment and embedding it into ADB operations, it has some reservation on detailed approach.** ADB is refining its risk screening tool so that it allows rapid initial risk screening at the project concept paper phase. The focus on projects meets a primary requirement of disaster risk reduction for managing hazards at the local level while also facilitating a "ground-up" risk assessment. ADB considers this approach more appropriate in terms of efficiency and effectiveness. |
| 2 | ADB needs to **apply an integrated approach to its disaster recovery operations that goes beyond infrastructure restoration**. The current primary focus on infrastructure restoration needs to be complemented by activities directed at livelihood restoration and improved resilience of both infrastructure and economic activity. ADB needs to ensure that the recovery investments sponsored by itself or by its partners are well targeted to the most vulnerable people. Sufficient time for implementation needs to be taken as well, and this becomes more important as livelihood restoration issues are taken on board. ADB's operations related to disaster prevention and preparedness need to make sure they are sustainable. | **Management agrees with the overall direction of the recommendation, but emphasizes the need for infrastructure restoration.** ADB notes the importance of adopting an integrated approach in post-disaster recovery operations and working in partnership with development partners. ADB is better placed, and more often requested by host governments to focus on rehabilitation and reconstruction of infrastructure (e.g., roads and school buildings). In some cases, it has also implemented projects in sectors including livelihood rehabilitation. **An integrated partnership-based and case-by-case approach has helped ADB avoid spreading resources too thinly and making operations too complex**. |
| 3 | ADB needs to **coordinate more regularly with other development partners, take more of a leading role in countries where it does a lot, and undertake more technical assistance (TA) jointly**. ADB has a comparative advantage, along with other multilateral development banks, in conducting policy dialogue. ADB could identify gaps in national disaster policies and activities more proactively through both internal coordination and aid harmonization, and be prepared to take more of a leadership role where needed. ADB could also enhance its information-sharing, which would lead to more tangible prevention investments with outside bodies. | **Partnership is identified as one of the key drivers of change under Strategy 2020**. ADB has developed many productive partnerships to manage disaster risk. **As part of its aid coordination efforts to maximize development effectiveness, ADB focuses on areas of its comparative advantage.** This is well demonstrated in its various disaster risk reduction projects. |
| 4 | ADB needs to **integrate climate change and natural disaster activities, and to improve capacity in both areas**. Currently resources are concentrated with the climate change teams. Floods and earthquakes are common in the Asia-Pacific region, but the regional departments are not able to invest sufficient resources in natural disaster risk assessments. TA related to early warning systems, financing options, and climate variability could be fed more systematically into the design, preparation, and implementation of prevention investment projects. Additional expertise may be required in such areas as profiling natural disaster vulnerability zones and disaster aftermaths, and disaster risk financing. | **While some efforts have been initiated on this front** with good examples including the strengthening of the early warning system in Bangladesh, and various interventions in Pacific developing member countries (DMCs), **more needs to be done to integrate climate change and disaster risk management activities, and to improve capacity in these areas**. Equally important is to strengthen the linkage of climate change adaptation and disaster risk management initiatives with lending programs. ADB intends to review how this can be best undertaken. |

| | | |
|---|---|---|
| 5 | ADB should **undertake a review of risk finance models and products developed by other disaster risk financing institutions**. One area in which multilateral development banks, including ADB, have a role to play is to discuss and evaluate with DMCs various risk estimates conducted by insurance industries and think tanks. ADB can play the role of mediator and catalyst to create various risk finance options in DMCs. For this to happen, effective cooperation among Regional and Sustainable Development Department (RSDD), the regional departments, and the Private Sector Operations Department is needed. | **Work on disaster risk financing has been initiated in DMCs in Southeast Asia, but much more needs to be done.** Some initiatives are underway to develop customized disaster risk financing solutions to climate-related disaster risks for Viet Nam, and to support private sector participation in a financially sustainable earthquake insurance pool for middle class residential and mid-sized enterprise property owners in the Philippines. ADB is currently in discussion with the Japan Ministry of Finance to develop a joint program with the World Bank on disaster risk finance and insurance for Association of Southeast Asian Nations countries. |
| 6 | **ADB's 2008 Action Plan** listed appropriate actions to be taken but **needs to be updated and refined**. It also **needs to be followed up with an annual progress report** to feed appropriate Management decisions, and made available for information to the Board, and published in ADB's website. | The **actions listed in ADB's 2008 Action Plan are scheduled to be updated, and an appropriate timetable is soon to be prepared**. The update will take into consideration the Independent Evaluation Department recommendations. |
| | **SES on Microfinance Development Strategy 2000: Sector Performance and Client Welfare** | |
| 7 | **Target poor and low-income households using** (a) **deliberate and innovative approaches** that deepen outreach (i.e., technology-based solutions supporting development of more innovative products and services), (b) **close monitoring of beneficiaries' poverty levels** (i.e., standardized sector financial and social performance indicators for mandatory reporting on all microfinance projects), and (c) **the empowerment of women** (i.e., projects should have gender-inclusive design features and should be explicit on gender equality and empowerment issues). | **Management agrees with the need to explore innovative approaches.** ADB also needs to improve the understanding of the nexus between microfinance development and poverty reduction. Management notes that ADB operations on microfinance−poverty linkage need not be limited to targeting the very poor. It also notes that targeting and monitoring take time and resources and call for buy-in and cooperation at various levels. Providing adequate capacity to the ultra-poor and poor also calls for public and private sector support. **As to adopting standardized performance indicators, the Financial Sector Development Community of Practice (FSD CoP) will work with concerned departments to determine a list of core metrics and their application**. |
| 8 | **Focus on client needs and demand to make microfinance more beneficial for the borrowers.** ADB support has concentrated on addressing supply-side constraints. With the commercialization of microfinance, advancements in technology, and concerns about indebtedness, more attention should be given to protecting clients from harmful practices and unfair treatment, and to strengthen their capacity to access and use financial services. Greater focus on clients is needed, particularly in financial literacy, consumer protection, and improving access to financial services through safe and sound approaches. Support is also provided for the use of modern technology in advancing financial inclusion. | Management notes that the microfinance industry has been evolving rapidly. The priorities placed on financial literacy and consumer protection have emerged recently, which ADB policy as well as lending operations have embraced. The roles of the public and private sectors have evolved as well. Improved coordination and division of labor among development partners have resulted in clear roles in specific areas (e.g., credit bureau work by the International Finance Corporation; policy reforms and risk mitigation by ADB). **ADB operations will aim to place greater focus on clients, particularly in financial literacy, consumer protection, and safe and sound approaches to have improved access to financial services**. |
| 9 | **When the policy environment is in place, support market infrastructure development to ensure a strong and sustainable expansion of microfinance operations.** Support in this area could include developing information infrastructure that promotes transparency in transactions and institutional performance, development of payment systems, support to networks, training and technical assistance providers, use of social performance ratings, and building an appropriate financial market for microfinance wholesales and private sector participation. | **Management accepts the premise but wishes to note that institutional deficiency is not a problem limited to microfinance.** Management believes that institutional issues can be better addressed by a broader approach to financial sector development, as the role and scope of microfinance will vary depending on the role of the existing "mainstream" financial system in a country. Management notes that ADB plans to structure operations to meet country-specific needs with reference to the areas noted, in coordination with its development partners. |

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| 10 | Refine the Microfinance Development Strategy (MDS) to align it with the direction of ADB's Financial Sector Operation Plan 2011 and to account for recent developments and opportunities. ADB support should focus on sector effectiveness and embrace staff efforts to put priority on results. ADB **needs to strengthen its efforts toward financial inclusion with more focus on the demand side. Particular areas for MDS refinement include work on** (i) **financial infrastructure**; (ii) **delivery mechanisms and products** to increase use of technologies, expand insurance for the poor, promote savings, strengthen enterprise finance via innovations, focus on rural and low-access areas, and expand financial inclusion for women; (iii) **strengthening financial practices of service providers and consumer protection**; and (iv) **data and measurement**. | **ADB is already working on many of the suggested areas.** One example is expanding insurance for the poor through micro-insurance schemes and products. Delivery improvements are being targeted in a few countries. FSD CoP will consult with the Strategy and Policy Department and other concerned departments on the best approach to follow-up on the findings and recommendations of this Special Evaluation Study. |
| | **SES on ADB Social Protection Strategy 2001**[a] | |
| 11 | ADB needs to **make stronger connections between social protection and its core areas of investment to help scale up its presence and experience in building social protection systems**. Social protection is underdeveloped in most DMCs; there is enormous need for and potentially high returns in poverty reduction, human capital development, and the achievement of inclusive growth. | **ADB is already moving into this direction**. Box 3 in the SES highlighted the multi-sectoral nature of social protection. The draft Social Protection Operational Plan gives prominent attention to the links between social protection and ADB's core operational areas. The education sector is a particularly promising area for supporting social protection. Connections could be strengthened by placing greater emphasis on labor-intensive solutions for infrastructure projects. In doing so, we would need to consider the trade-offs among efficiency, cost-effectiveness, and social benefits of increased employment opportunities. |
| 12 | ADB needs to **work in partnership with other agencies and pursue cofinancing opportunities**. This approach has the advantage of allowing ADB **to be responsive to government interests in new social protection approaches, as well as being an efficient way for ADB to gain operational experience in cutting-edge areas of social protection**. | As in other areas of ADB's work, Management believes that developing **strong partnerships with other agencies and pursuing cofinancing opportunities** are extremely important. In social protection, **ADB interacts very closely with development agencies and knowledge leaders** active in developing Asia Pacific. |
| 13 | **Sustained engagement in policy dialogue in non-crisis years is critical to building demand for social protection beyond ADB crisis support**. Political support in-country is usually highest for social protection during and immediately after crises, and sustained dialogue can identify opportunities for further support in non-crisis years. | Social protection is among the topics of ADB's dialogue with many DMC governments. Although **ADB support to DMCs for social protection does indeed go up in times of crisis, discussion of social protection is an ongoing process** that also takes place during non-crisis periods. |
| 14 | **Social protection needs to be featured in country partnership strategies and in policy dialogue as part of macroeconomic and fiscal reforms and the inclusive growth agenda**. ADB resident missions need to participate in social protection coordination activities at the country level to increase ADB's visibility in social protection, sustain dialogue, and pursue opportunities for cofinancing combined with other external support. | Management notes that **priority should be on countries where there is strong demand from government, and where ADB's potential contribution would complement** the related efforts of **other development agencies**. |
| 15 | **ADB can add value by conducting impact evaluation of social protection interventions** in Asia and the Pacific to strengthen the relatively weak evidence base in the region. Building the evidence base will be critical for convincing DMCs to invest in social protection and for demonstrating ADB's effectiveness in achieving inclusive growth over the coming decade. | **Impact evaluation** in general **is receiving greater attention at ADB, and** has been **incorporated into several projects across all regional departments**. Some regional departments are also exploring how rigorously controlled trial results used for evaluating the model for improving the livelihoods of very low-income people in Bangladesh could be replicated elsewhere. |
| 16 | ADB needs to **increase its social protection capacity by training existing staff and/or hiring new social protection specialists**. Another option is to appoint a social protection practice leader, who could give direction to the ADB-wide implementation of social protection. | Management notes that **the number of staff working on social protection is underestimated**. In recent years, social protection projects have been implemented by economists and financial sector specialists, among others. ADB is making a greater effort to increase the number of international staff with social protection knowledge and skills. Further, the Social Development and Poverty CoP has initiated a staff training program on social protection with the Budget, Personnel, and Management Systems Department and RSDD's Knowledge Sharing and Services Center (KSSC). |

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| 17 | **Research on social protection can be continued but with a sharper focus on addressing country-level social protection knowledge gaps**. A good example of ADB's prior investment in this area is the Social Protection Index (SPI). | The updated SPI examines the breadth, depth, and adequacy of social protection in 30 DMCs. **Results of the latest SPI update will provide useful insights for the preparation of country partnership strategies, and contributing to country performance assessments for Asian Development Fund resource allocation**. |
| | **SES on Knowledge Product Services: Building a Stronger Knowledge Institution** | |
| 18 | Improve the incentive structures to better reward staff doing knowledge work, i.e., learning, and knowledge identification, generation, sharing, and use. **Create a culture that embraces knowledge work** through the endorsement of knowledge agenda and priorities at the highest level through a policy or a strategy. | At ADB, **both the operational departments and specialized knowledge units are knowledge centers within the organization**. Starting in 2013, all departments and offices will define a knowledge-related agenda/program in their unit-wide and relevant staff annual work plans. |
| 19 | **Improve enabling technologies, particularly for knowledge storage, retrieval, and sharing**. This could take the form of a direct knowledge hotline or help desk or more policy briefs with quick take-away messages. | Under the **draft Information Systems and Technology Strategy III, the Knowledge Solutions Program would codify ADB's explicit knowledge** including economic, sector, and thematic information, as well as enable collaboration platforms for free flow of ideas, both within ADB as well as with DMCs. |
| 20 | **Strengthen knowledge needs identification** by expanding successful approaches undertaken by regional departments, preparing country-specific knowledge plans, and coordinating effectively with key partners to avoid duplication of knowledge efforts. | ADB's **knowledge solutions must be client-led**. Under the new Action Plan, ADB's operations cycle in DMCs will be the principal context and basis for planning and implementing ADB's knowledge solutions. |
| 21 | **Strengthen knowledge sharing** by better capturing and sharing tacit knowledge across DMCs through South-South cooperation, and through increased use of social interaction processes, in particular through CoPs, training, and social media. | **Strengthening of knowledge sharing is the key mandate of the ADB KSSC**. The KSSC supports the operations departments and CoPs to distill and synthesize ADB’s explicit and tacit knowledge with knowledge solutions and other operations in the region as well as from development partners and other external sources. The KSSC also assists the operations departments to strengthen knowledge management in DMCs. |
| 22 | **Strengthen knowledge use through dissemination of KPS**, providing easy-to-access on-time information and using specific feedback mechanisms to gauge client satisfaction. | The ADB KSSC will help **develop an information and communications technology-based knowledge platform** for recording, storing, retrieving, and sharing knowledge within and outside ADB and co-create knowledge with external peers, including the preparation of ”knowledge briefs” on specific development topics. |
| 23 | Prepare a **knowledge management (KM) strategic directions document** building on ongoing work in this respect and incorporating the recommendations in the SES, and prioritize key areas of focus. Linked to this recommendation is the need for a medium-term KM action plan, addressing the gaps and constraints identified in this SES. | ADB is already well advanced on this recommendation. Under the KM Action Plan (2009–2011), ADB established a comparatively advanced architecture for evolving ADB's knowledge solutions. **Since 2012, ADB has been formulating a new KM Strategic Directions and Action Plan**. Management foresees ADB to work closely with DMCs to develop, implement, and evaluate knowledge solutions; to combine or relate ADB's knowledge solutions to its investment operations; and to build “signature” knowledge areas. |
| | **Real-time Evaluation Study of the Multitranche Financing Facility** | |
| 24 | **Apply the standards set by Operations Manual section (D14)** for the needed quality of multitranche financing facility (MFF) prerequisites for MFF investment programs. To facilitate, augment the existing peer review mechanism with (i) use of suitable MFF readiness filters for specific ADB regions or DMCs, and (ii) training of staff on the conduct of due diligence for institutional capacity as well as for enhancing understanding of various MFF prerequisites. | Management **agrees with the rigorous application of MFF prerequisites, but it disagrees with the recommendation to adopt and implement MFF readiness filters at the country/sector level**. It agrees to continually improve quality control procedures, including documentation, for all ADB products, including the MFF. It disagrees with specific MFF-related training and instead proposes that project-related training be strengthened and supplemented to strengthen skills in selecting and designing investments. |
| 25 | **Manage the use of flexibility during the MFF implementation period without compromising, or with the strengthening of the benefits of, the MFF modality**. Each department can have a focal person who guides other ADB staff to consistently and uniformly interpret guidelines that define minor and major tranche project change categorization, as well as ensure proper scrutiny of the MFF prerequisites. | Management **agrees with the general recommendation, but it disagrees with the recommendation to nominate department focal persons for the MFF to strengthen the peer review process and MFF quality**. Adding another layer to the review process seems redundant. |

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| 26 | **Regularly monitor MFF portions not converted to tranches, and take necessary steps that will help ensure prudent lending planning and financial projections**. It would be useful to devise criteria for their cancellation or discontinuation, or postponement of tranche approval. | **This is already being done**. MFF reviews form part of the country partnership strategy preparation process. The Annual Work Program and Budget Framework provides a process for planning and financial projections. Future MFF portions not converted to tranches are annually reported to the Board. Management welcomes the recommendation to devise criteria to cancel remaining MFF tranches. |
| 27 | **Ask for regular submission of necessary documentation from clients, and make all relevant documentation and data on implementation of an MFF immediately accessible within ADB**. The use of these databases can help obtain feedback for improving them further. | The recommendation is **not unique to MFFs**. Project-related documentation and project-related data management might, in general, need improvement. Management will conduct a review on the quality of project documentation (quality-at-entry review) and project-related data management/e-Star generally. |
| | **Impact Evaluation Study on Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project** | |
| 28 | The government can **help small farmers by making shallow tubewell irrigation accessible through a broad approach that address enabling conditions in the areas**. | ADB could help **address the policy issues related to shallow tubewell irrigation by assisting the government in preparing a unified groundwater irrigation policy following a consultative process**. The issue of subsidy is being examined under the Agriculture Development Strategy, which is currently under preparation by the government with support from 10 development partners led by ADB. |
| 29 | The government needs to **develop a unified groundwater irrigation policy that minimizes the burden of subsidy for shallow tubewell provision** on the exchequer. | |
| 30 | Towards increasing food production in a country and uplifting small farmers, ADB needs a **more comprehensive approach connecting the dots** (between food production, water and energy availability, marketing, and agribusiness) **and which steers away from a fragmented approach that addresses only one or two elements of the food-water-energy nexus**. | Management agrees but with some reservation. It notes that ADB's multisector food security engagement emphasizes the need for a multisector strategy, value addition, and partnership to address binding constraints to sustainable food security. On the other hand, it also notes the implications of a complex multi-sector project on effective implementation, and the distinctiveness of a multi-sector strategy between country, region, type of interventions, etc. Further, a practical limitation to financing a multisector project is that ADB's resource envelope is limited for any one country. Instead of financing complex multisector projects, ADB has had good results following a programmatic approach. Together with development partners, **ADB will prepare a comprehensive strategy and road map for the food-water-energy nexus that would be a basis for assistance and consider key factors influencing sustainable development and implementation on the ground**. Towards this end, ADB CoPs have discussed and are initiating pilot studies on the food-water-energy-climate nexus. |
| 31 | ADB should **collect, or support the government's collection of, good baseline data for projects so that solid impact evaluations can be conducted after their completion**. Valid counterfactual data prior to a development intervention make impact estimates stronger and more reliable. | ADB is currently **implementing a range of ADB-wide project preparatory and capacity development TA operations** for improved data collection, pilot impact evaluation studies, and assessments of operations. |
| | **Thematic Evaluation Study of ADB's Support for Achieving the Millennium Development Goals**[a] | |
| 32 | **Stretching the current priorities**. ADB has stressed its operations related to environmental sustainability. Continuing to **steer its main investments in transport and energy in this direction would increase ADB's role in environmental sustainability in the region**.<br>ADB may also wish to **consider reviewing the lower prioritization of key millennium development goal (MDG) targets for which need outstrips the current efforts of governments and development partners**. | Management **agrees but this should not stretch ADB's resources too thinly. ADB is already strengthening the links between its infrastructure investments and outcomes related to education, gender equality, health, and the environment**. ADB's new corporate results framework includes targets in basic infrastructure to provide access to roads, electricity, water, and sanitation as well as to improve the environment and address climate change. As to the suggested "review of the lower prioritization of key MDG targets", **the issue is not to lower prioritization of MDGs, but to assess the effectiveness of the specific approaches adopted by ADB** to support development outcomes in selected sectors during the mid-term review of Strategy 2020. |

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| 33 | **Achieving synergies**. To maximize synergies among goals, ADB could **consider balancing its so far more substantial support for income generation (although it is also declining) with non-income human development goals such as education and health**, also as this would develop the human capital base required for enhanced income goal progress. | Management **intends to provide greater demand-based support for education and health, particularly through the Work Program and Budget Framework (WPBF) for 2013–2015**. Through this WPBF, ADB will continue to retain sufficient flexibility in country partnership strategies' to provide support to the health sector. |
| 34 | **Building alliances.** Connectivity with the efforts of others is crucial to help bring about MDG outcomes. ADB should **review its strategy of developing partnerships to support noncore sectors to see whether these are providing sufficient support, especially where off-track or slow MDGs are concerned**. | Management agrees that partnerships (including private sector) on MDGs can be strengthened to leverage complementarities. As suggested, **Management will review strategies for partnerships on Strategy 2020's core and other areas of operations to increase their effectiveness** during the Strategy 2020's mid-term review. |
| 35 | **Confronting the lagging indicators.** Targeting lagging indicators in the region, such as **sanitation and carbon dioxide (CO2) emission**, would be in line with ADB's commitment to the MDGs and with Strategy 2020. | Indicators on carbon emissions and sanitation are already **well recognized in ADB's relevant operational plans and financing programs**. ADB will continue to **implement a focused approach targeting selected lagging indicators within the areas and sectors prioritized by Strategy 2020 for maximizing development impact.** |
| 36 | **Data and analysis.** The problem of data is substantial, with many DMCs not able to track their progress due to unavailability of data. **ADB can make a bigger effort in this area**. A second issue, particularly pertinent to the huge variation among Asian countries, is that **goal setting needs to consider different starting points**. ADB, through its knowledge agenda, could **bring this into the discussion of the post-2015 agenda and make resources available to define baseline data for countries, and assist country-led processes of nationalization of the MDG targets**. | Management **agrees with the need for better monitoring and tracking of the MDGs and related indicators**. While the MDGs have exponentially increased demands for data from DMC official statistical systems, not enough support has been forthcoming to support official systems. Efforts to fill this gap include: **(i) close collaboration with development partners; (ii) TAs to strengthen DMCs' national statistical capacity on areas relevant to MDGs; and (iii) collaboration with multilateral institutions on data issues and capacity development for monitoring and reporting of indicators and outcomes**. |
| 37 | **Project classification.** ADB needs to **ensure accurate application** of the Project Classification System **to facilitate better monitoring of MDG support and related outputs**. More verification of classifications made by project officers ought to be organized. Training could be given to ensure that officers understand the parameters when classifying a project as a targeted or general intervention. | Management **agrees with the recommendation**. The **Strategy and Policy Department has initiated a review of the project classification system in coordination with RSDD and other relevant departments**. The review and any recommended changes to the classification system would be evidence-based and forward-looking in anticipation of the post-2015 development framework. |
| 38 | **Setting a floor.** In line with the recently articulated ZEN Approach for the Post-2015 Framework, a **focus on the DMCs whose progress falls furthest below a minimum standard for basic goals could be warranted**. ADB may **consider using the allocation for noncore areas and more of its concessional ADF resources to support countries with the most need to achieve a minimum level for income, hunger, education, health, basic infrastructure, gender equality, and environmental protection**. This may **imply a different organizing principle for a portion of Asian Development Fund (ADF)**, based less on a country's poverty status, and more on lagging MDGs or post-2015 goals. | This **suggestion is duly noted**. ADB is deeply involved in the global discussions on the framework and will consider defining its approach and stance on the subject in coordination with other development partners. It notes that **country-level customization of the MDGs is already taking place, with countries in the region customizing MDGs by adding goals or raising standards** under existing goals through stronger targets and indicators known sometimes as MDG+ indicators. **Management, however, feels it is premature at this time to discuss changes to the organizing principles and financial allocations of the ADF in support of post-2015 until the new development framework itself becomes clear, there is agreement within ADB, and the ADF donors are taken on board**. |
| **Recommendation Not Accepted or Not Agreed to by Management** | | |
| | **Real-time Evaluation Study of the Multitranche Financing Facility** | |
| 39 | Conduct **facility-wide midterm reviews of ongoing MFF programs and formal reviews at any time deemed appropriate** to facilitate Management decision making. | **While this recommendation has appeal in principle, it is redundant with respect to MFFs**. During MFF tranche preparation, teams review the progress of the facility, which is reported to Management. |

ADB=Asian Development Bank, MARS = management action record system.

[a] These evaluation studies have no recommendations, but offered suggestions or proposed measures that Management accepted or agreed to and which are therefore tracked in the MARS. Although completed in 2013, major work on the Thematic Evaluation Study of ADB's Support for Achieving the MDGs was undertaken in 2012, and so is included in this table.

Source: Management Action Record System, available to ADB's Board and staff on ADB's internet website.

## APPENDIX 3. LINKED DOCUMENTS

### A. Performance of ADB Sovereign Operations

http://www.adb.org/sites/default/files/Performance-of-ADB-Sovereign-Operations.pdf

### B. Data on Staff Tenure from Project Completion Report Validations

http://www.adb.org/sites/default/files/Data-on-Staff-Tenure.pdf

### C. Project Completion Reports and Validations

http://www.adb.org/sites/default/files/Project-Completion-Reports-Validations.pdf

### D. Sustainability Ratings

http://www.adb.org/sites/default/files/Sustainability-Ratings.pdf

### E. Issues in Road Maintenance

http://www.adb.org/sites/default/files/Issues-Road-Maintenance.pdf

### F. Review of IED Recommendations and Management Actions

http://www.adb.org/sites/default/files/Review-IED-Recommendations-Management-Actions.pdf