2018

Annual Evaluation Review

The Quality of Project Design and Preparation for Efficiency and Sustainability

Independent Evaluation ADB

Raising development impact through evaluation

2018 Annual Evaluation Review

The Quality of Project Design and Preparation for Efficiency and Sustainability

March 2018

Distribution of this document is restricted until it has been discussed by the Board of Directors. Following such discussion, along with the Management's Response, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Reference Number: RPE:OTH 2018-03

Independent Evaluation ADB

Raising development impact through evaluation

NOTE

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

Director General	**Marvin Taylor-Dormond**, Independent Evaluation Department (IED)
Deputy Director General	**Véronique Salze-Lozac'h**, IED
Directors	**Walter Kolkma**, Thematic and Country Division, IED
	Nathan Subramaniam, Sector and Project Division, IED
Team leaders	**Farzana Ahmed**, Lead Evaluation Specialist, IED
	Jose Antonio Tan III, Advisor, IED
	Tomoo Ueda, Principal Evaluation Specialist, IED
Team members	**Mary Anne Chaneco**, Associate Knowledge Management Administrator, IED
	Ma. Juana Dimayuga, Senior Evaluation Officer, IED
	Noel Gamo, Senior Evaluation Officer, IED
	Lauren Hauck, Senior Evaluation Specialist, IED
	Renato Lumain, Senior Evaluation Officer, IED
	Hans van Rijn, Principal Evaluation Specialist, IED (until January 2018)
	Sergio Villena, Evaluation Officer, IED

The guidelines formally adopted by the Independent Evaluation Department on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of the Independent Evaluation Department, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AER	–	Annual Evaluation Review
CAPE	–	country assistance program evaluation
CPS	–	country partnership strategy
CPSFRV	–	validation of country partnership strategy final review
CWRD	–	Central and West Asia Department
DEC	–	Development Effectiveness Committee
DEfR	–	Development Effectiveness Review
DLI	–	disbursement-linked indicator
DMC	–	developing member country
DMF	–	design and monitoring framework
EBRD	–	European Bank for Reconstruction and Development
EIRR	–	economic internal rate of return
ESG	–	environmentally sustainable growth
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
IFC	–	International Finance Corporation
MARS	–	management action record system
MDB	–	multilateral development bank
MFF	–	multitranche financing facility
MIC	–	middle-income country
MTR	–	midterm review
OCR	–	ordinary capital resources
PBL	–	policy-based lending
PDA	–	project design advance
PPER	–	project or program performance evaluation report
PPP	–	public–private partnership
PPTA	–	project preparatory technical assistance
PRC	–	People's Republic of China
PSM	–	public sector management
PSOD	–	Private Sector Operations Department
PVR	–	validation of project completion report
RBL	–	results-based lending
RCI	–	regional cooperation and integration
RRP	–	report and recommendation of the President
SAPE	–	sector assistance program evaluation
SMEs	–	small and medium-sized enterprise
SPD	–	Strategy, Policy and Review Department
SPS	–	Safeguard Policy Statement
TA	–	technical assistance
WUS	–	water and other urban infrastructure and services


1

CONTENTS

ACKNOWLEDGMENTS

This report was prepared by team leaders Farzana Ahmed, lead evaluation specialist; Jose Antonio Tan III, advisor; and Tomoo Ueda, principal evaluation specialist in the Independent Evaluation Department (IED) under the guidance of Marvin Taylor-Dormond, director general; Véronique Salze-Lozac'h, deputy director general; and Walter Kolkma and Nathan Subramaniam, directors. Team members included Mary Anne Chaneco, Ma. Juana Dimayuga, Noel Gamo, Lauren Hauck, Renato Lumain, Hans van Rijn, and Sergio Villena. Other contributors included Glennie Castillo, Michael Diza, Ma. Catherine Malilay, Elizabeth Li-Mancenido, Valerie Anne Melo-Cabuang, Caren Joy Mongcopa, and Rachel Obfenda-Carreon.

The consultants engaged for the study were Liz Biglang-Awa, Asita de Silva, Maria Isabel Ferino, Alexis Arthur Garcia, Brenda Katon, Brahm Prakash, and Philip John Sayeg.

The peer reviewers were Aart C. Kraay, lead economist, Development Research Group, World Bank; Midori Makino, lead evaluation officer, Independent Evaluation Group, World Bank; and David Dole, senior capacity building and training economist, Asian Development Bank Institute.

Extensive comments were received from many departments and offices within ADB; these were considered and led to many improvements.

IED remains fully responsible for the report.

FOREWORD

Today, the Asian Development Bank finds itself at a crossroad in the development arena. The societal landscape of Asia and the Pacific is quickly evolving in line with the rapid pace of economic development, bringing with it new and more complex challenges: environmental degradation, food insecurity, and rapid urbanization, to name a few. As more countries attain middle-income status, their needs and approaches have become more sophisticated. New players providing development finance in the region have also emerged. All these pose challenges to ADB concerning its definition of priorities, strategic initiatives, and the way it operates. ADB is already responding to these critical challenges. Last year, it enhanced its financial capacity by combining the Asian Development Fund and ordinary capital resources. This year, ADB is expected to adopt a new corporate strategy. Taken together, these developments show how ADB is preparing itself to enter a new phase in the important development role it plays in Asia and the Pacific.

As ADB enters this new phase, the 2018 Annual Evaluation Review (AER) adds new perspectives to the development effectiveness discussion in two areas. First, it introduces a new section on ADB's development results by distilling key findings from its high-level evaluations to analyze changes that have taken place due to ADB's interventions, particularly achievements in the institution's strategic agendas, drivers of growth, and country programs. Focusing on the delivery of results elevates the development effectiveness discussion to a higher plane, complementing the traditional discussion on ADB's operational performance. In this respect, Independent Evaluation acknowledges ADB's successes in promoting environmentally sustainable growth, regional cooperation and integration, and gender mainstreaming. At the same time, we also recognize the greater expectations from middle-income developing member countries, and the untapped potential of knowledge partnerships and credit enhancement products.

Second, the theme chapter of the 2018 AER takes a deep dive into improving efficiency and sustainability, two performance criteria in which sovereign operations have consistently underperformed. Recognizing that quality-at-entry matters, the 2018 AER examines design and preparation factors and how they influence project efficiency and sustainability. Undoubtedly, there have been improvements in these factors which, in turn, have had a positive influence on efficiency and sustainability. We document actions and measures taken by Management in its recent institutional reforms that have contributed to these results. And while we find this progress commendable, we acknowledge that still more work is needed to achieve the goals ADB has set.

Independent Evaluation emphasizes that delivering results is a critical element in ADB existence. As ADB crafts its Strategy 2030 in the coming months, we hope the 2018 AER contributes to this effort by highlighting lessons and making suggestions on how to enhance institutional performance and results.

Marvin Taylor-Dormond
Director General
Independent Evaluation Department

THE EVALUATION IN BRIEF

2018 ANNUAL EVALUATION REVIEW

The **2018 Annual Evaluation Review** aims to deepen the discussion of development effectiveness in Asia and the Pacific.

The report consists of:

- Synthesis of performance and results of ADB operations
- Analysis of design and preparation factors influencing efficiency and sustainability
- Review of ADB's actions following evaluation recommendations

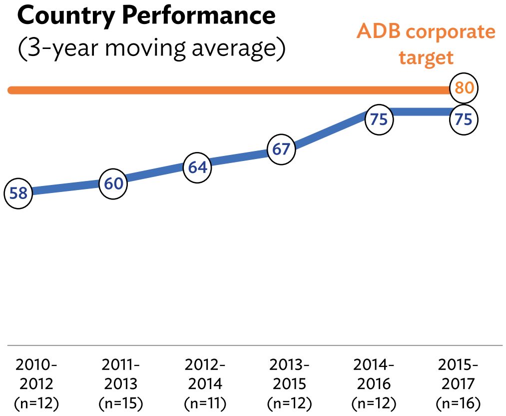
FEATURED THEME:

Quality of Project Design and Preparation for Efficiency and Sustainability

Evaluations have consistently found the efficiency and sustainability of ADB sovereign operations to be weaker than their relevance and effectiveness, with weak preparation and design of projects often seen as one of the main reasons. The report found:

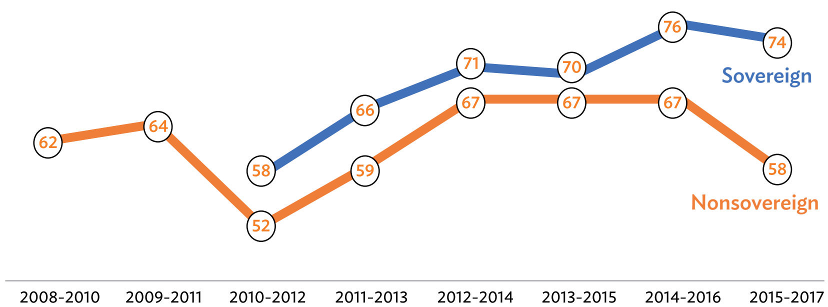
- A statistical analysis of evaluated projects identified a number of preparation and design variables that affect project efficiency and sustainability. These included: whether the project was supported by project preparatory technical assistance, the number of components, the level of environmental risk, the urban or rural location of the project, and the country income level.
- A comparison of ratings by evaluations in 2010–2017 with those of 2001–2009 found improvements to efficiency and sustainability of about 10 percentage points, to an efficiency rate of 68% and a sustainability rate of 66% in 2010–2017.
- Improvements have been due in part to changes to project design and preparation practices, and in part to the effects of more general measures taken by ADB, notably the provision of strategic guidance, a changed sector focus, newly introduced modalities, and continual work on improving business processes.
- The latter work needs to continue, as the **efficiency and sustainability rates are still well below 80%**—ADB's performance standard for the rate of project success overall.
- Among the areas that need to be monitored are: (i) the number of project components, (ii) the availability of project preparatory technical assistance or other support for project preparation, (iii) the involvement of the project processing officer for some time during project implementation, and (iv) shift administration of the project to the resident mission at some stage.

Country Performance (3-year moving average)



Source: Asian Development Bank (Independent Evaluation Department).

Development Performance of Sovereign and Nonsovereign Operations (3-year moving average)



Note: Based on validated and independently evaluated project completion reports and extended annual review reports issued over 2008-2017.
Source: Asian Development Bank (Independent Evaluation Department).

Performance of ADB Operations

- The success rate of sovereign operations in 2015–2017 was 74%, compared with 76% in 2014–2016. Year-on-year performance from 2016 to 2017 declined from 86% to 71% because of a drop in success rates in the education, health, public sector management, and transport sectors, partly compensated for by improvements in finance and water operations.
- Sovereign operations in the non-infrastructure sectors (78%) performed better than those in infrastructure sectors (71%) in 2015–2017.
- Among the five ADB regions, Central and West Asia was the only one with a markedly improved performance in sovereign operations, jumping to 74% in 2015–2017 from 54% in 2014–2016.
- Policy-based lending performance has converged with that of project lending, with the gap now less than 1%.
- Annual nonsovereign performance saw a drop from a peak of 88% in 2014 to 50% in 2015, recovering to 67% in 2017. The 2015–2017 performance of nonsovereign projects at 58% is within the 2008–2017 3-year moving average range of 52%–67%.
- The success rate of country programs remained steady at 75% over 2015–2017.

Tracking ADB's Implementation of Past Recommendations

The key findings were:

- ADB Management's full and partial acceptance of evaluation recommendations over 2016 and 2017 has been 98%.
- ADB successfully implemented 90% of the accepted recommendations of the thematic and corporate evaluations in 2017. By contrast, just over half of the accepted recommendations of country evaluations were implemented.
- The review of the action plan achievements by Management provided good details on outputs and activities, but much less so on outcomes.
- The management action record system (MARS) reform process came back on track in 2017 after slowing down in 2016 due to changes in assigned responsibilities on the side of Management. Good progress has been made since.

Results of ADB Operations

The 2018 Annual Evaluation Review examined the development results in strategic areas brought about by ADB's interventions in the region. The key results were:

- While ADB's work is highly valued by middle-income countries (MICs), country programs have sometimes found it difficult to be sufficiently responsive to the dynamic array of development issues in MICs.
- ADB's support for regional cooperation and integration has been largely effective in delivering results.
- Nonsovereign operations have expanded and mainly support infrastructure.
- Limited use of credit enhancement products has reduced the potential development contribution of this instrument. ADB's guarantee business has been consistently understaffed.
- ADB has been a pioneer among multilateral development banks in promoting gender mainstreaming.
- Self-assessments within ADB of interagency coordination, knowledge, and financing partnerships were positive and case studies by Independent Evaluation Department (IED) confirmed: three-quarters of these partnerships were successful in meeting their development objectives.
- By catering to specific country needs, ADB has improved the long-term results of its operations.
- Results-based lending was found to have significant development potential. Several issues have been identified but if lessons are learned and they are addressed well, there will be a good case for mainstreaming the use of results-based lending at the end of the pilot phase in 2019.

Recommendations

In order to improve ADB's results, IED recommends that ADB should:

1. Seek opportunities to integrate social sector work and operations alongside hard-infrastructure sector operations in countries, through country partnership strategy planning and design processes, in line with the thematic approach that IED has recommended for ADB's strategy going forward.
2. Improve operational efficiency by continuing with ongoing business process reforms, initiating new reforms to respond to context dynamics, regularly reporting on their progress, and learning from the analysis of significant factors affecting efficiency.
3. Improve the sustainability of projects and their outputs and outcomes by systematically covering sustainability measures in project design documents.
4. Continue strengthening the MARS process to ensure that assessments of actions go beyond their direct outputs and report the outcomes of implementing the evaluation recommendations as well.

EXECUTIVE SUMMARY

The 2018 Annual Evaluation Review (AER) of the Independent Evaluation Department (IED) of the Asian Development Bank (ADB) provides an independent perspective on ADB's performance and results. It is based on IED's annual work program agreed with Management and approved by the Board of Directors of ADB. The AER analyzes performance primarily through a meta-analysis of IED's evaluations and validations of country strategies and projects. This year, the AER also reviews ADB's progress in operationalizing its strategic agendas and drivers of change by summarizing the results of ADB's interventions in these areas based on recent corporate and thematic evaluations.

The 2018 AER is a tool for both accountability and learning. In addition to reporting on recent performance, it provides an opportunity to learn lessons in areas where ADB's performance has been relatively weak in the past. The special theme of this AER is the typically poor efficiency and sustainability performance in ADB operations. The AER asks what ADB has done, and could do, to raise the efficiency and sustainability of its operations, in particular by improving the quality of project design and preparation. Although IED has done much work on understanding efficiency and sustainability in the past, this is the first report to look at this issue since ADB implemented new business processes in 2010.

The 2018 AER also provides an annual update on the implementation status of recommendations from IED's corporate and thematic evaluations. Reviewing performance and tracking the course of lessons and recommendations provide a means to understand ADB's progress as a knowledge institution.

Performance of ADB Operations

The success rate of sovereign operations in 2015–2017 was 74%, compared with 76% in 2014–2016. Year-on-year performance from 2016 to 2017 declined from 86% to 71% because of declining success rates in four sectors: education, health, public sector management (PSM), and transport. An improvement in the performance of finance and water operations in 2017 partly compensated this. As noted last year, such fluctuations are possible given that the annual evaluations are for completed operations spread across countries and sectors. The sector and country mix of the evaluated portfolio can change significantly from year to year although all sovereign operations completed are evaluated each year. For trend analysis, the report uses 3-year moving averages.

Operations in the non-infrastructure sectors performed better than those in infrastructure in 2015–2017. Both were slightly lower than the performance in 2014–2016. Non-infrastructure operations' performance (78%) was slightly higher than that of infrastructure operations (71%). In recent years, the performance of infrastructure operations has been dominated by transport and it was the poor performance of non-urban road transport operations that affected infrastructure project performance. For the second reporting period in a row (based on 3-year moving averages), success rates improved for finance (23% of assessed non-infrastructure operations) and PSM (33%). This helped non-infrastructure operations remain at around the same level as the previous year in spite of a notable drop in the performance of education operations, from 100% in 2014–2016 to 76% in 2015–2017.

The South Asia and Southeast Asia regions accounted for 59% of validated operations in 2015–2017. Central and West Asia was the only region with a markedly improved performance, jumping to 74% in 2015–2017 from 54% in 2014–2016. This was largely because of the improved performance of projects in Pakistan.

Policy-based lending (PBL) performance has converged with that of project lending, with the gap now less than 1%. IED is currently undertaking an evaluation of ADB's experience with PBL. The improved PBL performance over the period was accompanied by changes in the use of various types of PBLs since 2006, in particular, an increase in the use of single-tranche loans and a change in the type of reforms supported, with an increase in PSM and in responses to global financial crises.

Annual nonsovereign performance saw a drop from a peak of 88% in 2014 to 50% in 2015, recovering to 67% in 2017. At 58%, the 2015–2017 performance is within the 2008–2017 3-year moving average range of 52%–67%. Although the volume of nonsovereign operations continues to grow, only 10 nonsovereign projects were evaluated in 2017. Infrastructure dominates the private sector portfolio although all sectors showed a decline in performance. The main reason for this was the performance on the development outcomes criteria. In 2017, IED prepared a corporate evaluation of ADB's credit enhancement products that shed light on the use of these instruments to help mobilize private sector resources for development.

The performance of country programs remained steady (75% success over 2015–2017). The 3-year moving average showed an improving trend from 2010 to 2016, although a plateau of 75% was reached during the last 3-year period. Underpinning this were the successful rating of the recent country assessment for India, and the successful ratings for Kazakhstan, the Philippines, and Turkmenistan. In Afghanistan and Mongolia there were challenges in meeting the original project or program targets, so development impact was weak. In Kazakhstan and the Philippines, project targets were mostly met, but performances for efficiency and sustainability were less than satisfactory.

Results of ADB Operations

In addition to project and country performance analyses, the AER reviewed the results of ADB operations based on the findings of selected high-level evaluations completed during the last 2 years. The assessment covered: (i) delivery of results in selected areas, and (ii) ADB instruments and internal factors affecting the delivery of results. The delivery of results was viewed through the lens of Strategy 2020 and covered: (i) ADB strategic agendas, (ii) ADB drivers of change, and (iii) country programs.

In 2016–2017, IED high-level evaluations looked at the three main agendas of Strategy 2020: inclusive growth, environmentally sustainable growth (ESG), and regional cooperation and integration (RCI). Country evaluations of ADB programs in middle-income countries (MICs) examined ADB operations during 2010–2016 and these indicated that 70% of country programs in MICs had delivered results. Government and private sector representatives considered ADB to be a credible development partner offering wide-ranging support to address specific development priorities. In particular, they appreciated ADB's guidance and inputs in project design and project management, coupled with its support for capacity development and safeguards. However, operations in MICs were not substantially different from those in low-income countries in terms of efficiency and sustainability issues affecting the delivery of results.

While ADB's work is highly valued by MICs, country programs have sometimes found it difficult to be sufficiently responsive to the dynamic array of development issues in MICs. ADB's efforts to tackle the inclusive growth agenda were assessed through the MIC evaluation. There are still wide income disparities in MICs, and these are closely related to inclusive economic growth. MICs expect greater value-added knowledge from ADB; for example, in the areas of governance, resource mobilization, environmental and social due diligence, urbanization, regional disparities, and connectivity.

ADB has made significant efforts to promote ESG. ADB loan operations in energy in particular have become more environmentally friendly. ADB technical assistance (TA) has made important contributions to strengthening environmental governance capacity, improving natural resource conservation, and enabling urban environmental improvements. ADB support for ESG has provided an important conduit for policy dialogue with countries. Although the number of operations tagged as environmentally sustainable has grown significantly in recent years, a question remains on how much more environmentally oriented the bank has become, outside energy operations.

ADB's support for regional cooperation and development has been largely effective in delivering results. Countries in the region find ADB to be most effective and useful when it plays a role as honest broker. There is strong justification for broadening the RCI agenda to include work on issues beyond cross-border infrastructure—especially on matters of trade and investment integration, monetary and financial integration, and regional public goods notably climate change and biodiversity.

In 2016–2017, major evaluations looked at results in three of the five drivers of change of Strategy 2020: private sector operations, gender, and partnerships.

Nonsovereign operations have expanded and mainly supported infrastructure. Utilization of guarantees, A/B loans, and risk transfer operations by ADB has been very modest over the past 30 years. This has limited their development contribution and ADB's guarantee business has been consistently understaffed. Although there has been improvement in 2017 according to operations, until 2016, medium- and long-term partial credit guarantees and partial or political risk guarantees represented less than 2% of the outstanding portfolio. Several demand-side factors (e.g., a lack of bankable projects in infrastructure and low demand for political risk guarantees by financiers) may have been behind this.

ADB has been a pioneer among multilateral development banks in promoting gender mainstreaming. ADB has provided livelihood training to women, enhanced government capacity for gender work, and included gender-inclusive design features in infrastructure projects, mainly through TA projects. While the best results have been in the fields of human development (education) and in reducing the time poverty of women (by bringing the water supply closer to home), more attention needs to be paid to increasing economic empowerment, voice and decision-making, and to reducing women's vulnerability to risks and shocks.

Regarding using partnerships as a driver of change, IED generally confirmed the self-assessments within ADB of interagency coordination, knowledge, and financing partnerships: three-quarters of these partnerships were assessed to have been successful in meeting their development objectives. IED noted that formal partnerships have been more effective than informal ones, probably because of the stronger interaction among partners and closer project monitoring, which has had a positive effect on agreements being carried through. Cofinanced projects had higher ratings than non-cofinanced projects. Some knowledge partnerships encountered particular problems, especially those with civil society organizations and United Nations-affiliated organizations. Factors such as lack of harmonization in procedures and funding of staff of partner organizations have hampered their efficiency. Sector and thematic groups, set up in 2015, are redefining their knowledge needs and partner networks, while new instructions on knowledge partnership agreements were issued in 2017, dealing with many of the problems that have been identified.

ADB country programs

By catering to specific country needs as well as ADB's strategic agendas, ADB has improved the long-term results of its operations. Recent country programs have focused on lagging states (India), communities affected by conflict and disaster (the Philippines and Sri Lanka), RCI (Mongolia and Turkmenistan), and fiscal stabilization (Kazakhstan). More innovative knowledge solutions need to be embedded in the programs.

ADB Instruments and Internal Factors Affecting Delivery of Results

The piloting of a new lending modality, results-based lending (RBL) is on track. IED has noted that this modality has significant development potential and has been a good addition to ADB's instruments. Several issues have been identified but if lessons are learned and issues are addressed well, there will be a good case for mainstreaming the use of RBL at the end of the pilot phase in 2019.

While ADB's safeguard framework is generally well-regarded, there remain areas that need strengthening in matters of design and especially implementation. The 2016 safeguard implementation evaluation in Indonesia, Kyrgyz Republic, and Sri Lanka found both progress and remaining gaps. Procedural compliance was generally achieved, but substantive compliance was sometimes in question. Stakeholder consultation was generally done but was not always done well; the evaluation found issues with the adequacy of grievance redress mechanisms and livelihood restoration programs. Often there were gaps in local implementation capacity. In some cases, efforts to streamline and speed up project preparation processes affected the quality of work. Lapses in supervision could lead to problems. The safeguard policy covers many areas and sets high standards, so caution is needed in moving to the use of country safeguard systems for ADB-supported projects.

The partnership evaluation identified overlapping functions in cofinancing facilitation and fragmented partner relations within ADB, involving some duplication of effort. IED concluded that the system could be streamlined. ADB's financial reporting system is not yet integrated and currently, fund contributions and disbursements reside in different systems.

ADB must pay close attention to staffing issues in private sector and gender work. There is a need for more decentralization of staff in the Private Sector Operations Department, although some work (including outposting key staff to resident missions) is already underway in this regard. Several resident missions still do not have gender specialists as part of their staff or as long-term gender consultants.

Improving Efficiency and Sustainability

Evaluations have consistently found the efficiency and sustainability of ADB sovereign operations to be weaker than their relevance and effectiveness, with weak preparation and design of projects often seen as the cause. This AER carried out an exploratory examination of this area. This confirmed the continuing lower efficiency and sustainability of projects. One in three completed projects are less than efficient or less than likely sustainable versus one in four projects that are less than effective, and one in six projects that are less than relevant. However, a comparison of ratings by evaluations in 2010–2017 with those of 2001–2009 found improvements of about 10 percentage points, to an efficiency rate of 68% and sustainability rate of 66% in 2010–2017. As reported in Chapter 2, over 2015–2017, efficiency improved further to 72%, while sustainability remained at 66%.

A statistical analysis of evaluated projects identified a number of design and preparation variables that had affected project efficiency and sustainability. For some of these, the analysis examined whether such variables were taken into account in recent project documents; this was generally the case, and some improvements were noted, giving some confidence for the future. In order to explore the likely effects of improvements in factors determining efficiency and sustainability ratings, the report reviewed reforms that ADB has taken over the years.

The analysis concluded that recent improvements have been due in part to changing project design and preparation practices, and in part to more general measures taken by ADB, notably the provision of strategic guidance, a changed sector focus, newly introduced modalities, and continual work on improving business processes. The latter work needs to be maintained, as efficiency and sustainability rates are still well below 80%—ADB's notional performance standard for the rate of project success overall. The impact of new modalities on the performance criteria needs to be closely monitored. The full effect of efficiency measures introduced after 2010, including in the area of procurement, is as yet unknown as many projects subject to these changes are ongoing.

The statistical analysis of significant factors found that the number of project components needs to be monitored and kept in check. The availability of project preparatory TA or broad support for project preparation needs to be safeguarded, as it has a positive effect on both efficiency and sustainability. The continued involvement of the project processing officer for some time into project implementation has had a positive effect on the efficiency of projects, as has the shift to implementation by the resident mission at some stage. A review of recent reports and recommendations of the President (RRPs) found that the discussion of sustainability measures and targets, although good overall, is scattered throughout the document rather than being consolidated in one place.

ADB Response to IED Recommendations

ADB Management's full and partial acceptance of evaluation recommendations over 2016 and 2017 has been 98%. This compares with 96% in 2017, 100% in 2016, and 95% from 2011 to 2013. The intensified interaction between IED and Management before the Development Effectiveness Committee meetings (in particular, the introduction of a technical meeting dedicated to improving the substantiation, clarity, and actionability of recommendations) has contributed to an improvement in the rate of full acceptance from 83% in 2016 to 93% in 2017. The only recommendation in 2017 that was not accepted was a proposal to exclude involuntary resettlement category A activities from RBLs (environmental risk category A activities are already excluded). The actions of three of four agreed recommendations due in 2017 were validated as having been fully and/or largely implemented. This result is within the long-term average implementation rate, between 69% and 80%.

The review of the planned action achievements by Management provides good detail on outputs and activities but much less on outcomes of implementing the recommendations. This is true both for individual actions and collectively for the assessment at the evaluation report level.

The management action record system (MARS) reform process came back on track in 2017. It had slowed down in 2016 due to changes in assigned responsibilities on the side of Management. Good progress has been made since the Strategy, Policy and Review Department (SPD) assumed the coordinating role.

Recommendations

Focusing on the improvement of ADB's results, IED recommends that ADB:

(i) Seek opportunities to integrate social sector work and operations alongside hard-infrastructure sector operations in countries, through country partnership strategy planning and design processes, in line with the thematic approach that IED has recommended for ADB's strategy going forward.

Across ADB regions and countries, more cross-sectoral financing and knowledge solutions need to be embedded in ADB operations. For example, financing for public infrastructure can be better linked to support for health and social protection through mixed use of government land for social services; education sector work can be integrated with digital network infrastructure expansion projects; and knowledge products for education sector analysis can accompany financing support for technical and vocational education and training infrastructure. In doing so, ADB should capitalize on partnership and collaboration with the various players already working on these themes.

(ii) Improve operational efficiency by continuing ongoing business process reforms, initiating new reforms to respond to context dynamics, regularly reporting on their progress, and learning from the analysis of significant factors affecting efficiency.

ADB has promised or undertaken measures in many areas since the Strategy 2020 Midterm Review. To maintain this momentum, recent measures need to be monitored and regularly reported on. Consideration needs to be given to the dynamics of business processes. Measures taken in the past may no longer be critical, and instead, new measures will need to be identified in the future. It would be helpful to investigate the effects of project design and implementation measures in more detail than this report was able to do.

(iii) Improve the sustainability of projects and their outputs and outcomes by systematically covering sustainability measures in project design documents.

Progress on improving the sustainability of projects may well require more special attention than improving efficiency. It would be beneficial if measures and targets related to sustainability were further consolidated in RRPs; either (a) sustainability risks and measures could be made a mandatory part of the risk assessment and management document, or (b) a separate document could be created for this purpose (the current design and monitoring framework already fulfills this function for development effectiveness). This would make it easier to monitor the progress of sustainability measures. In-depth analysis and monitoring is needed, perhaps in the Development Effectiveness Review, to make sure that the progress made in project sustainability is preserved and that improvement measures continue to be implemented.

(iv) Continue strengthening the MARS process to ensure that assessments of actions go beyond their direct outputs and report the outcomes of implementing the evaluation recommendations as well.

The proposed assessment of outcomes must be (a) oriented towards institutional learning and (b) the result of a collaborative effort between ADB Management, staff, and IED. The 2017 AER called for IED and Management to jointly develop and operationalize protocols for monitoring both performance and results of the action taken on recommendations. This continues to be part of the MARS improvement plan which is being jointly implemented by IED and SPD. At the recommendations level, performance on planned actions continues to be self-assessed at their due dates and validated by IED. At the report level, the implementing and coordinating departments of the MARS will report on the progress made on the expected outcome(s) of the evaluation. This will be recorded in the MARS.

Linkage between Findings and Recommendations

Findings, Issues, and References	Recommendations
IED's country program evaluations have recommended that more innovative solutions be embedded in ADB's country programs (para. 82). • Philippines: ADB needs to integrate its education sector work more effectively with its social protection support. • Sri Lanka: Due to weak linkage between the education system and the labor market, ADB support was aligned with government objectives aimed to improve technical and vocation training and science teaching in secondary schools. There is a particular need to upgrade the skills of youth, especially of young women.	**Recommendation 1:** **Seek opportunities to integrate social sector work and operations alongside hard-infrastructure sector operations in countries, through CPS planning and design processes, in line with the thematic approach that IED has recommended for ADB's strategy going forward.**
• The 2002 ADB reorganization led to a shift to a more regional and country-led approach, and to new matching business processes. This increased the depth of country and sector analysis, which may in turn have contributed to the positive trends in both project efficiency and sustainability. Statistical analysis found that projects delegated to resident missions were more efficient and sustainable (para. 116). • ADB's Medium-Term Strategy, 2006–2008 introduced a sector focus, favoring some sectors. In 2008, Strategy 2020 led to greater emphasis on infrastructure provision, while work in PSM, health, and agriculture was deemphasized. This had consequences for the aggregate efficiency and sustainability performance (para. 117).	**Recommendation 2:** **Improve operational efficiency by continuing ongoing business process reforms, initiating new reforms to respond to context dynamics, regularly reporting on their progress, and learning from the analysis of significant factors affecting efficiency.**
• The presence of funds for project preparatory TA was identified as one of the most important design and preparation factors for improving sustainability (and efficiency), especially when the TA was client- and project-specific (para. 131). • The increase in the use of country systems for procurement, safeguards, and financial management was beneficial for sustainability (para. 151).	**Recommendation 3:** **Improve the sustainability of projects and their outputs and outcomes by systematically covering sustainability measures in project design documents.**

Findings, Issues, and References	Recommendations
• While the new RRPs are generally comprehensive, the actions and components to improve the likelihood of sustainable results are scattered across various parts of the RRP and the loan or project agreement, reducing the likelihood of follow up (para. 157).	
• To strengthen IED's effectiveness and impact, the 2017 AER initiated special reporting on the implementation of recommendations at the report level. This shift broadens the perspective on implementation performance and enhances the role of MARS as a learning instrument and veers from assessing progress at the output level (para. 169). • Self-assessments of corporate and thematic evaluations give good details on outputs. The corporate evaluation of ADB decentralization identified areas of progress in outputs, including continuing actions, to strengthen the roles, mandate, capacity, and resources of resident missions. The corporate evaluation of knowledge products and services also focused on outputs rather than assessing higher-level outcomes of knowledge identification, production, and sharing. In the future, self-assessments must go beyond outputs and capture the central outcomes of evaluation recommendations individually or collectively (para. 171).	**Recommendation 4:** **Continue strengthening the MARS process to ensure that assessments of actions go beyond their direct outputs and report the outcomes of implementing the evaluation recommendations as well.**

Introduction

1

Introduction

1. The 2018 Annual Evaluation Review (AER) reports on the performance and results of Asian Development Bank (ADB) operations and supports continuing institutional efforts to learn from ADB's work in promoting development in the Asia and Pacific region. The report, as previous AERs have done, provides a perspective distilled from the evaluation process. The scope of the report includes a general assessment of (i) the emerging pattern of ADB operations, their magnitude, modalities, and design; (ii) changes in ADB's business processes; and (iii) results in the national and regional economic environments of developing member countries (DMCs). These areas are reviewed and discussed through the lens of the large number of evaluations conducted by the Independent Evaluation Department (IED) at project, country, sector, and thematic levels (Appendixes 1 and 2).

2. The 2018 AER focuses on Management's efforts to improve the design and preparation of projects and particularly on its work to strengthen the efficiency and sustainability of projects. Within the strict focus of the AER on ADB performance and results, this theme was chosen because efficiency and sustainability have traditionally been weak elements of project performance.

3. A review of key factors and recent developments on the subject seemed warranted, despite the fact that most ADB DMCs are now middle-income countries (MICs) and evaluations have noted they are now in a better position to make informed choices on the selection of projects (i.e., their relevance) and implement them effectively. The evidence shows that more can be done to improve the efficiency and sustainability of these projects.[1] Although the 2018 AER covers all ADB operations, since investment projects dominate the portfolio, special attention is given to them for the analysis of efficiency and sustainability.

4. **Evaluation database.** IED evaluates ADB operations from multiple perspectives and at different levels, i.e., from single projects to country, thematic, and corporate levels. The core project evaluation criteria are relevance, effectiveness, efficiency, and sustainability. Each of these leads to specific assessments, and the ratings are aggregated and weighed equally to arrive at a rating for the overall performance of a project—either highly successful, successful, less than successful, or unsuccessful. An assessment of a project's impact[2] and the performance of ADB and executing agencies in DMCs is also prepared and stored in IED's database, which serves as the foundation for developing evaluation metrics and estimating quantitative relationships among determinants of project performance.

5. The database for the 2018 AER was purposively supplemented by qualitative information

[1] Rigorous analysis of efficiency and likely sustainability is not widely available in the evaluation literature, except for some research in energy efficiency. For details see Gerarden, Todd D., Richard G. Newell, and Robert N. Stavins. 2017. *Assessing the Energy-Efficiency Gap*. Journal of Economic Literature, 55(4): 1486–1525.

[2] Usually including the social, technological, and institutional impacts of project investments.

sourced from project design documents for projects approved before the introduction of some important reforms to ADB's business processes in 2010 and those approved most recently. In addition, discussions were held with several directors and senior staff directly in charge of operations to update IED's understanding of current practices. These qualitative findings, combined with the results of statistical analysis, provide the basis for the discussion of the effects of the quality of design and preparation on project efficiency and sustainability.

6. **Limitations of the Report.** While the 2018 AER aims to present a comprehensive analysis of ADB's performance and results in the covered period, it is subject to limitations. First, reporting is based on the validated self-assessments circulated to the Board of Directors. Consequently, the AER dataset depends on how compliant operational departments are with the required timeframe for preparing self-assessments on completed projects. In some cases, completed projects are only captured by the database much later than the completion date due to delays in the preparation of self-assessments. Second, some caution on the statistical analysis presented in the third chapter is in order. The sample is not very large, although it is sufficient to detect fairly large or significant population differences. Also, due to data availability issues, the project design and preparation variables used as explanatory variables are not exhaustive, and in certain cases, this affects the quality of proxy variables. However, appropriate diagnostics tests were conducted to ensure that the statistical models do not have serious issues of misspecification, multicollinearity, and heteroskedasticity.

7. **Report contents**. The 2018 AER has four substantive chapters following this introduction. Chapter 2 synthesizes the performance and results of thematic, country, and project level operations based on evaluations conducted by IED. It reviews the factors that have contributed to the success of both sovereign and nonsovereign operations. Performance is discussed in terms of lending modality, sector, country,[3] and regional perspectives. Data relate to annual and 3-year moving averages, which allow long-term trends to be reviewed and aligned with ADB's Development Effectiveness Review (DEfR). The chapter also highlights the results distilled from key corporate and thematic evaluations and papers issued by IED over the past 2 years, to assess some of ADB's key strategic intentions. These are presented under the headings of ADB's Strategy 2020.

8. Chapter 3 examines project efficiency and sustainability. The main purpose is to explore the challenges ADB has encountered, and the progress it has made in improving these two performance areas. The chapter identifies some key factors to be taken into account by operations staff when they prepare and design projects, and reports on progress made. It relies on various sources of information, notably a comparison of reports and recommendations of the President (RRPs) approved in 2009 and 2016–2017, a statistical analysis based on IED's project-rating database, and the earlier mentioned review of ADB and IED reports and interviews with 31 selected staff—particularly directors of divisions and heads of project administration units in operations departments. Chapter 4 reports on the progress of Management's actions following IED's recommendations. Chapter 5 provides conclusions and recommendations.

[3] For the performance of sovereign operations, the analysis is from 2010 since the new 2014 secondary sector categories are only available for projects completed in 2010 and after. Nonsovereign operations are from 2008, as this sector category is only at the primary level, and there are fewer projects than for sovereign operations.


A 11
JUKI

Performance and Results of ADB Operations

2

Highlights

Development performance of projects in the public sector. The success rate decreased marginally to 74% in 2015–2017 from 76% in 2014–2016. Operations not related to infrastructure performed better than infrastructure operations in 2015–2017.

Development performance of private sector operations. The success rate of private sector projects saw a drop from a peak of 88% in 2014 to 50% in 2015 but recovered to 67% in 2017.

Country-level operations. Performance at the country level remained steady at 75% over 2015-2017. In the areas of results, the Asian Development Bank catered to country needs by focusing on: support to lagging states (India), communities affected by conflict and disaster (the Philippines and Sri Lanka), regional cooperation and integration (Afghanistan and Mongolia), and fiscal stabilization (Kazakhstan). Across regions and countries, ADB would do well to embed more knowledge solutions and innovation in its operations.

Result highlights from selected Independent Evaluation Department evaluations of the ADB Strategic Agenda and Drivers of Change

- ADB operations in middle-income countries have been largely successful
- ADB made significant efforts to promote environmentally sustainable growth
- ADB support for RCI has enabled closer collaboration among countries with positive results
- nonsovereign operations have expanded and are mainly in large-scale infrastructure projects
- limited use of credit enhancement products has reduced the potential development contribution of this instrument and ADB's guarantee business has been consistently understaffed
- although ADB has been a pioneer among multilateral development banks in promoting gender equity, it has gaps in staffing and in skills available for gender work
- lack of harmonization of the procedures of various partners with those of ADB hampered the efficiency of some knowledge partnerships, as well as rules about funding the work of staff

9. This chapter examines the development *performance and results* of ADB operations. *Development performance* has to do with trends by evaluation criteria, sector, time sequence, country classification, and lending modality measured against the standard IED evaluation benchmarks. *Development results* refer to major development outcomes or changes caused or contributed by ADB interventions in the key strategic agendas and themes of ADB Strategy 2020, based on knowledge distilled from IED high-level evaluations during 2016 and 2017. The first part of this chapter reviews completed ADB operations. The second part covers delivery of results as well as instruments and internal factors that affect such results. This new section is intended to provide an overall picture of selected results on the ground underpinned by the in-depth analysis provided by recent higher-level evaluations. While the conclusions on performance refer to all operations that have come to completion during the period, the analysis of results will always be partial and thematic, reflecting the areas that have been recently explored in depth by IED.

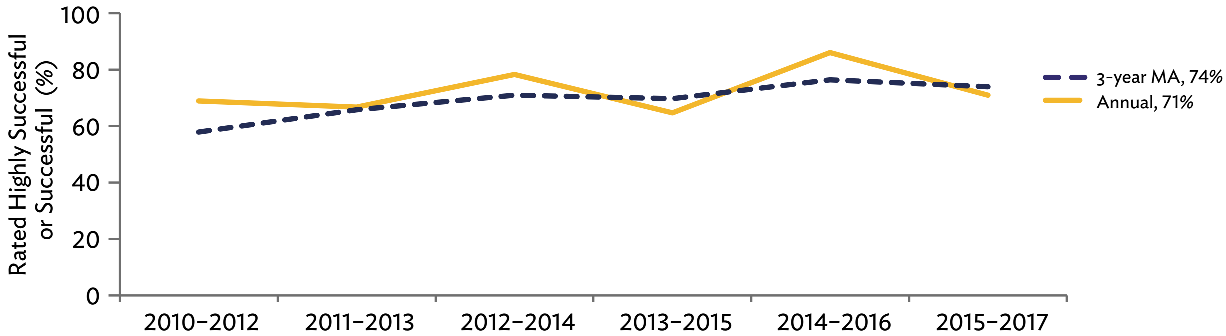
ADB Performance

10. The analysis of (i) sovereign operations; (ii) nonsovereign operations; and (iii) country programs is designed to provide a snapshot of key performance indicators against the standard benchmarks set by evaluation guidelines.

1. Sovereign Operations

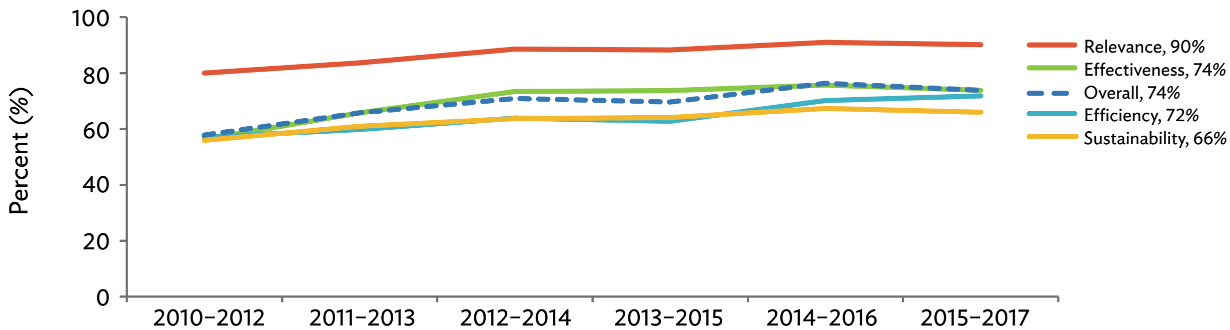
11. The assessment of the performance of ADB sovereign operations is based on the proportion of operations that was rated highly successful or successful over 2010–2017. This section combines the findings of project and program evaluation reports (PPERs) and validation of project completion reports (PVRs).

Figure 1: Development Performance of Sovereign Operations, 2010–2017 (3-year moving average)



MA = moving average.
Sources: 440 project completion report validations and project performance evaluation reports issued for sovereign operations with project completion reports issued over 2010–2017.

Figure 2: Development Performance of Sovereign Operations by Evaluation Criteria, 2010–2017 (3-year moving average)



ADB = Asian Development Bank.
Source: Asian Development Bank (Independent Evaluation Department).

a. Overall Performance

12. The success profile of completed sovereign operations in 2015–2017 showed a marginal downward trend to 74% (from 76%[4] for 2014–2016) but stayed within the range of the 3-year moving average for 2010–2017. After reaching an all-time high of 86% in 2016, the 2017 single-year performance was 15 percentage points lower at 71% in 2017 (Figure 1). This was due to the declining performance in four sector programs: education, health, public sector management (PSM), and transport. On a positive note, improvements were realized in the annual performance of finance and water operations.

b. Performance by Evaluation Criteria

13. The assessment methodology for sovereign projects uses four main criteria (relevance, effectiveness, efficiency, and sustainability). Successful projects include those that are assessed either highly successful or successful (Appendix 3). The 3-year moving average shows a relatively unchanged performance for all evaluation criteria in 2015–2017, except for efficiency. Efficiency has consistently trended up since 2013–2015. The percentage of projects rated highly efficient or efficient improved from 63% in 2013–2015 to 72% in 2015–2017, and is now closer to the most recent 3-year average of 74% (Figure 2). Sustainability has continued to be the lowest performing criterion (66%), suggesting that more efforts are required particularly to boost the sustainability of sovereign project operations.

c. Performance by Sector Portfolio

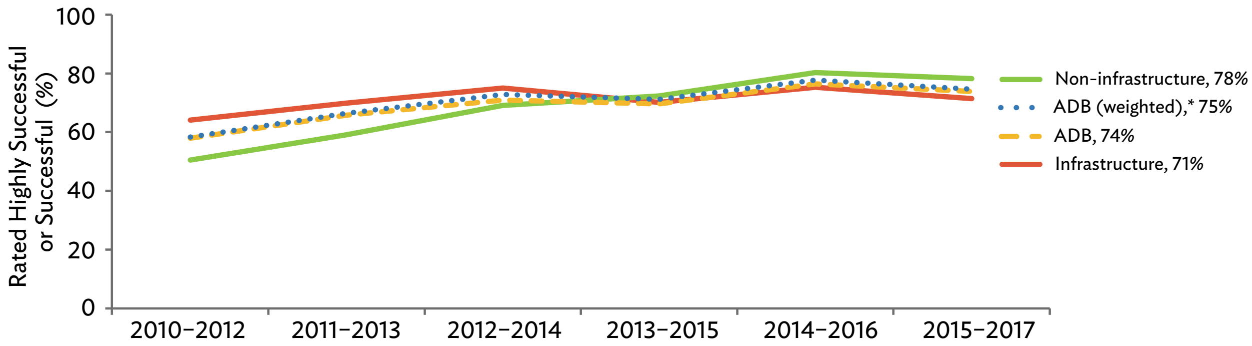
14. Operations in non-infrastructure sectors[5] performed better than those in infrastructure sectors[6] in 2015–2017 (Figure 3). About 78% of non-

[4] A 77% overall success rate was reported in the 2017 AER. This has been revised to 76% in this report because of an evaluated project rated less than successful in a PPER circulated in 2017.

[5] Non-infrastructure sectors are: education, finance, health, industry and trade, and PSM.

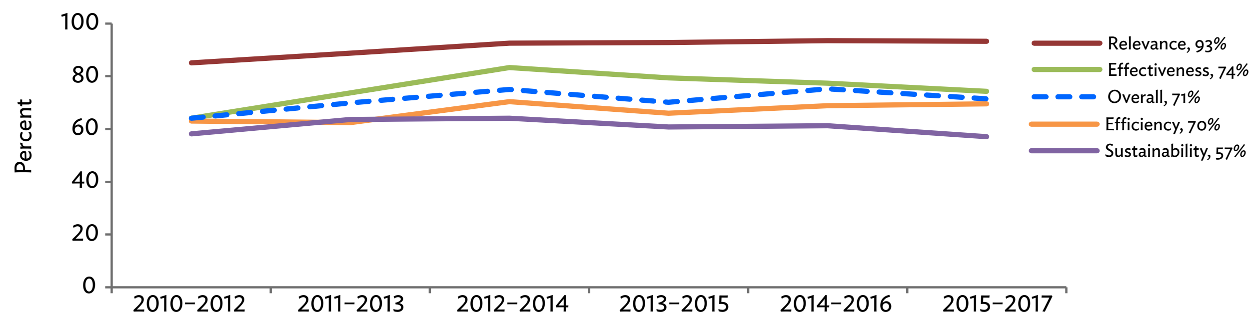
[6] Infrastructure sectors are: agriculture, natural resources, and rural development, energy, information and communications technology, transport, and water and other urban infrastructure and services.

Figure 3: Development Performance of Sovereign Operations by Infrastructure and Non-Infrastructure Sectors, 2010–2017 (3-year moving average)



ADB = Asian Development Bank.
* The weighted ADB overall success rate was derived from the combined infrastructure and non-infrastructure success rates that were weighted according to their respective share of total approved ADB loan amounts of evaluated operations.
Source: Asian Development Bank (Independent Evaluation Department).

Figure 4: Development Performance of Sovereign Infrastructure Operations by Evaluation Criteria, 2010–2017 (3-year moving average)



ADB = Asian Development Bank
Source: Asian Development Bank (Independent Evaluation Department).

infrastructure operations were assessed successful or highly successful, compared with 71% for infrastructure operations. A comparison of the performance of the infrastructure and non-infrastructure portfolios by evaluation criteria indicates that in 2015–2017 the infrastructure portfolio performed better on relevance and effectiveness, while the non-infrastructure portfolio fared better on efficiency and sustainability.

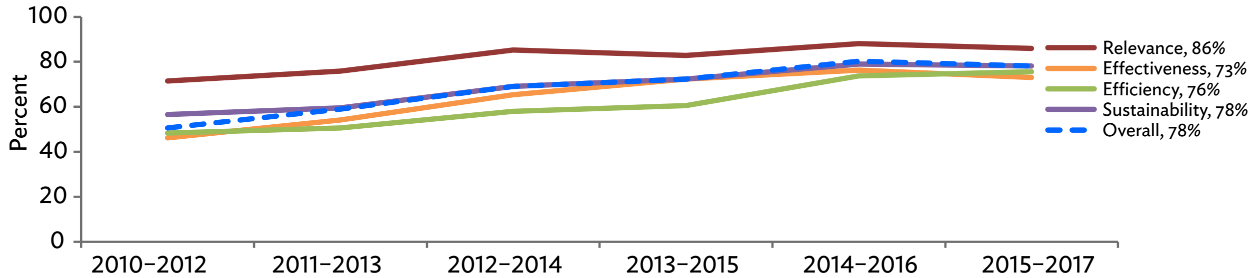
15. Relevance performance[7] has been consistently high, well above the overall 3-year average. Alignment with country needs and with ADB corporate and country strategies has often been more positively assessed than aspects related to project design. The infrastructure portfolio had a higher share of projects rated highly relevant or relevant than the non-infrastructure portfolio in 2015–2017 (Figures 4 and 5). The better performing sector portfolios were energy, agriculture and natural resources, and water and other urban infrastructure and services (WUS). Similarly, relevance improved for finance and for PSM. All the industry and trade projects were rated highly relevant or relevant, but this portfolio consisted of only four projects.

16. Effectiveness performance peaked at 76% in 2014–2016 but dipped slightly to 74% in 2015–2017. This was partly due to declining performance in some portfolios—health, energy, education, and agriculture and natural resources.[8] Factors that affect effectiveness include: overly ambitious targets, cancellation of subprojects, partial achievement of outcomes and outputs in the design and monitoring framework (DMF), lack of baseline information, inadequate supervision, civil conflict, and inadequate

[7] Relevance is evaluated based on: (i) the alignment of the project's objectives with national and sector objectives as well as ADB corporate priorities, and (ii) the relevance of the design to the project's objectives. The latter includes assessing how well the results chain between project activity, outputs, and outcome is embedded in a proper root cause analysis, whether the indicators and targets are appropriate, and whether indicators have baselines.

[8] Dips in effectiveness ratings in 2015–2017 in terms of percentage points were as follows: health (17), energy (13), education (12), and agriculture and natural resources (14).

Figure 5: Development Performance of Sovereign Non-Infrastructure Operations by Evaluation Criteria, 2010–2017 (3-year moving average)



ADB= Asian Development Bank.
Source: Asian Development Bank (Independent Evaluation Department).

risk mitigation. The better performing sector portfolios in 2015–2017 were WUS and finance. The percentage of projects rated highly effective or effective was 82% for WUS, up from 77% in the preceding 3-year period, while that of finance rose to 67% from 56% over the same period.

17. Efficiency performance has steadily improved over time. From 57% in 2010–2012, efficiency reached a high of 72% in 2015–2017. The better performing portfolios were energy, finance, transport, and WUS. However, dips occurred in the education, health, PSM, and agriculture and natural resources portfolios. Factors that hamper efficiency include: delays at start-up, lack of familiarity with ADB's procurement procedures, procurement delays arising from a retendering of packages due to lack of technically qualified bids and high bid prices, slow disbursement of funds, cost escalation, inefficient contractor performance, and weak project implementation capacity. Unclear assumptions and methodology in recalculating the economic internal rate of return (EIRR) at project completion were also pointed out in PVRs.

18. Sri Lanka's Eastern and North Central Provincial Road Project provides an example of an efficient project.[9] Advance procurement action adopted by the government, supported by ADB, expedited the award of contracts as soon as the loan was approved. Committees set up to oversee the funding and progress of the work were active. Efficiency was enhanced by close liaison work among ADB, the executing agency, and the implementing agencies particularly in resolving technical, administrative, and financial issues in a timely manner. Additional costs, due mainly to remedial works after flood damage, were financed within the loan allocation. Moreover, the project was highly efficient, as seen in the recalculated EIRR of 21.1%. Factors that boosted the efficiency performance based on PVRs were the timely completion of targets (energy, finance, and water), robust EIRRs (energy, transport, and water); full loan disbursement (finance); and use of an appropriate EIRR reevaluation methodology (transport).

19. Sustainability has trended up, but remains well below relevance and effectiveness. In 2015–2017, the sustainability of the non-infrastructure portfolio (78%) was higher than of the infrastructure portfolio (57%). This was driven by better performances from the industry and trade, finance, and health sector portfolios. Although the education portfolio recently declined to 88% (from 100% in the preceding period), its performance remained above average. The sustainability of the infrastructure sector portfolio peaked at 64% in 2012–2014, but subsequently declined in 2015–2017. The low share of most likely sustainable or likely sustainable projects in WUS (45%) and in transport (52%) contributed to this performance. The factors that worked against sustainability were insufficient cost recovery, lack of assurance of funds for post-project operation and maintenance, persisting institutional capacity weakness, and lack of government commitment to bring about essential reforms.

20. The People's Republic of China's (PRC) Yunnan Integrated Road Network Development Project exemplifies a project that is most likely sustainable. The PVR noted that the Longling–Ruili Expressway is technically and financially sound and is expected to be self-sustaining.[10] The government is increasing the funding allocation to Yunnan for road rehabilitation and maintenance. The responsibilities for managing expressways, highways, and roads are

[9] IED. 2017. *Validation Report: Eastern and North Central Provincial Road Project in Sri Lanka*. Manila: ADB.

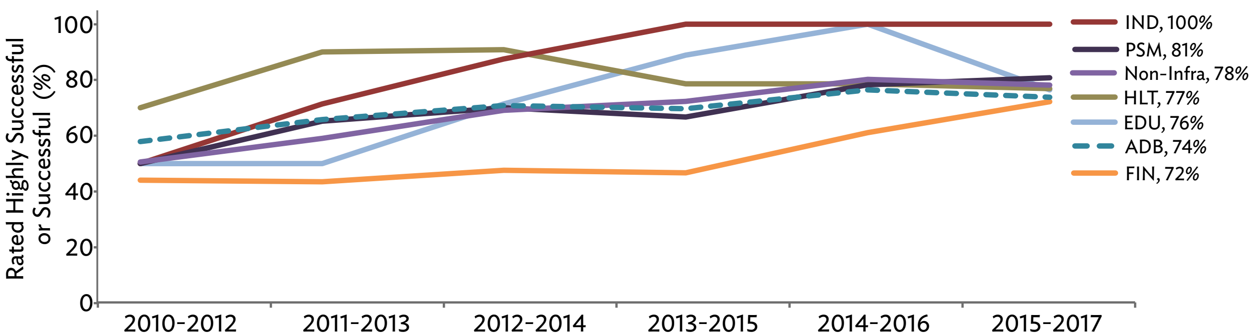
[10] IED. 2017. *Validation Report: Yunnan Integrated Road Network Development Project in the People's Republic of China*. Manila: ADB.

Table 1: Development Performance by Sector in 2014–2016 and 2015–2017 (3-year moving average)

Reporting Period	Infrastructure						Non-infrastructure					
	ANR	ENE	ICT	TRA	WUS	All	EDU	FIN	HLT	IND	PSM	All
2014–2016												
No. of Validated Projects	23	15	1	41	13	93	17	18	14	4	23	76
HS/S (%)	74	93	100	71	69	75	100	61	79	100	78	80
2015–2017												
No. of Validated Projects	18	15	0	50	22	105	17	18	13	4	26	78
HS/S (%)	67	93	0	70	64	71	76	72	77	100	81	78

ANR = agriculture and natural resources, EDU = education, ENE = energy, FIN = finance, HLT = health, HS = highly successful, ICT = information and communication technology, IND = industry and trade, PSM = public sector management, S = successful, TRA = transport, WUS = water and other urban infrastructure and services.
Note: Sector performance analysis includes both primary and secondary sectors.
Source: Asian Development Bank (Independent Evaluation Department).

Figure 6: Development Performance of Sovereign Operations, Non-Infrastructure Sectors, 2010–2017 (3-year moving average)

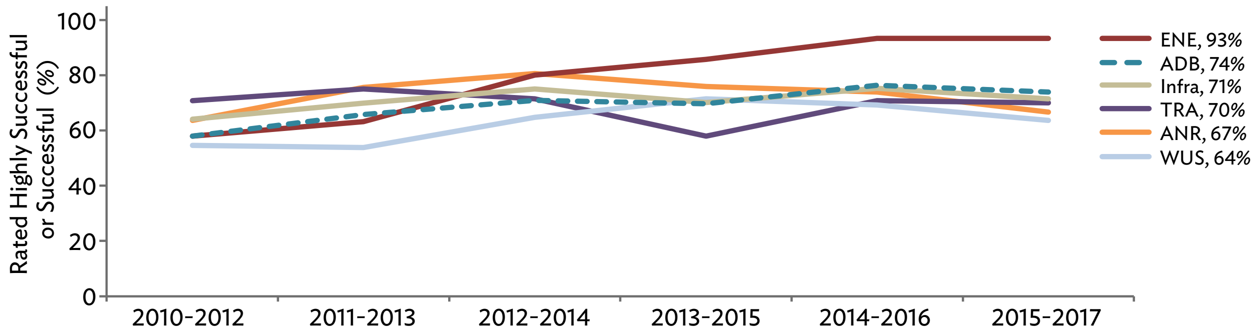


ADB = Asian Development Bank, EDU = education, FIN = finance, HLT = health, IND = industry and trade, non-infra = non-infrastructure, PSM = public sector management.
Source: Asian Development Bank (Independent Evaluation Department).

also well-delineated. The Yunnan Provincial Highway Development and Investment Company manages operation and maintenance of the expressway. The Yunnan Provincial Highway Bureau maintains the national and provincial highways, and Dehong prefecture and county communications bureaus construct and maintain rural roads. These measures augur well for post-project sustainability. Other better performing portfolios in this period were marked by a deepening of policy reforms (finance and industry and trade) and capable executing agencies (finance and health).

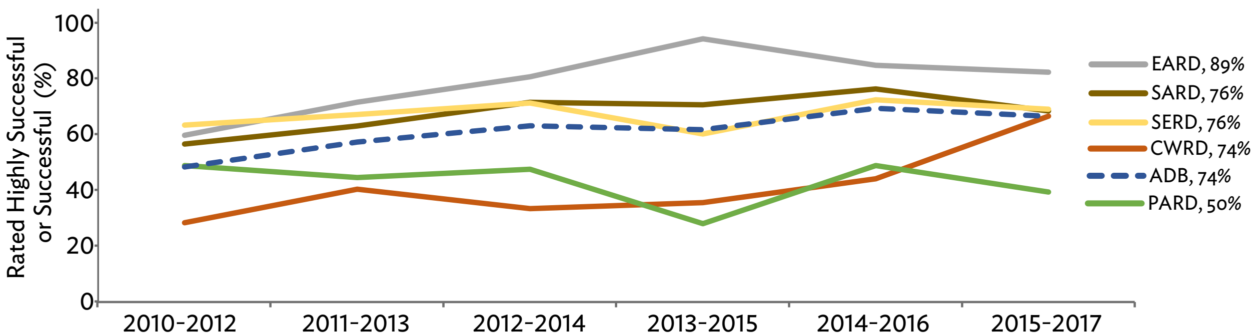
21. Table 1 shows the number of projects in each sector that were included in the recent two 3-year averages. The education, finance, and PSM sectors have the most validated projects, but education shows the most significant changes. Less than successful operations in Nepal, Samoa, and Sri Lanka contributed to the overall low performance of the education sector. Among the reasons cited were: (i) low institutional capacity, which meant that governance and fiduciary issues could not be addressed in time; (ii) an underestimation of program costs and financial requirements; (iii) dependence on development partners for the financing of the school system, or inadequate counterpart funding; (iv) overly ambitious project scope, requiring project extensions; and (v) an overly broad project scope that lacks focus and synergy. Underlying the reduced success of the 2015-2017 evaluated education projects may well be a more ambitious set of projects, including that of sector-wide approach projects. The overall performance of non-infrastructure operations (78%) in 2015–2017 hovered at around the same level as that in 2014–2016 (80%). For the second reporting period in a row, performance continued to improve for the finance sector (72%) and PSM (81%) operations. This is good news. Finance accounted for 23% of assessed non-infrastructure operations and PSM accounted for 33%.

Figure 7: Development Performance of Sovereign Operations, Infrastructure Sectors, 2010–2017
(3-year moving average)



ADB = Asian Development Bank, ANR = agriculture and natural resources, ENE = energy, Infra = infrastructure, TRA = transport, WUS = water and other urban infrastructure and services.
Source: Asian Development Bank (Independent Evaluation Department).

Figure 8: Development Performance of Sovereign Operations, by Region, 2010–2017
(3-year moving average)



ADB = Asian Development Bank, CWRD = Central and West Asia Department, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank (Independent Evaluation Department).

22. This helped non-infrastructure operations remain at around the same level in spite of the notable drop in the validated performance of education operations (Figure 6). The annual sector performance of education operations plummeted to 43% (3 of 7 projects) in 2017, breaking its 3-year streak of 100% success.

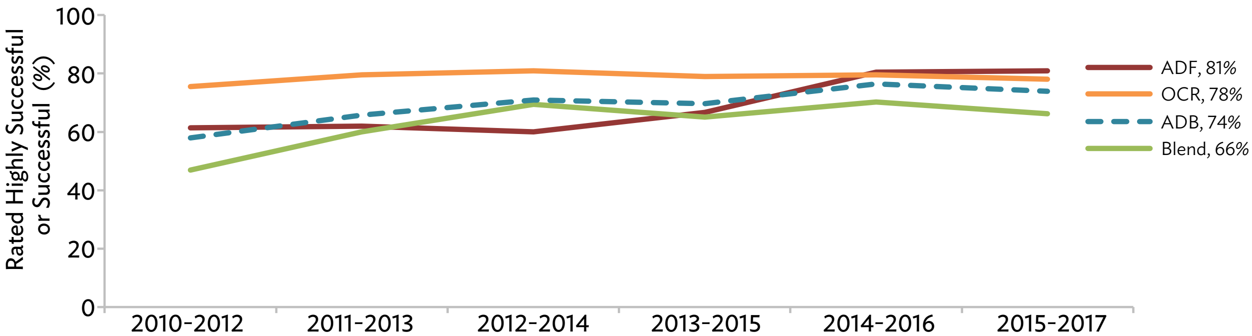
23. The performance of infrastructure operations was pulled down by projects in the agriculture sector (Table 1 and Figure 7). While transport operations' annual performance declined a considerable 27 percentage points, its 3-year moving average remained nearly the same at 70%, except for 2013–2015 (58%). Non-urban road transport operations dominated transport operations in 2015–2017.

d. Performance by Region

24. The South and Southeast Asia regions comprised 59% of 153 validated sovereign operations undertaken in 2015–2017.[11] Performance in most regions was either above or at par with overall ADB performance; it was below par only in the Pacific region (Figure 8). Central and West Asia Department (CWRD) was the only region to improve its performance (Linked Document A). In CWRD, agriculture and transport operations were the top performers in infrastructure, and finance and PSM operations the best in non-infrastructure sectors. The CWRD performance markedly improved from 54% in 2014–2016 to 74% in 2015–2017. After no successful projects in 2014–2016 and a below par performance since 2010, Pakistan posted its best performance with

[11] Statistically significant at the 5% level.

Figure 9: Development Performance of Sovereign Operations by Country Classification, 2010–2017
(3-year moving average)



ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources.
Note: Blend countries are those with access to both ADF and OCR.
Source: Asian Development Bank (Independent Evaluation Department).

50% of operations assessed successful in 2015–2017. The success profile for infrastructure operations (83%) and non-infrastructure operations (55%) considerably increased in 2015–2017 in CWRD.

25. In East Asia, 19 operations were assessed in 2015–2017, compared with 24 in 2014–2016. In 2015–2017, PRC's portfolio was reduced by 26%. The portfolio remained unchanged in Mongolia. East Asia's total portfolio decreased to four operations in 2017 from nine in 2016. The performance of East Asia declined to 89% in 2015–2017 from 92% in 2014–2016. Non-infrastructure sector performance remained at 100%, while infrastructure was down by two percentage points at 89% in 2015–2017.

26. South Asia's portfolio increased by 12%, with 45 operations assessed in 2015–2017. The region's performance fell to 76% in 2015–2017 from 83% in 2014–2016, driven by lower success rates in Bangladesh, India, Nepal, and Sri Lanka. The performance of Southeast Asia dipped by three percentage points to 76% driven by a lower success rate in Viet Nam. Indonesia's success rate rose from 78% to 83%. The Philippines' improved success rate (67%) in 2015–2017 was the country's highest since 2010–2015, when it averaged 50%.

e. Performance by Country Classification

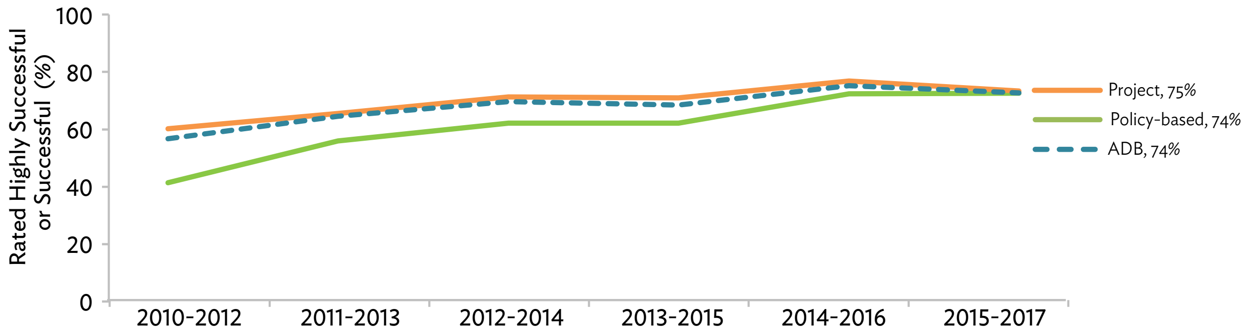
27. The performance of operations in countries eligible for funding from the Asian Development Fund (ADF) and performance in countries eligible for funding from ordinary capital resources (OCR) countries in 2015–2017 was almost unchanged during 2014–2016 (Figure 9). The ADF success rate was 81% and that for OCR was 78%. In "blend countries" (eligible for funding from both ADF and OCR) project performance was 66% in 2015–2017, below the ADB average. This has been the case for some time. Majority of operations consisted of infrastructure sectors in blend (62%) and OCR (61%) countries, and nearly half (49%) in ADF countries. Infrastructure sector operations assessed in blend countries surged from 31 operations in 2014–2016 to 49 in 2015–2017. Among ADF operations, substantial improvements in agriculture, finance, transport, and water portfolios helped offset the considerable decline in the performance of the education portfolio. The drop in the performance of blend operations was driven by large declines in the success rates of agriculture, education, and PSM projects. The improved performance of non-infrastructure operations compensated for the decrease in success rates of agriculture, energy, and water projects in OCR countries in 2015–2017. Assessed operations in OCR countries performed better in terms of relevance, effectiveness, and sustainability, while ADF countries were the highest in efficiency.

f. Performance by Modality

28. The performance gap between operations financed through policy-based lending (PBLs) (74% rated highly successful or successful for 2015–2017) and investment loans (75% for the same period) further narrowed in 2015–2017 (Figure 10).

29. PBL represented just under 20% of ADB's total yearly approvals by lending. The proportion of

Figure 10: Development Performance of Sovereign Operations by Modality, 2010–2017
(3-year moving average)



ADB = Asian Development Bank
Source: Asian Development Bank (Independent Evaluation Department).

Table 2: Development Performance of Nonsovereign Projects by Sector, 2008–2017

Year	Infrastructure		Financial Institutions		Private Equity Funds		Total	
	Successful	Total	Successful	Total	Successful	Total	Successful	Total
2008	2	2	1	1	0	1	3	4
2009	1	1	2	3	0	0	3	4
2010	1	1	0	2	1	2	2	5
2011	1	1	3	4	0	1	4	6
2012	3	4	3	7	0	1	6	12
2013	6	6	2	5	2	5	10	16
2014	5	5	5	5	5	7	15	17
2015	4	4	4	9	0	3	8	16
2016	3	6	3	3	2	4	8	13
2017	3	4	3	4	0	1	6	9
Total	**29**	**34**	**26**	**43**	**10**	**25**	**65**	**102**

Note: Validated results are shown using extended annual review report dates.
Source: Asian Development Bank (Independent Evaluation Department).

PBL's in the entire ADB program has varied from 18% to 26% over 2010–2017. The 3-year moving average performance for PBL's have steadily increased over the years and converged with project performance over 2015–2017. This probably has to do with more widespread use of single-tranche PBLs, and a change in the type of reforms supported (more on PSM and responding to global financial crisis situations).

2. Nonsovereign Operations

a. Overall Performance

30. **The performance of nonsovereign projects saw a drop from a peak of 88% in 2014 to 50% in 2015 and recovered to 67% in 2017.**[12]

Nonsovereign operations are loans, equity, or ADB cofinancing[13] made without sovereign guarantees to support development in three broad operations areas: infrastructure, financial institutions, and private equity funds. The nonsovereign operations in this section are only those which have been completed through ADB's Private Sector Operations Department (PSOD) and evaluated using the nonsovereign operations methodology.[14] PSOD approvals have grown from 4 approvals for $37.5 million of ADB financing in 2001 to 29 approvals for $3.2 billion in 2017.[15] The performance of completed projects are determined through PPERs

[12] The 2015–2017 average is lower than the 2014–2016 average since the former excludes the 2014 peak performance.

[13] ADB cofinancing includes B-loans and guarantees.

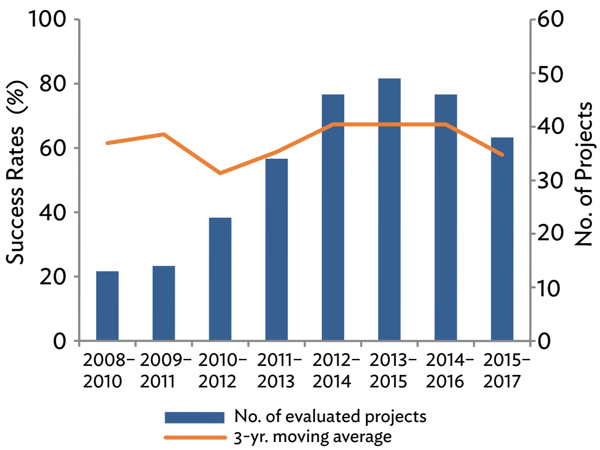
[14] IED. 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Nonsovereign Operations*. Manila: ADB.

[15] ADB. 2002. *2001 Annual Report*. Manila; ADB. 2018. Operations Reach $28.9 Billion. *News Release*. 12 January 2018. www.adb.org.

and IED's desk validations of the extended annual review reports prepared by PSOD. IED evaluated 10 nonsovereign projects in 2017,[16] bringing the total of 2008–2017 evaluations[17] to 102[18] (Table 2).

31. IED has developed a specific methodology for evaluating nonsovereign operations based on the Good Practice Standards of the Evaluation Cooperation Group. The performance scale is: highly successful, successful, less than successful, and unsuccessful.[19] The overall percentage of nonsovereign operations rated highly successful or successful declined from 67% for 46 projects completed over 2014–2016[20] to 58% for 38 projects completed over 2015–2017, using 3-year moving averages (Figure 11).

Figure 11: Development Performance of Nonsovereign Operations, 2008–2017
(3-year moving average)



Note: Validated results are shown using extended annual review report dates.
Source: Asian Development Bank (Independent Evaluation Department).

32. As will be seen later, the main reason for this decline is the performance on the development outcomes criteria. In 2017, IED also prepared a corporate evaluation of ADB's credit enhancement products that shed light on the use of these instruments by ADB to help mobilize private sector resources for development (Box 1).[21]

b. Performance by Evaluation Criteria

33. The assessment methodology for nonsovereign projects uses four main criteria: (i) development results, (ii) ADB additionality, (iii) ADB investment profitability, and (iv) ADB work quality (Linked Document D) and a four-point scale of excellent, satisfactory, less than satisfactory, and unsatisfactory. Excellent and satisfactory are successful performance. Figure 12 shows the 3-year moving averages for all completed projects for 2008–2017 against the four main performance criteria. Figure 13 shows the four subcriteria for development results.

Box 1: Corporate Evaluation of Credit Enhancement Products

In 2017, the Independent Evaluation Department prepared a corporate evaluation to review Asian Development Bank's (ADB) use of credit enhancement products (CEPs) to contribute to the financing needs of developing countries. CEPs are guarantees, A/B loans, and risk transfers. This study recommended that ADB should: (i) prioritize the organizational arrangements, operation, pricing aspects, and incentives of its CEP business and establish a dedicated unit serving both sovereign and nonsovereign operations; (ii) improve the mobilization approach and mobilization measurement system; (iii) increase capacity building for CEPs to enhance awareness of their advantages; (iv) discuss CEPs with governments during country partnership strategy dialogues; and (v) improve the administration and risk management of the CEP business operations through the use of better information technology systems.

Source: Independent Evaluation Department. 2017. *Corporate Evaluation: Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products.* Manila: ADB.

16 A total of 10 sovereign loans (Appendix 4) were evaluated and 55 validated in 2017 (Linked Document B).

17 The evaluation of nonsovereign operations is from 2008–2017 as the ratings methodology and sector definitions are unchanged over the 10-year review period. For nonsovereign ratings, each project has only one (primary) sector classification.

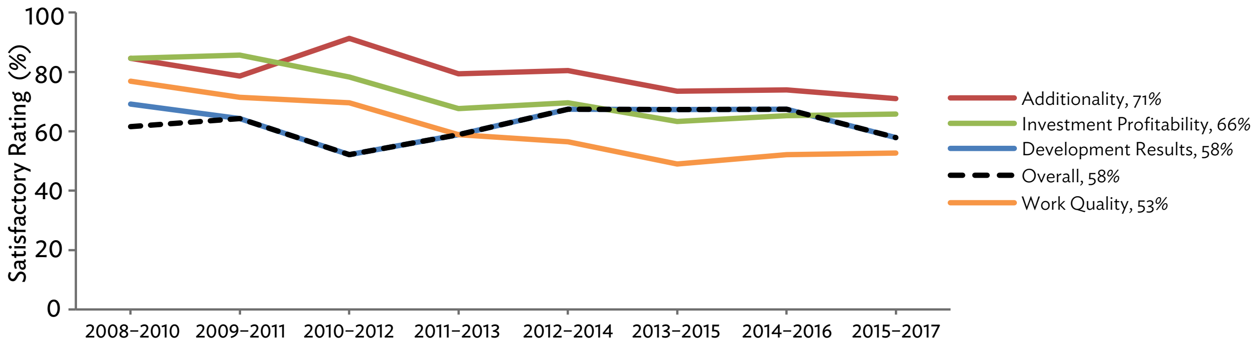
18 Evaluations are shown by the year of the XARR. Of the 10 evaluations completed in 2017, 9 were 2017 XARRs and 1 was a 2016 XARR. The 2016 results have been updated to reflect this (Linked Document C).

19 Highly successful and successful results are considered successful for the purposes of this analysis; less than successful and unsuccessful results are considered less than successful.

20 The 2014–2016 result is revised from 69% reported in the 2017 AER to reflect the additional 2016 project evaluated in 2017.

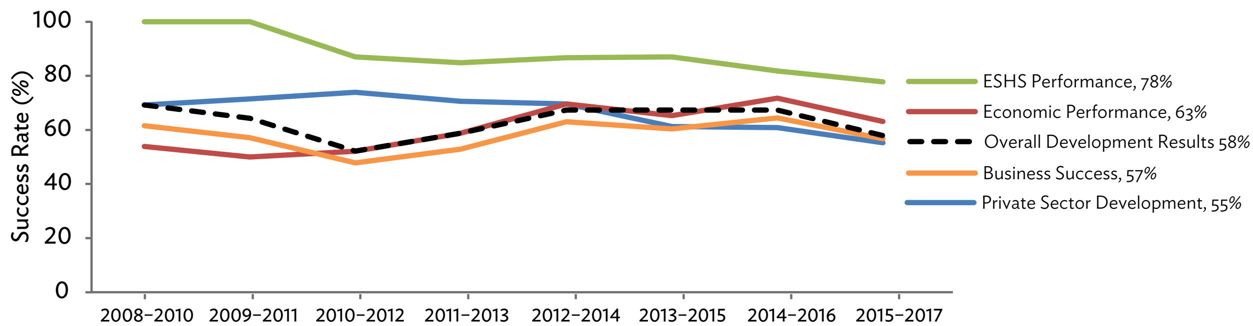
21 IED. 2017. *Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products*. Manila: ADB.

Figure 12: Development Performance of Nonsovereign Operations by Evaluation Criteria, 2008–2017
(3-year moving average)



Note: Validated results are shown using extended annual review report dates.
Source: Asian Development Bank (Independent Evaluation Department).

Figure 13: Development Performance by Development Results Subcriteria, 2008–2017
(3-year moving average)



ESHS = environment, social, health, and safety.
Note: Validated results are shown using extended annual review report dates.
Source: Asian Development Bank (Independent Evaluation Department).

34. **Development results declined, driving overall results down.** The poor development results are the main explanation for the performance of nonsovereign operations, as this is the most heavily weighted criterion for determining a project's success.[22] Of the four development results subcriteria, it is usual for private sector development, economic performance, and business performance to be closely aligned, as it is generally expected that a contributor to private sector development will have positive economic and business results. Environment, social, health, and safety performance results are generally high due to the importance placed on these activities for compliance with ADB safeguards requirements. The development results for the 10 nonsovereign projects evaluated in 2017 are discussed below.

(i) **Contribution to private sector development and ADB's strategic objectives.** In 2017, 6 of 10 nonsovereign projects were found successful. These projects demonstrated: (i) better access to financing for finance leasing companies, which increased access to finance for clean bus operators in PRC; (ii) the viability of utility-scale wind power, contributing to an expansion of the sector in Thailand; (iii) additional funding for a financial institution, contributing to an expansion of operations to new markets and offering new products to underserved borrowers in Armenia; (iv) construction of the first wind power plant in Pakistan under a new regulatory environment with the project's viability contributing to a subsequent expansion of the sector; (v) the

[22] Only one overall rating over 2008–2016 was not the same as the development results rating. This was a private equity fund in a DMC that had seen no fund activity for a period due to the Asian financial crisis. The fund's investments in small and medium-sized enterprises helped them to grow, although the fund did not achieve targeted returns (for its own account for ADB). The development results were rated satisfactory while the overall rating was less than successful.

successful privatization and business expansion of a mortgage lender in the Maldives supported by an ADB equity investment; and (vi) large-scale hydropower viability for Pakistan. The projects that were not assessed successful did not produce sufficient demonstration effects to contribute to private sector development. They were: (i) a portfolio purchase for securitization, which allowed the financial institution to increase its business but did not achieve securitization; (ii) a private equity fund that did not achieve the targeted number of investments and did not focus its investments on investee company growth; (iii) a business that could not achieve its plans due to regulatory changes; and (iv) a power station rehabilitation that contributed power but did not fully comply with ADB safeguard requirements.

(ii) **Economic contribution.** In 2017, 7 of the 10 projects made a successful economic contribution. The measurement of the economic contributions generally reflects the project's gross profitability and the jobs it created. Successful and economically viable energy and financial institutions projects contributed to business growth in new markets and products. Of the projects that did not succeed, in one, the intended securitization did not proceed and in another a private equity fund did not meet investment return targets. The third was a renewable energy project, which was financially viable but did not meet the threshold for a satisfactory economic contribution.

(iii) **Environment, social, health, and safety performance.** In 2017, 8 of 10 projects were successful, reflecting the focus on compliance with ADB safeguard requirements. These projects included: (i) updating of environmental and social management systems in financial institutions to comply with ADB standards and training of staff on requirements; (ii) targeting and tracking loans to women and women-owned and managed businesses; (iii) mitigating the environmental impacts of construction projects; (iv) ensuring workplace safety during construction; (v) hiring local people, in particular women, for construction and plant operations work; (vi) consulting with local communities and agreed land access and acquisition; (vii) engaging community liaison officers; and (viii) carrying out corporate and social responsibility programs. The two projects that did not succeed did not fully comply with ADB safeguard requirements.

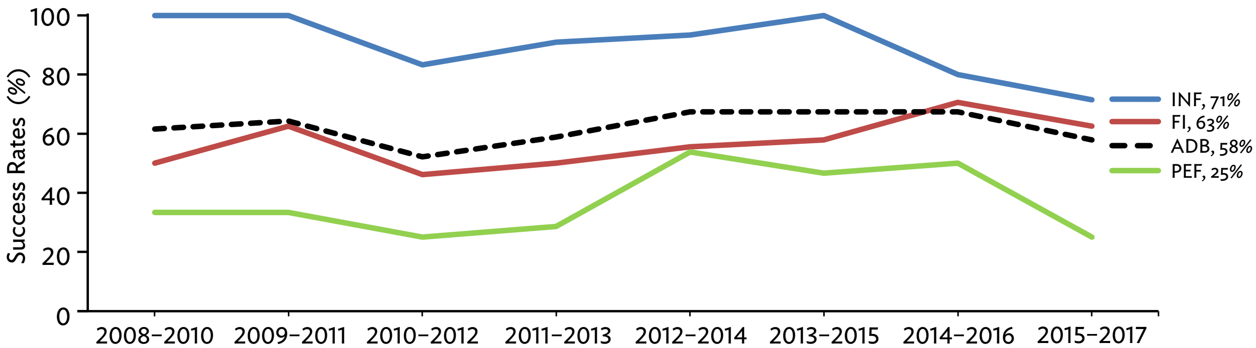
(iv) **Business success.** In 2017, 7 of 10 projects were successful for financial investment returns. The exceptions were: (i) a private equity fund that did not meet return targets; (ii) an infrastructure project that had lower than expected revenues in its early years of operations, resulting in lower returns; and (iii) a financial institution that had some loan impairments in parts of its portfolio affecting its performance, although the focus area of small and medium-sized enterprises (SMEs) lending met targets and capital adequacy ratios.

35. **ADB additionality was demonstrated in several projects evaluated in 2017.** The successful projects produced tangible benefits from ADB's involvement in transaction development. Successful projects were early entrants into new regulatory environments, and therefore would have had difficulty raising financing without ADB involvement. ADB helped to develop transaction structures that were appropriate for the risk being taken and that met the needs of both projects and commercial lenders or investors. Commercial financial institutions participating in these transactions gained experience in new business sectors and international lending practices, which can be used for future transactions. Successful demonstration or business expansions financed by ADB in their early stages were able to attract subsequent financing without ADB. ADB involvement also improved safeguard practices as companies had to comply with ADB safeguard requirements. Of the projects that were not successful for ADB additionality, two had reasonably progressed before ADB's participation, and the third did not appear to have the intended catalytic effect for the sector or financing.

36. **Projects evaluated in 2017 also showed investment profitability for ADB.** The successful performance for ADB profitability recognizes that the pricing for the risk taken was appropriate, and that projects complied with agreed interest and debt repayment schedules and equity investments met return targets. The one project that did not succeed was a private equity fund, which did not meet return targets for its investors, which included ADB.

37. **ADB work quality was assessed successful in six projects evaluated in 2017.** ADB work quality has two subcriteria, both of which must be rated successful for a successful work quality rating. Successful performance recognizes the selection of projects with sponsors able to deliver the intended

Figure 14: Development Performance of Nonsovereign Operations by Sector, 2008–2017
(3-year moving average)



ADB = Asian Development Bank, FI = financial institutions, INF = infrastructure, PEF = private equity funds.
Note: Success rates are based on independent evaluation of extended annual review reports prepared during 2008-2017.
Source: Asian Development Bank (Independent Evaluation Department).

projects or programs within the ADB member country, ADB's role in developing the transaction to meet the needs of the situation, as well as ADB's safeguards requirements, and ADB's role in developing the financing structure. ADB's ongoing monitoring to track the compliance with targets and financial covenants and supervision to ensure clear plans are established for needed corrective actions are also recognized. For the projects that did not succeed, two were because the screening, appraisal, and monitoring component was not satisfactory. These were (i) a financial institution for which a broad SME definition was used creating difficulties with determining the use of ADB's loan for SME lending, and (ii) a project for which screening for compliance and corrective actions required to meet ADB's safeguards requirements was not adequate. Two additional projects were not successful in either ADB work quality subcriteria. These were (i) a private equity fund for which the investment mandate was not defined, and the difficulties of frontier market investment were not recognized; additionally, early losses were not monitored and some investments did not comply with ADB requirements, although ADB did increase its focus once concerns were recognized; and (ii) a securitization targeted for a market that was not well-enough developed for securitization-type structures and progress toward the intended securitization was not recorded, although the underlying loan portfolio was closely monitored.

c. Performance by Sector

38. **Infrastructure projects were the most successful nonsovereign operations, financial institution projects were stable within the range of previous performance levels, and projects using private equity funds continued to lag.** Figure 14 shows the performance for infrastructure, financial institutions, private equity funds, and the combined overall portfolio success rates for completed projects using 3-year moving averages. The relative performance of each sector program is unchanged over time. However, as shown in Figure 14 the number of projects contributing to each sector program's performance score is small, and, with each sector program having one 2017 project that was not successful, the effect on the moving 3-year averages is that all sector program performance scores declined in the current review period. For 2015–2017, 71% of infrastructure operations, 63% of financial institution operations, and 25% of private equity funds were successful.

39. **Infrastructure operations are the most successful contributors to the performance of completed nonsovereign operations, delivering results across a broad range of projects.** Completed operations have expanded from conventional energy and toll roads in 2008 and now include renewable energy, electricity transmission and distribution, district heating, transportation, telecommunication networks, education, and health care projects. While performance trended down in the most recent periods, 29 of the 34 infrastructure projects over 2008–2017 were successful (85%), and they were completed in 14 ADB member countries. Contributors to successful performance include the selection of strong project sponsors able to deliver projects in-country, sound contractual arrangements, stable regulatory environments, and appropriate safeguards and risk mitigation measures. Of the five projects that were not successful, three experienced implementation delays that affected their financial viability, one did

not comply with all ADB safeguard requirements, and one was not able to complete its business plan due to regulatory changes. Each of the five was in a different member country, and they were in four subsectors (conventional energy, renewable energy, health care, and district heating); apart from the delays in three of the projects, there were no common elements across the five.

40. **The financial institution performance is stable within the 10-year range.** Completed operations have expanded from mortgage financing for underserved markets in 2008 to a range of activities supporting increased access to finance through strengthened financial institutions and capital markets. They include microfinance, lending to SMEs, financial leasing, and trade finance. The financial institution sector has the largest number of completed projects in the portfolio. Financial sector program performance trended downward in 2015–2017 from the 71% peak achieved for 2014–2016; overall, 27 of 43 financial institution projects (63%) were successful in 2008–2017. Projects were completed in 17 ADB member countries. Contributors to successful performance included the selection of strong partners able to expand business into new products, new geographic regions, and to underserved populations while focusing on improved corporate governance, credit assessment, and safeguards screening practices. The 16 financial institution projects that were not successful generally fell into two broad categories: projects affected by overall economic cycles, and projects that were highly specialized approvals intended to meet specific ADB DMC needs. Economic cycles affected the performance in 8 of these 16 projects, all of which were in Azerbaijan and Kazakhstan that experienced macroeconomic downturns affecting the banking sector's ability to deploy capital or to be profitable in parts of their overall businesses.[23] The remaining eight were specialized approvals: guarantees designed to attract investments to difficult markets, a guarantee to increase long-term cashflow-based lending to SMEs, an equity investment in a specialized nonbank financial institution that was not able to maintain strong corporate governance, and a guarantee to support a securitization. These specialized activities were undertaken in six ADB member countries and many were intended to support activities in troubled situations rather than in more traditional focus areas of expanding access to finance in underserved markets.

[23] Six of these projects are in 2010–2012 and two are in 2015.

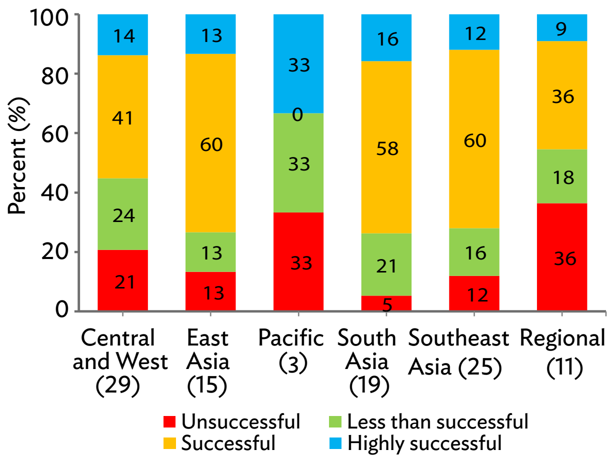
41. **Private equity funds are the smallest sector in the nonsovereign operations portfolio and their performance is the weakest.** Private equity funds bring equity investments to underserved markets through targeted investments, including in SMEs operating in renewable energy, consumer products, and health care, with operations in one or more specified ADB member countries. Private equity performance trended downward in the 2015–2017; overall 11 of 25 results validated over 2008–2017 were successful. Contributors to successful performance included experienced fund managers who were able to attract sufficient capital to the fund, target a diverse pool of SME businesses, and help investee companies grow. Successful funds achieved profitable investment returns alongside development targets and demonstrated the potential for private equity investments to contribute to economic development in their target sector or ADB member country. Private equity fund investments can be unsuccessful for a variety of reasons, including a fund manager's lack of experience, unfamiliarity with a particular ADB DMC, a market that is too undeveloped, a fund management team that is too small, a fund that is too small and has insufficient capital, and a target investment profile that is defined too narrowly and therefore not enough investments could be identified in compliance with the fund's mandate.

d. Performance by Region

42. **Nonsovereign project performance by region is in line with that of sovereign projects. ADB identifies nonsovereign opportunities for each DMC and these are included in the country partnership strategies (CPSs).** Nonsovereign projects have been completed in all ADB regions (Central and West Asia, East Asia, Pacific, South Asia, and Southeast Asia). For regional performance, projects that are undertaken in more than one country with countries in more than one ADB region are classified as regional projects. The portfolio of completed nonsovereign projects is small, with 91 completions in 21 ADB member countries. There have been 13 completed projects in the PRC, 11 in India, and the other 19 countries had between 1 and 7 completed projects each. There were 11 regional projects making 102 completions in total. With projects spread across both countries and sectors, a year-on-year presentation of success rates would distort the picture. Therefore, performance is shown for the 2008–2017 portfolio as a whole using ADB's 2017 organizational structure for

regional alignment. Performance was generally within the range of those for the sovereign projects by region over the same period.

Figure 15: Development Performance of Nonsovereign Operations by Region, 2008–2017



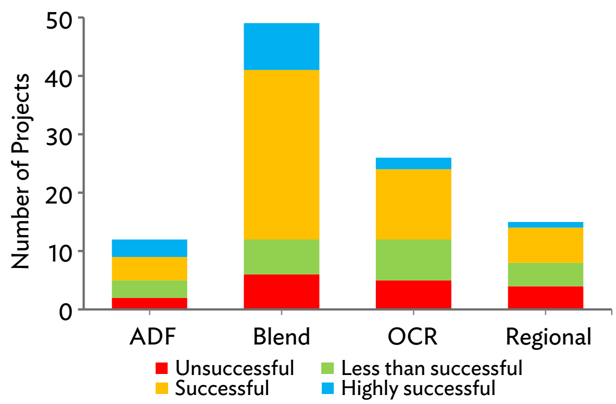
Note: Validated results are shown for extended annual review reports prepared during 2008-2017.
Source: Asian Development Bank (Independent Evaluation Department).

e. Performance by Country Classification

43. **Nonsovereign operations contributed to performance in all of ADB's country classifications, with the highest success rates in blend countries—the opposite with sovereign operations.** Nonsovereign operations completed 102 projects over 2008–2017: for countries eligible only for ADF funding, there were 12 projects in 6 DMCs; for blend countries, there were 49 projects in 10 DMCs; for countries eligible only for OCR funding, there were 26 projects in 5 DMCs. There were also 15 regional projects, which are projects undertaken in more than 1 country, with countries in more than one ADB classification. For the three groups of countries (eligible for ADF, eligible for OCR, and blend countries eligible for both), projects were completed in all three sectors (infrastructure, financial institutions, and private equity funds). Regional projects were all private equity funds.

44. With a small number of projects spread across ADB country classifications and nonsovereign operations sectors, a year-on-year presentation of success rates would distort the picture, making it difficult to draw conclusions about success rates based on ADB country classifications (Figure 16). Seven of the 12 ADF projects (58%) were rated successful, in line with 3-year moving averages for sovereign projects of 42%–82% over the period. Fourteen of the 26 OCR projects were rated successful (54%), which was lower than the sovereign 3-year moving averages of 68%–79%. The OCR projects were dampened by the performance of financial institution projects in Azerbaijan and Kazakhstan, which were impacted by macroeconomic conditions affecting the banking sector. Thirty-seven of the 49 blend projects (76%) were rated successful, in line with 3-year average range of 55%–79% for sovereign projects over the period. Regional projects had 7 successful performance for the 15 completions (47%). No new regional projects were completed in 2017. There is no meaningful alignment of the performance of nonsovereign operations with regional performance of sovereign operations.

Figure 16: Overall Development Performance of Nonsovereign Operations, by ADB Country Classification, 2008–2017



ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources.
Note: Validated results are shown for extended annual review reports prepared 2008-2017.
Source: Asian Development Bank (Independent Evaluation Department).

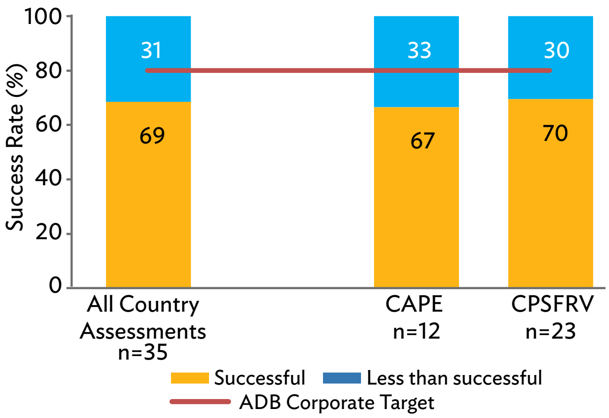
3. ADB Performance at the Country Level

45. The 2018 AER covers 35 country evaluations for 28 DMCs undertaken from 2010 to 2017.[24] During this period, 12 country assistance program evaluations (CAPEs) and 23 validations of country partnership strategy final reviews (CPSFRVs) were completed.[25] The most recent country assessments (in 2017) were those for Afghanistan, India, Kazakhstan, Mongolia,

[24] During this period, two country evaluations were prepared for nine countries (Afghanistan, Bhutan, India, Indonesia, Kazakhstan, Lao People's Democratic Republic, Maldives, Sri Lanka, and Timor-Leste). The year 2010 was used as the base year for assessing country performance as the country evaluation guidelines were adopted in that year.

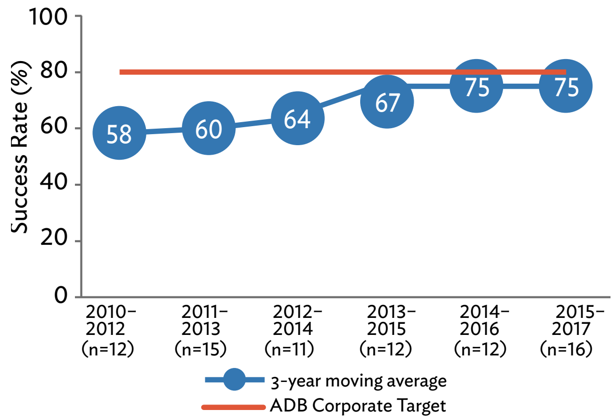
[25] The CPSFRVs for India and Sri Lanka were not included given that the evaluation review period for these countries were also covered in their respective CAPEs.

Figure 17: ADB Average Country Performance, 2010–2017



ADB = Asian Development Bank, CAPE=Country Assistance Program Evaluation, CPSFRV=Country Partnership Strategy Final Review Validation.
Source: Asian Development Bank (Independent Evaluation Department).

Figure 18: ADB Country Performance, 2010–2017
(3-year moving average)



ADB = Asian Development Bank.
Source: Asian Development Bank (Independent Evaluation Department).

the Philippines, and Turkmenistan (Linked Document E).

a. Overall Performance

46. Country performance remains steady at 75% success over 2015–2017 and 69% over the past 8 years (2010–2017, Figure 17). Three-year moving averages showed an improving trend from 2010 to 2016 although averages plateaued at 75% over the last 3-year period (Figure 18). The successful performance recorded by the recent country partnership assessment for India underpinned this performance. It should be noted, however, that three of the four successful country partnership assessments in 2017 (Kazakhstan, the Philippines, and Turkmenistan) were borderline successful.[26] For instance, in the case of Kazakhstan and the Philippines, despite the ADB program's relevance, efficient use of resources, and likelihood of sustainability, country operations fell short of meeting sector outcomes and country development targets, making them less than effective and their development impact less than satisfactory. Afghanistan and Mongolia were rated less than successful. In Afghanistan, projects had large delays, lacked progress in outcomes, while the development impact was weak, except in regional cooperation. In Mongolia, the program was rated less than effective, less than likely sustainable, and only one of the program goals had been partially achieved.

b. Performance by Country Sector Program

47. Sector program performance at the country level is very similar to sector portfolio performance at the project level. ADB country programs in energy, education, WUS, and transport performed better than those in health, agriculture and natural resources, finance, and PSM (Figure 19).[27] The 2017 sector program assessments for CAPE India noted improved sector program performances in energy, WUS, and transport. Sector program assessments in the most recent CPS have also noted the need for strong government commitment and project ownership in the India program, particularly in energy and WUS operations.[28] The value of long-term engagement was highlighted in the better performance of the energy program. In the case of WUS support, sector assessments generally noted the appropriateness of project designs, which adopted an integrated planning approach, ensuring

[26] Given the wide range between successful and less than successful ratings, the 2015 CAPE Guidelines noted the need to identify country borderline performers. Country program ratings equal to 1.6 to 1.75 are considered successful on the borderline. (IED. 2015. *Country Assistance Program Evaluation Guidelines*. Manila: ADB). For 2017, CPSFRVs for Kazakhstan, the Philippines, and Turkmenistan were rated successful on the borderline.

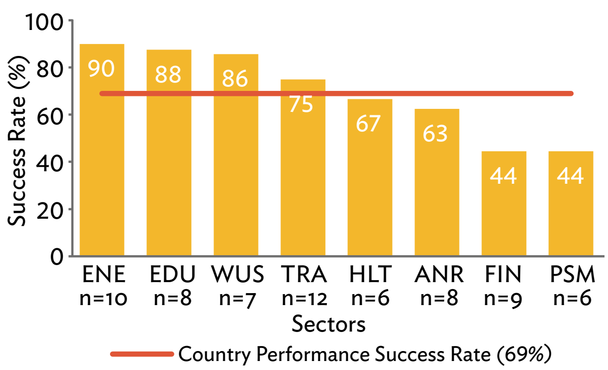
[27] These results should be interpreted with caution. While the aggregate ratings were based on 80 sector assessments, these were prepared for only 12 CAPEs.

[28] Refers to the sector assessments done in the last three years (2015–2017) which include evaluations undertaken for India (2017), Sri Lanka (2016), PRC (2015), and Papua New Guinea (2015).

institutional and capacity development components were integrated with infrastructure support.[29]

48. Despite an overall improvement in transport operations, more than half of country programs reviewed in this sector were less than likely sustainable.[30] Most recent country program assessments have noted the perennial concern about the inadequacy of financing for the operation and maintenance of infrastructure assets.[31] Consistent with the 2017 AER, the performance of country programs in the education sector has improved; however, this performance is better than the ADB-wide performance of education projects, which has been dropping recently and now stands at 76%. This may be because of the difference in the periods of aggregation and the number of country assessments considered.

Figure 19: Sector-Level Performance in ADB Country Programs, 2010–2017

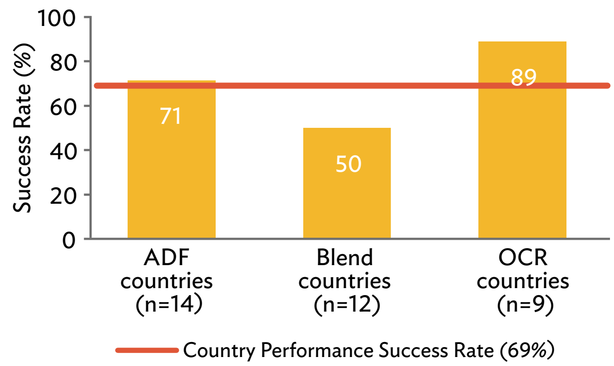


ADB = Asian Development Bank, ANR = agriculture, natural resources, and rural development, EDU = education, ENE = energy, FIN = finance, HLT = health, PSM = public sector management, TRA = transport, WUS = water and other urban infrastructure and services.
Notes: Based on 80 sector assessments from 12 country assistance program evaluations. Sectors with only three assessments or less are not included.
Sources: Asian Development Bank (Independent Evaluation Department), country assistance program evaluations from 2010 to 2017.

c. Performance by Country Classification

49. The implications of the merger of the ADF and OCR for the current ADB corporate results framework have yet to be assessed. This 2018 AER continues to report according to the country eligibility classification of recent years. The addition of the latest country performance evaluations in 2017 did not result in a significant change from the previous aggregate performance recorded in the 2017 AER. Blend countries still performed below the overall country performance success rate (Figure 20). The recent country evaluation for Mongolia pulled the success rate further down. Programs in countries with sole access to either ADF or OCR performed better than blend countries. Having said that, the performance of blend countries improved generally from 2014 onwards from success rates of about 30% to approximately 60%.[32] This was due to better performances in all criteria except effectiveness.[33]

Figure 20: ADB Country Performance by Eligibility Classification, 2010–2017



ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources.
Note: Blend countries can borrow from both the ADF and OCR.
Source: Asian Development Bank (Independent Evaluation Department).

d. Performance by Evaluation Criteria

50. Country programs have been responsive to countries' development needs and sector priorities, and aligned with ADB's corporate strategies. Most ADB country programs[34] have been assessed relevant and effective; however, as in previous years, performances on efficiency and sustainability continue to challenge ADB country operations (Figure 21, see also Chapter 3 for more analysis).[35]

---

29 WUS support is faced with issues related to tariff setting as current levels do not ensure cost recovery.

30 Seven out of 12 transport sector assessments prepared since 2010 were rated less than likely sustainable.

31 IED. 2016. *Country Assistance Program Evaluation: Sri Lanka, 2006–2015*. Manila: ADB; IED. 2015. *Country Assistance Program Evaluation: Papua New Guinea, 2001-2014*. Manila: ADB.

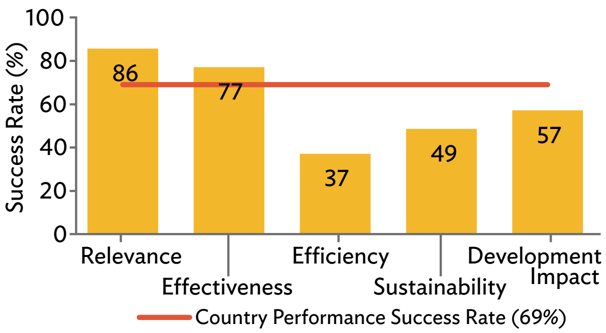
32 From 25%–40% successful in 2010–2012 to 2013–2015, to 60% in 2014–2016 and 57% in 2015–2017.

33 Looking at the 3-year moving average, the relevance ratings were consistently at 100% in 2014–2016 (five projects) and 2015–2017 (seven projects) while efficiency and sustainability improved from 20% to 29% and development impact from 40% to 43%.

34 Includes CAPEs and CPS final review validation ratings over 2010–2017.

35 Appendix 3 provides a brief description of each evaluation criterion.

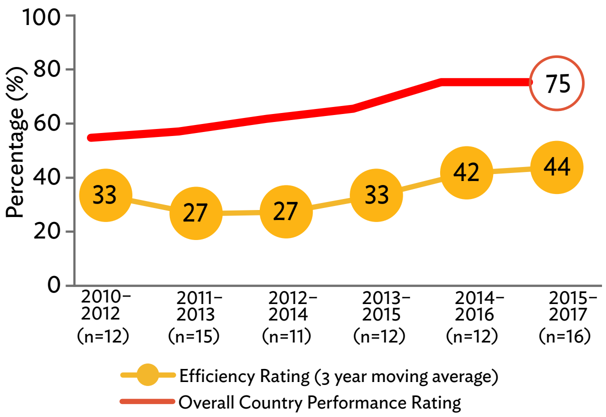
Figure 21: ADB Country Performance by Evaluation Criteria, 2010–2017



ADB = Asian Development Bank.
Source: Asian Development Bank (Independent Evaluation Department).

51. Performance on efficiency has been the lowest of the five evaluation criteria; however, since 2013, it has been consistently improving, with the 2015–2017 average reaching 44% (Figure 22).

Figure 22: ADB Country Performance for Efficiency, 2010–2017 (3-year moving average)



ADB = Asian Development Bank.
Source: Asian Development Bank (Independent Evaluation Department).

52. Recent developments in the preparation of results frameworks and DMFs at both country and project levels have limited the reference to development impact as a measurable variable in the results chain. Development impact no longer forms part of the results chain, but is now mainly referred to as a point of alignment for outcomes and outputs. Impact statements in DMFs no longer have accompanying indicators, targets, assumptions, and risks. The aggregate performance for satisfactory development impact declined over 2010–2017.[36] Almost all country programs recently evaluated have been rated less than satisfactory for development impact. The size of the ADB program seems to be an issue, since it means the ADB contribution to country goals can only be marginal (e.g., in Kazakhstan, the Philippines, and Turkmenistan). The lack of measurable indicators and available data is also an issue in Mongolia and the Philippines.

[36] This is in comparison with the aggregate performance for 2010–2016 which was 67% satisfactory.

ADB Results

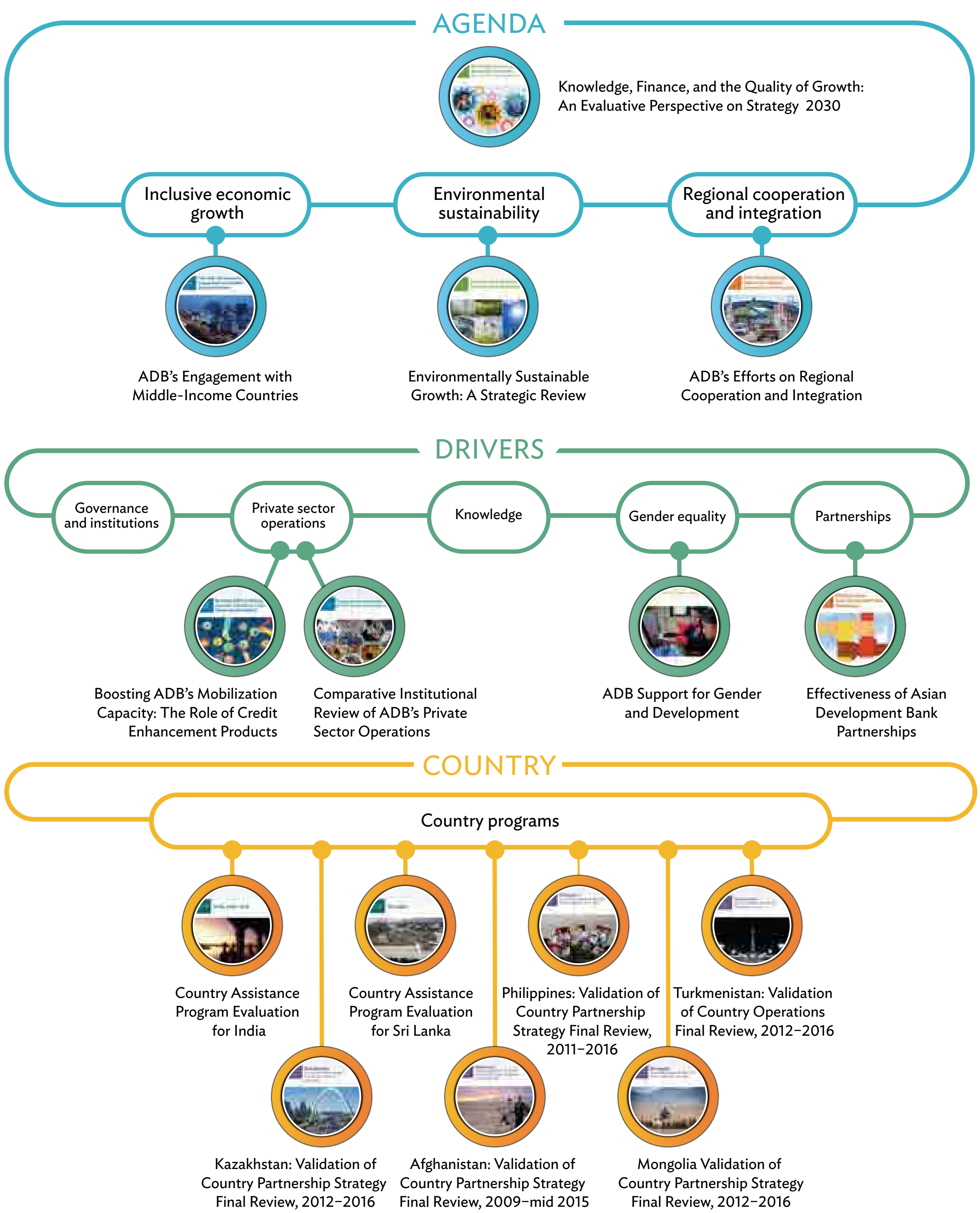
53. This section examines some key ADB operations' results on the ground, i.e., development changes observed and assessed by IED through its high-level evaluations.[37] IED contributes to the assessment of ADB's strategic agendas and priorities from a corporate and/or thematic perspective by conducting a program of high-level evaluations, the topics of which are agreed with the Board of Directors. This section distills the knowledge contained in these evaluations and is organized in two areas: (i) delivery of results, and (ii) ADB instruments and internal factors affecting the delivery of results. The first subsection on the delivery of results is mainly based on the components of ADB's Strategy 2020: (i) strategic agendas, (ii) drivers of change, and (iii) country programs. Figure 23 depicts how IED's high-level evaluation reports of recent years fit with these components. This section is primarily a learning piece for enhancing the overall understanding on and improving results further of ADB operations.

1. Delivery of Results

54. This subsection refers to several crucial components of ADB's Strategy 2020 that were partially evaluated by IED over 2016 and 2017: the environmentally sustainable growth (ESG) agenda, the regional cooperation and integration (RCI) agenda, driver of change private sector development and private

[37] Refer to (i) 2015 Evaluation Report: *ADB's Support for Regional Cooperation and Integration*; (ii) 2016 Evaluation Reports: *ADB's Engagement with Middle Income Countries; Effectiveness of Asian Development Bank Partnerships; ADB's Safeguards Implementation Experience based on Selected Country Case Studies; ADB Support for Environmentally Sustainable Growth; A Comparative Institutional Review of ADB's Private Sector Operations; and, Country Assistance Program Evaluation Sri Lanka (2006–2015)*; and (iii) *2017 Evaluation Reports: ADB Support for Gender and Development; Knowledge, Finance, and the Quality of Growth: An Evaluative Perspective on Strategy 2030; Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products; Results-Based Lending at the ADB – An Early Assessment and; Country Assistance Program Evaluation India (2007–2015).*

Figure 23: Strategy 2020 and IED Evaluation of Results 2016–2017



ADB = Asian Development Bank, IED = Independent Evaluation Department.
Source: Asian Development Bank (Independent Evaluation Department).

sector operations, driver of change gender equity, and driver of change partnerships. The section ends with the results from country programs and relies on two full country evaluations, India (2017) and Sri Lanka (2016), and five CPSFRVs (Afghanistan, Kazakhstan, Mongolia, the Philippines, and Turkmenistan) in 2017. Since this analysis covers only selected areas of Strategy 2020 based on in-depth evaluations, it presents a partial view of the results in progress by ADB. This view will be annually updated with the knowledge acquired through new additional higher plane assessment work by IED.

a. ADB Strategic Agendas

55. To reduce poverty in the Asia and Pacific region, Strategy 2020 defined three distinct but complementary development agendas: (i) inclusive economic growth, (ii) ESG, and (iii) RCI. In 2016 and 2017, IED assessed ADB operations in ESG and RCI—IED had already assessed ADB's support for inclusive growth in 2014. IED also assessed ADB's engagement with MICs in 2016. This evaluation contributed further to the assessment made on ADB's inclusive growth agenda, as several of MIC issues are closely related to inclusive economic growth.[38]

(i) ADB's Inclusive Growth Agenda in MICs

56. **While MICs in the region have made significant progress in reducing extreme poverty since early 1990s, they are still home to about half of the world's poor and many contain significant pockets of poverty.** Other populations continue to live in fragile conditions, making them vulnerable to slipping back into poverty. This subsection draws on key results from ADB operations in MICs as part of efforts to eradicate poverty and advance inclusive economic growth.

57. **Evaluations of ADB programs in MICs completed over 2010–2016 indicate that the role of ADB in these countries is highly valued and that more than two-thirds of ADB country programs in MICs have succeeded in delivering results.** Government and private sector representatives indicated that they considered ADB to be a credible development partner offering wide-ranging support to address specific development priorities. In particular, they appreciated ADB's guidance and inputs in project design, safeguards, and project management, coupled with its support for capacity development.

58. **Delivery of results by ADB programs in MICs continue to face challenges similar to low income countries.** In India, for instance, several sector programs had cost overruns and implementation delays in many projects. Also, some project tranches could not be completed within the usual 10-year limit of multitranche financing facility (MFF). Although most state governments and executing agencies continue to favor the MFF as preferred modality, the central government has expressed the view that the lending modality should be adopted more selectively than before. In Sri Lanka, time and cost overruns affected the delivery of results by ADB's programs in the water, agriculture and natural resources, and financial sectors.[39] In addition, the loan portfolio and government's development programs were found to be facing significant risks related to operational maintenance and cost recovery. In the finance sector, results were undermined by poor commitment and ownership by the government and a lack of political will to carry out reforms.

59. **ADB's country programs faced challenges in their responsiveness to the dynamic array of development issues in MICs**. There are expectations from MICs of greater value-added knowledge from ADB in a multitude of areas—to improve their economic governance and support their structural reforms, tap new sources of growth, tackle environmental and social development challenges associated with urbanization, reduce regional disparities, establish better regional connectivity, expand social and physical infrastructure, diversify their economies and improve productivity, catalyze private sector operations in priority development areas, and facilitate regional cooperation. For example, Pakistan and Uzbekistan face inadequate workforce skills that may need to be looked into. Skills mismatches are also prevalent in South and Southeast Asian countries (Bangladesh, Indonesia, the Philippines, and Thailand, among others). For Maldives and Tonga (where tourism plays an important role), aside from economic diversification, ADB could look into the contribution of the domestic private sector. The problem of rural

[38] IED. 2014. *Thematic Evaluation: ADB's Support for Inclusive Growth*. Manila: ADB.

[39] CAPE Sri Lanka noted that "High cost and time overruns were one of the weakest features of most water and municipal infrastructure service projects. However, water supply and sanitation benefits could be higher than estimated because health benefits are not taken into account in economic return calculations."

migrants in urban peripheries is another area, they often live in flood-prone and high disaster-risk areas. All MICs can benefit from more attention to reducing greenhouse gas emissions in their energy systems, sustainable transport options, and improved urban waste management systems.

(ii) ADB's ESG Agenda

60. **ADB has made significant efforts to promote ESG through its country strategies and operations.** To implement the ESG agenda in Strategy 2020, ADB revised its project classification guidelines to reflect ESG objectives; introduced volume targets for supporting environmental sustainability and climate change in operations; developed sector operational plans reflecting ESG objectives; and sought partnerships with other institutions that had a comparative advantage in addressing environmental challenges. Regional departments were paying considerable attention to ESG-related themes in new operations. ADB's increased prioritization of the ESG objective is reflected in a sharp increase in the share of loans and grants classified as supporting ESG, from less than 10% in 2004 to 57% in 2013–2015.[40] The energy and transport portfolios showed a large increase in operations tagged as supporting ESG.

61. **Evaluation has shown that projects with ESG objectives were more successful than projects without them.** In the four predominant ESG-related sectors (agriculture and natural resources, energy, transport, and water supply), higher evaluation success rates were found for ESG-tagged projects (77%) than for those that were not tagged as ESG (61%). The extra staff time and attention that multidimensional environmental projects may have received and their greater relevance in responding to complex challenges may have contributed to better overall performance. IED also found that TA projects had made important contributions to strengthening environmental governance capacity, natural resource conservation, and urban environmental improvements and they had provided an important conduit for policy dialogue with countries.

62. **Nonetheless, most ESG-tagged projects are mainly oriented toward economic growth, with varying degrees of environmental co-benefits.** There are few purely environmental projects. The extent and nature of actual environmental sustainability support varied greatly. Most ESG-tagged projects did have environmental elements, although some of these were limited. In short, there are projects along a broad continuum from those involving only minor (in overall project cost terms) climate-proofing to projects with significant environmental objectives and/or components (e.g., reduced pollution). The operations tagged as ESG in recent years may be more modest in their environmental effects than the simple initial tagging at the approval stage seems to portray. There were changes to the classification system in 2014 that led to a major drive in many sectors, wherein any potential or reference to ESG element during the preparation stage can be classified as ESG. More differentiation in the levels of support of projects for the environment and for ESG was seen as helpful to check the degree to which the environment is served by ADB supported projects, and to ultimately set more specific targets in these areas.

(iii) ADB's RCI Agenda

63. **ADB has primarily implemented its RCI agenda through subregional cooperation programs, which have been found to be effective in delivering results.** The three main programs have enabled closer coordination and collaboration among countries with positive results.[41] ADB's RCI work is generally well-regarded by stakeholders in governments and development partners. The secretariat model (with ADB providing the secretariat for a cooperation program) is a key element in these programs. ADB is recognized for its facilitating role in subregional dialogues and for building consensus among member countries to advance regional cooperation. Its main strengths in supporting RCI are perceived to derive from its role as both a financial institution and an honest broker. ADB has also been involved in regional initiatives for monetary and financial cooperation. It has displayed flexibility in identifying priority RCI sectors and has effectively mainstreamed the agenda into its operations.

64. **There were several design weaknesses in the RCI strategy, some of which have been corrected during implementation.** RCI operations

---

[40] IED. 2016. *Topical Paper: Environmentally Sustainable Growth: A Strategic Review*. Manila: ADB.

[41] The three main subregional programs are the Central Asia Regional Economic Cooperation (CAREC) Program; the Greater Mekong Sub-region (GMS) Economic Cooperation Program; and the South Asia Subregional Economic Cooperation (SASEC) Program.

have mainly focused on physical connectivity through cross-border infrastructure. Second generation RCI projects, such as those aimed at transforming transport corridors into economic corridors, recognize the need to support more than infrastructure. The strategy had several initial design weaknesses, including an imbalance among the pillars, unclear delineation of activities related to trade facilitation, omission of important activities, and some poorly defined RCI roles. Several of these drawbacks were mitigated or corrected during implementation of the agenda. In addition, ADB's RCI approach has not consistently sought to support disadvantaged countries, such as landlocked and island countries, with the customized solutions they need.

b. Drivers of Change

65. **Recent evaluations have addressed several of ADB's drivers of change.** Of the five overarching drivers of change identified in Strategy 2020,[42] private sector operations, gender equity, and partnerships were addressed by high-level IED assessments in 2016–2017.[43]

(i) Private Sector Operations

66. **ADB's nonsovereign operations are concentrated on large infrastructure projects.** Over 60% of approved projects have been in infrastructure and 30% in the financial sector, with the remainder in industry, commerce, and manufacturing. The number of transactions each year has been relatively small, but average investment amounts have been higher than those of the European Bank of Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), partly because of ADB's traditional focus on power and energy. The conclusion at the time of IED's assessment,[44] however, is that this concentration on large projects has inhibited its reach to smaller countries and more diverse sectors. Given the ample capital and headroom after the ADF-OCR merger, ADB must be mindful that an inclination towards large infrastructure projects does not inhibit ADB ability to reach out to smaller countries and diversified sectors.

67. **Cancellations have hampered the efficient delivery of results of private sector operations.** Although approval targets for private sector operations were regularly met, cancellations have been high, with a large proportion cancelled before the projects were signed. Reasons for the high rate of cancellations include pricing issues, failure by companies to comply with various conditions in the deal, macroeconomic and market issues, lack of agreement on deal terms, and regulatory issues. In the case of India, inadequacies in ADB's front-end work—such as lack of agreement on loan pricing or the inability or unwillingness of companies to comply with ADB requirements—contributed to the high cancellation rate.

68. **ADB has several credit enhancement products, but they have been sparsely used.** ADB has offered credit enhancement products to help mobilize private sector funding, including partial credit guarantees, partial or political risk guarantees, and A/B loans. In addition, ADB has a risk transfer product through insurance of loan exposure that can mobilize private capital.

69. **The limited use of credit enhancement products has undermined the potential of their development contribution.**[45] The overall results of ADB's medium- and long-term guarantee business and its contribution to mobilization have been modest. This may be partly because of issues with project preparedness. Several demand-side factors may also have inhibited the use of guarantees, including the lack of bankable projects in infrastructure, intense competition in the global market for guarantees, and low demand for political risk guarantees because inconvertibility risk, expropriation, and civil war are not generally perceived to be high risks by financiers. The market perceives the risk mitigation and other benefits of A/B loans to be limited. The proportion of B loans that have been approved but are not yet signed is high.

[42] These are (i) private sector development and private sector operations, (ii) good governance and capacity development, (iii) gender equity, (iv) knowledge solutions, and (v) partnerships. See ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

[43] The other two drivers of change are: good governance and capacity development, and knowledge solutions. On the knowledge, IED has initiated establishing a new process of validating TA completion reports. This will be an important step to knowledge management in ADB.

[44] IED. 2016. *Topical Paper: A Comparative Institutional Review of ADB's Private Sector Operations*. Manila: ADB.

[45] PSOD mentioned that activity on credit enhancement products has been picking up in 2017, particularly with products denominated in local currencies.

(ii) Gender Equity

70. **ADB has been a pioneer among multilateral development banks (MDBs) in promoting gender mainstreaming.** It has sought to promote gender equity both through mainstreaming gender into its operations and through targeted investments in women and girls. ADB's gender-mainstreamed portfolio expanded substantially in 2005–2015, driven by a sharp rise in the gender mainstreaming of projects after the introduction of gender targets in the corporate results framework in 2008. ADB also specifies the criteria for the gender success performance of projects. In India, ADB's efforts have helped increase awareness of gender equity issues and the proportion of gender projects with gender action plans increased from 19% in 2007–2010 to 48% in 2011–2015. However, the share of projects in ADB focused on gender equity remains small (about 8% in 2011–2015), indicating that only a few ADB projects are focused squarely on gender equity.

71. **The incorporation of gender dimensions in ADB operations has improved over the last decade.** Of the 72 projects with gender indicators that were approved in 2005–2015, 65% had successful gender results.[46] This compares with 51% reported in 2010. TA projects played catalytic roles in delivering gender results, allowing ADB to provide livelihood training to women, enhance government capacity for gender work, and include gender-inclusive design features in infrastructure projects. Assessments of country programs also showed that ADB's education, health, transport, and WUS projects helped reduce gender gaps in human development by improving education and health outcomes among women. Transport and WUS projects were able to help reduce the time women spend in travel and fetching potable water. Rural road projects helped augment women's income by increasing their access to markets and workplaces, enabling them to sell their produce. ADB also contributed to enhancing women's voice and decision-making by promoting their participation in projects and membership in community groups. In Sri Lanka, ADB support provided benefits to women through livelihood support and village-level projects, leading to economic and social empowerment, and better security and health. In addition, female entrepreneurs were targeted in private sector operations and education projects targeted female participation in science and commerce.

72. **However, projects have delivered less results in several key areas of the gender equity agenda.** Evaluations found that, while projects in agriculture, natural resources, rural roads, and skills development helped narrow gender gaps in economic empowerment, much less progress was seen in systematically addressing legal and institutional constraints on women's participation in formal labor markets. Contributions were being made in narrowing gender gaps in human development and in reducing time poverty, but less progress was seen in economic empowerment, increasing women's voice and decision-making, and reducing vulnerability to risks and shocks. This was largely due to the concentration of gender-mainstreamed interventions in the social sectors and in urban water projects. In the road program in India, where there were few gender action plans in the first half of the period, the benefits accrued more to men than women, given the traditional roles of women in rural households. Nevertheless, IED surveys found that women benefited as well, as girls could attend school more easily, and women's access to services such as health clinics improved. Evaluations found that the monitoring of gender indicators in country program results frameworks has often been lacking.

(iii) Partnerships

73. **ADB has expanded its engagement in a range of partnerships to advance its strategic goals.** Over the years, ADB has sought to partner with a growing range of other institutions to build synergies and enhance its contributions to development in the region. These include international development agencies, multilateral and bilateral institutions, the private sector, nongovernment organizations, community-based organizations, and foundations.[47] These partnerships have included interagency coordination partnerships to promote broad-based cooperation among development partners; knowledge partnerships to generate or share knowledge; and financing partnerships to support investment projects and policy reforms. In 2000 to mid-2015, ADB departments reported to IED that they had established 422 partnerships of one kind or another, some of which had finite duration.

74. **Partnerships have generally achieved results**. Three-quarters of ADB's partnerships were self-reported by ADB departments as having been successful in meeting their objectives. The evaluation

[46] This figure was broken down into 65% for the gender equity theme projects and 66% for effective gender mainstreaming projects.

[47] ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia*. Manila; Finance++ approach.

corroborated good levels of success, and found formal partnerships (based on memorandums of understanding and other clear documentation) to be more effective than informal ones, and attributed this to stronger interactions among partners and closer project monitoring as mandated by the written agreements. In the case of interagency partnerships, IED viewed complementarity in the strengths of the respective partners and contingent factors such as shifts in bilateral aid policies as important elements that influenced the effectiveness of the partnerships.

75. **Cofinancing partnerships have led to substantial mobilization of funds**. In 2000–2014, ADB reported $45 billion of cofinancing, equivalent to 31% of the total $131 billion in loans and grants approved over the period. There has been a steady increase in the cofinancing ratio, from 6% in 2000–2004 to 9% in 2005–2008, and then to 50% in 2009–2014.[48] Evaluation data suggest that ADB-supported projects that were cofinanced were more effective than those without cofinancing—this may well be due to the added supervision entailed by different partners involved in the project, but was surprising given that there is also a belief that such projects suffer from special efficiency problems. Another explanation for the greater success of cofinanced projects may lie in cherrypicking of better projects by cofinanciers. This could not be completely checked, but the positive effects of additional scrutiny resulting from various partners being involved was too often established to be dismissed as less important than the negative effects on process efficiency.

76. **Knowledge partnerships are expanding but some experienced problems**. ADB's efforts in 2005 to create regional knowledge hubs were not effective. An evaluation in 2012 found that they had generally not been successful in sharing good practices, either in the countries the centers were located in or in other countries. The funding for these hubs through ADB TA approved in 2005 was modest (about $150,000 per center) and insufficient to influence their activities significantly. While ADB has formed many important collaborations with civil society organizations acting as contractors, relatively few knowledge partnerships have been created with them. United Nations-affiliated organizations sometimes suffer the same fate; ADB has some limitations on the funding of staff of partner institutions as they should come from ADB member countries. This is not always accepted by these organizations.

77. **Several factors were found to hamper the efficiency of partnerships, particularly knowledge partnerships.** ADB's business processes require civil society organizations to be engaged as consultants, constraining their engagement as knowledge partners. Some partners reported cumbersome and inflexible ADB procedures, insufficient staff resources assigned to supervision, and lack of harmonization of ADB procedures with partners' procurement and disbursement procedures.[49] Some noted inadequate reporting of project results and a lack of recognition of the partner's contribution to such projects. ADB's accounting system has been criticized by various partners as being outdated, resulting in insufficient reporting on cofinanced projects. Improvements have been made since the partnership evaluation came out in 2016, as work has continued on instructions for knowledge partnership agreements (new instructions came out March 2017), IT systems, and the alignment of sector and thematic groups.

c. Results of Country Programs

78. IED looked at six country program operations in 2017: the India CAPE and five CPSFRVs for Afghanistan, Kazakhstan, Mongolia, the Philippines, and Turkmenistan. This subsection will also rely on the Sri Lanka CAPE in 2016 to assess the results of ADB's efforts. Strategy 2020 stressed that ADB needs to monitor its tangible contributions to specific country needs and outcomes. These include effects on particular segments of the population, e.g., people living in particular geographic areas such as urban or rural locations or populations influenced by operations such as rural infrastructure and cross-border transport connections.

79. **ADB country programs have been able to cater to specific country needs.** In the country programs evaluated by IED, ADB placed different emphasis in each country. In India, the CAPE found that ADB supported infrastructure development and

[48] The IED report points out that this sharp increase in cofinancing coincides with a change in the definition of cofinancing in ADB, which broadened definitions for commercial cofinancing, and with an expansion in trade finance transactions since 2009.

[49] See IED 2016 Partnerships report for more details; paras 122–228. For example, ADB's partnership with the UNESCO-IHE in the Water Financing Partnership Facility was hampered by the need for IHE-affiliated specialists to be treated as consultants and the need for them to originate from ADB member countries, which UNESCO did not agree to.

access, rural roads and electrification, lagging states, and urban development. In Sri Lanka, ADB operations promoted equitable and inclusive growth, particularly among communities affected by conflict and disasters. In the Philippines, after Typhoon Haiyan ADB supported recovery and rehabilitation activities in 39 provinces, benefiting about 3.3 million households in need. While ADB's flexibility strengthens country partnerships and the relevance of its support, a recent compilation of lessons from various country assessments noted the need to ensure that this flexibility is not pursued at the expense of consistency or of achieving critical mass for development effectiveness.[50]

80. **ADB has promoted RCI in countries where it is key to growth.** In Afghanistan, the cross-border railway link to Uzbekistan has provided an alternate route for trade and humanitarian relief. In Turkmenistan, TA for the Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline has helped reduce political risk and is serving as a catalyst for private investments. ADB has also facilitated government initiatives to export power to regional markets through the Turkmenistan–Uzbekistan–Tajikistan–Afghanistan–Pakistan–India electricity transmission lines. In transport, ADB has improved regional connectivity with the construction of a railway line that links Turkmenistan to the Republic of Iran and Kazakhstan.

81. **In countries with fiscal problems, ADB responded quickly with a range of products.** Countercyclical support funds in Kazakhstan helped address budget constraints caused by revenue shortfalls and to maintain critical social expenditures during the crisis in 2014–2015. In the Philippines, ADB programs focused on interventions in PSM, education, infrastructure and finance. ADB support has strengthened public–private partnerships (PPPs) through the creation of a PPP center and support for a PPP legal framework. ADB has also scaled up conditional cash transfers and helped improve the national household targeting system.

82. **Improvement is needed in embedding knowledge solutions in country programs.** Many of IED's country program evaluations point to the need for ADB to embed more innovative solutions in its country programs. For example, in Mongolia, ADB could improve its value addition by embedding knowledge solutions in financing and by encouraging government expenditure in health and social protection.[51] In the Philippines, ADB needs to integrate its education sector work more effectively with its social protection support. In Sri Lanka, despite impressive achievements in human resource development, links between the education system and the labor market remain weak, and ADB support was aligned with government objectives aimed to improve technical and vocational education and training and science teaching in secondary schools, and to help poorer students gain access to tertiary education. However, much more needs to be done (not just by ADB, but the government) to upgrade the skills of the youth, especially young women, if they are to find employment in a more competitive environment. Girls generally perform well in schools, but women still end up low in the employment rates, particularly in the private sector. The India evaluation in 2017 concluded that ADB's approach to supporting knowledge work and cutting-edge innovation, though it had some good results, had not met expectations.

2. ADB Instruments and Internal Factors Affecting Delivery of Results

83. Recent evaluations have identified a range of internal factors that have had an influence on the ability of ADB to deliver results and make progress toward its long-term objectives. This report classifies such factors into (i) instruments and business processes (e.g., results-based lending [RBL] and safeguards); (ii) organizational structure; and (iii) staffing and skills.

a. Instruments and Business Processes

(i) Results-Based Lending

84. **IED's recent evaluation found that ADB's newest lending modality, RBL is supporting a wide range of sector programs and has been successfully rolled out.** During the first 4 years of ADB's experience with RBL (2013–2016), $2.3 billion was approved for 12 RBL programs in 9 countries. Seven of these

[50] IED. 2017. *Synthesis Paper: Lessons from Country Partnership Evaluation—A Retrospective.* Manila: ADB (paras. 35–37).

[51] After IED conducted Mongolia's CPSFRV (March 2017), ADB approved two program loans in April: one on banking sector rehabilitation and financial stability strengthening; and another on social welfare support. The latter responds to the evaluation recommendation, as it aims to improve fiscal policy management to better target and consolidate social welfare programs in protecting funding for the poor and vulnerable people during the implementation of extended fund facility of IMF.

programs also attracted $547.83 million in financing from 13 development partners. As of end 2016, total ADB funding approved for RBL programs was 3.8% of ADF and OCR operations, less than the approved 5% resource allocation cap for the pilot phase. Client demand indicates a wide scope for future RBL work, with some contexts proving particularly favorable for RBL programs.

85. **Although the design of the modality is sound, there have been challenges stemming from specific operational design issues and from inadequate arrangements for the independent verification of results.** The first five RBL programs were based on nationwide programs with strong country ownership and highly relevant objectives. However, the RBL program for senior high schools in the Philippines overestimated the pace and likelihood of achieving outcome disbursement-linked indicators (DLIs). By contrast, the technical and vocational education and training programs in Sri Lanka and India are doing well in terms of achieving their outcome DLIs. The DLI disbursement mechanism seems to act as an incentive to spur results delivery. Three of the RBL programs experienced challenges in defining the program boundaries or in estimating expenditure and financing.

86. **The evaluation noted that a good case for mainstreaming the use of RBL at the end of the pilot phase can be made provided the issues discussed above are addressed satisfactorily.** Likewise, it is important to strengthen ADB's due diligence with regard to fraud and corruption risk assessment, improve design and monitoring of program action plans, build client monitoring and evaluation capacity, and implement credible and independent verification processes. A lesson was that RBL programs are likely to work best when there is already deep ADB involvement in a sector and agency and when strong systems for monitoring and evaluation, safeguards, and fiduciary control are in place. In situations where program systems are functioning well but ADB has no previous involvement, ADB would be wise to start with an investment loan with DLIs. In other situations where there is extensive ADB involvement, but where there are challenges in monitoring and/or control systems, RBL could be used with caution along with mitigating measures to reduce systemic risk. If neither condition is met, other financing modalities should be considered. IED recommended that RBL programs exclude involuntary resettlement category "A" activities—a recommendation not accepted by Management.

(ii) Safeguards Implementation

87. **Evaluation evidence indicates that while ADB's safeguard framework is regarded as the benchmark, there are areas that need strengthening in matters of design and especially implementation.** The 2016 safeguard evaluation found both progress and remaining gaps in safeguard implementation by both executing agencies in countries and by ADB staff. Based on a sample of 12 projects in 3 case study countries (Indonesia, Kyrgyz Republic and Sri Lanka), it found that the environmental safeguards assessments at appraisal were largely procedurally compliant. Significant progress over the years could be seen in involuntary resettlement plans, though there is still scope to improve the implementation of ADB's resettlement safeguards in the three countries. The narrowing of the gap between country safeguard systems and ADB's safeguard policy was seen as in part due to ADB's sustained program of TA. In Sri Lanka, for example, ADB technical support to the Road Development Authority strengthened the agency's safeguard division and improved efficiency in project implementation.

88. **Efforts to streamline and speed up project preparation processes may have had costs in terms of safeguard preparation.** Many infrastructure projects are approved before the detailed technical designs for infrastructure works have started. The ensuing hurried atmosphere after project approval then makes it difficult to allocate sufficient time to develop resettlement plans according to detailed measurement surveys; to disclose key information and undertake meaningful consultation prior to civil works; and to begin livelihood measures, as required by the safeguards policy. As efforts to rationalize and speed up the project preparation process continue to be made, adequate time and resources need to be allocated to integrating safeguard work early in the project preparation process. There is a need to ensure there are adequate safeguards in private sector operations and that these are implemented with an adequate degree of arms' length distance from transactions to ensure that the quest for private gains does not damage the environment or negatively affect poor and vulnerable people. ADB needs to maintain a degree of objectivity and independence with respect to safeguards in the context of a drive to increase the number of private investment projects.

b. Organizational Structure

(i) Supporting Partnerships through Organizational Realignment

89. **ADB's organizational structure for partnerships developed organically, rather than by design, and was assessed as fragmented.** Five regional departments and at least seven other departments and offices are responsible for partnerships of one or more of the three types identified. Although these arrangements worked in the past, they led to overlapping functions and to some duplication of effort for partner relations management. ADB's financial reporting system is not yet integrated and fund contributions and disbursements reside in different systems. As a result, retrieving the detailed information that is usually requested by cofinancing partners requires manual processing, making analysis and reporting time-consuming and difficult. ADB's procurement arrangements for knowledge partnerships are also outdated, or not suited to the engagement of knowledge partners. In the future, modifications to ADB's approach and structure may be needed to make its partnerships more effective, to manage them more efficiently internally, and to prepare for a new development landscape in which partnerships may feature even more prominently than at present.

(ii) Constraints to Operational Efficiency for Private Sector Operations

90. **The operational efficiency of PSOD has been hindered by several constraints**. PSOD now processes both private and public sector projects in which ADB takes nonsovereign exposure risks. Also, the number of PSOD staff grew from 57 in 2006 to 187 in 2017,[52] and there are ongoing efforts to outpost staff to resident missions. The department has recently made changes to the way it assesses staff performance and has moved to a system based on project commitments and disbursements rather than on approvals. It is also working to streamline approval procedures. PSOD has been active in expanding its reach to Asia's poorer countries, and is a key contributor to ADB cofinancing targets. However, constraints on its operational efficiency persist. PSOD does not currently have a comprehensive information technology system for deal origination, execution, monitoring, and risk management. As the portfolio expands, this lack of an appropriate information technology system will become an increasing operational risk. Private sector project processing in ADB remains more onerous than in comparator organizations such as EBRD and IFC. Delegation of approval authority from the Board of Directors to senior staff for lower-risk projects could help improve the efficiency of the approval process. At present, PSOD uses its own staff economists to review each prospective transaction. ADB could consider institutionalizing the review of significant transactions by an economist from the Economic Research and Regional Cooperation Department who could independently make a quick assessment of the economic returns of the project.

91. **Risk mitigation products are not well integrated into ADB's policy framework.** ADB's policy framework is primarily oriented toward lending operations and although ADB aims to enhance its role as a catalyst of financing provided by third parties, it lacks concrete targets for the mobilization of third-party financing through guarantees, A/B loans, and risk transfer techniques. Guarantees and the mobilization of non-developmental sources of finance are generally not part of ADB's country strategy dialogue with DMCs. The participation requirement for guarantees hinders optimal utilization of ADB guarantees, as does the ADB Charter stipulation that guarantees can be used only for loans and not for equity investments. ADB's pricing practices for sovereign loans and guarantees also favor ADB sovereign loans. Internal capital allocation practices hinder the optimal utilization of guarantees. There are internal concerns that partial credit guarantees with a percentage of cover between 90% and 100% may have a negative impact on the pricing of ADB's own capital market bonds. Given the potential competition, ADB's guarantee and syndication business needs to be clearly separated from lending operations to ensure that guarantees are not crowded out by lending activities. A separate guarantees and syndications unit with its own budget, business and mobilization targets, and the ability to originate guarantee business independently from the lending departments would enhance the use of guarantee instruments.

c. Staffing for Private Sector Operations and Gender Work

92. **The expected growth in private sector operations and the changing regional context raise important staffing issues in PSOD.** The key issues are: (i) the need for more decentralization,

[52] This does not include secondees and Trust Funds-supported positions.

and (ii) appropriate allocation of staff resources by sector expertise. To manage the expected expansion in private sector operations, the skills mix of PSOD staff must adequately reflect the sectors of operation, geographic coverage, and product mix. Staff need specific roles and responsibilities, such as origination, investment, monitoring, and strategy. The emergence of new international finance institutions in the region may bring increased competition for skilled private sector operations staff. ADB needs to establish the right variable incentive pay structure so it can hire and retain specialized staff who understand the dynamics and expectations of the private sector. Unlike in the public sector, part of the overall compensation for private sector staff (including PSOD management) may need to be in the form of bonuses exclusively tied to performance and delivery of targets. These staffing issues will also figure prominently as part of any decentralization initiatives. ADB's private sector operations are currently primarily located at ADB headquarters, in contrast to EBRD and IFC, which are far more decentralized. The lack of proximity to clients may generate problems for ADB in deal origination (it may not be able to generate enough deals), in deal execution (it may not be responsive enough), and in monitoring (it may not be able to address client needs or provide remedial measures if needed). Increasing PSOD's presence in major countries of operations, including through the establishment of hubs in key regions, would enhance the effectiveness of the department.

93. **ADB's guarantee business has been consistently understaffed.** At the end of 2016, the unit responsible for guarantees, A/B loans, and risk transfer operations had only three international staff. The incentives of the team were primarily focused on doing business, with limited resources available to address critical strategic and policy issues. Apart from the small number of dedicated staff available for guarantee operations, ADB also has a knowledge gap in the credit and political risk insurance business. The current banking approach to the guarantee business makes it difficult for ADB to develop a successful credit and political risk insurance policy environment and culture such as those at export credit agencies, the Multilateral Investment Guarantee Agency of the World Bank, and private insurers. The addition of senior qualified staff and capacity building within ADB are likely to be critical if PSOD is to enhance its guarantee operations.

94. **Evaluations have found gaps in staffing and skills for gender work.** ADB has increased the number of gender specialists at headquarters and some resident missions with positive results. However, several resident missions do not have a gender specialist on the staff or a long-term gender consultant. ADB staff see strengthening technical capacity on gender as useful for integrating gender into their work. Staff have generally expressed a willingness to take part in gender training on sector- and project-specific issues, and other operational needs. Further efforts are needed to ensure sufficient staff resources are available, and to equip staff with the skills to design, implement, and monitor gender interventions. Efforts to clarify and monitor the responsibilities of staff at headquarters and in resident missions for gender mainstreaming in projects and country and sector work are also needed.

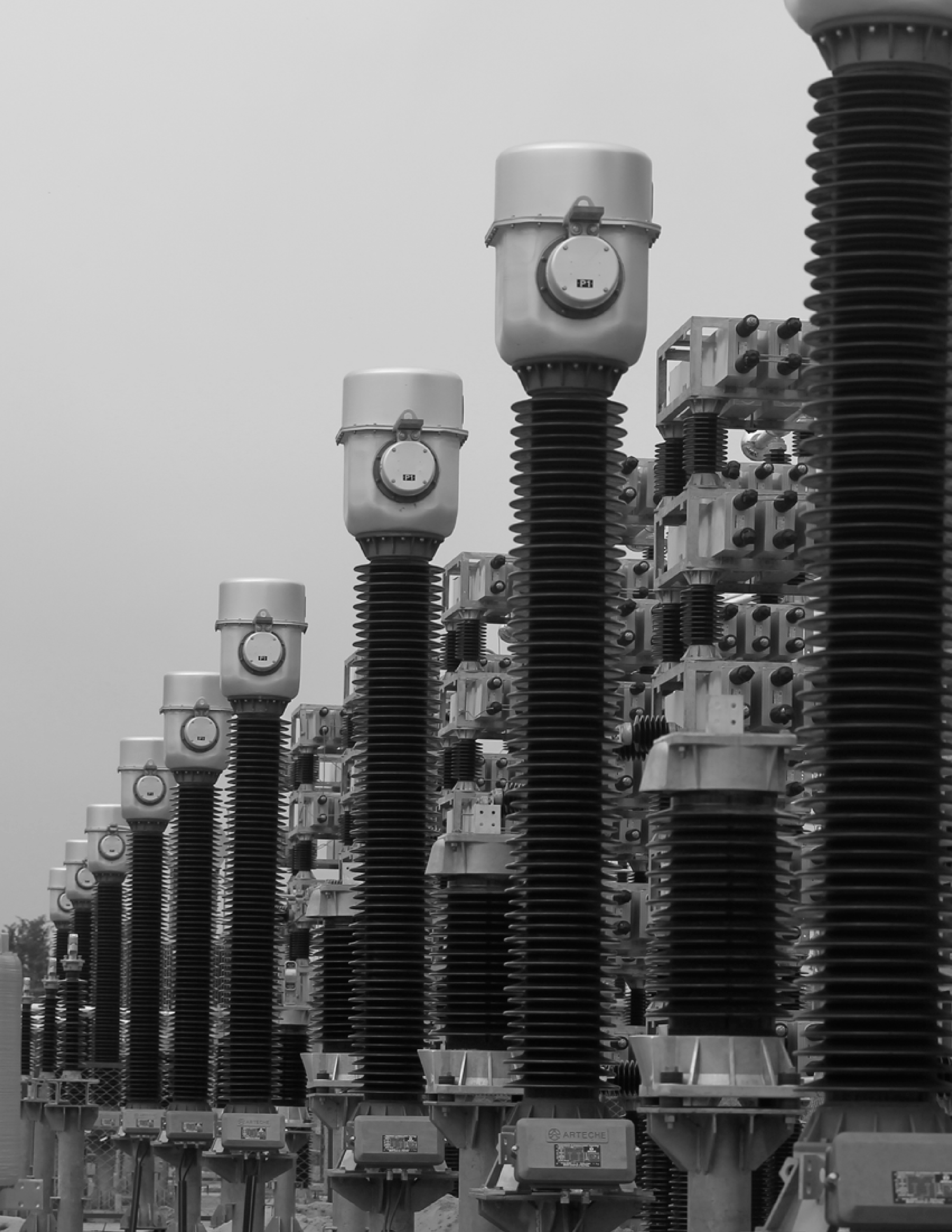
Summary

95. **Performance of ADB operations.** The performance of both sovereign and nonsovereign operations weakened slightly from 2016 to 2017 but remained within the 2010–2017 3-year moving average. In sovereign operations, efficiency has consistently increased since 2013–2015, but efficiency and especially sustainability have continued to be the lowest ranked performance areas, suggesting that more effort is needed to boost them in sovereign operations. Central and West Asia was the only region to improve its performance in the period. In nonsovereign operations, the infrastructure sector continues to lead performance, financial institution performance is stable within the range of previous results, and private equity funds performance continues to lag.

96. **Results of ADB operations.** MICs consider ADB to be a credible development partner offering wide-ranging support to address specific development priorities. ADB's guidance and inputs in project design, safeguards, and project management were particularly appreciated, as was its support for capacity development. ADB made significant efforts to promote ESG through its country strategies and operations. It has primarily implemented its RCI agenda through subregional cooperation programs, which were effective in delivering results. Of the three drivers of change that were examined for this report, ADB private sector operations expanded through large-scale infrastructure operations, but credit enhancement products have been sparsely used. ADB is a pioneer

among MDBs in promoting gender equity, which it promoted through both mainstreaming gender equity work in its operations as well as targeted investments in women and girls. Of ADB's partnerships, three-quarters were seen as successful in meeting their objectives. Country-level operations have improved by catering to country needs and ADB's strategic agendas, e.g., a focus on lagging states (India), communities affected by conflict and disaster (the Philippines, Sri Lanka), RCI (Mongolia, Turkmenistan) and fiscal stabilization (Kazakhstan). Improvement is needed to embed more innovation and knowledge solutions in ADB country operations.

97. **Instruments and internal factors.** RBL is successfully being rolled out and implementation of RBL programs is on track. Several issues have been identified but if addressed well, there is a good case to mainstream the use of RBL at the end of the pilot phase. ADB-funded projects are largely procedurally compliant with ADB's Safeguard Policy Statement (SPS). But efforts to streamline and speed up project preparation processes may have had costs in terms of safeguard preparation. The expected growth in private sector operations and the continuing need to mainstream gender agenda in the region call for close attention to staffing issues.


P1
ARTECHE

Quality of Project Design and Preparation for Efficiency and Sustainability

3

Highlights

Performance of public sector operations. Project efficiency and sustainability are often rated below project relevance and effectiveness (on average 3%–6% lower than effectiveness and 20%–25% lower than relevance). Weak preparation and design of projects is often seen as one of the reasons.

Recent trends. Ratings in evaluations for project efficiency and sustainability have improved by about 10% over the past decade.

Factors influencing efficiency and sustainability. The following proved significant in a test using evaluation data: the political stability of the country, its gross domestic product, the rural location of a project, the availability of project preparatory technical assistance, the number of project components, characteristics such as the absence of environmental risk, and a planned midterm review. The chapter also looks at other factors.

Nature of improvements. Recent improvements to efficiency and sustainability are in part due to changing project design and preparation practices, and in part due to more general measures taken by the Asian Development Bank, notably its provision of strategic guidance, the selection of sectors and modalities, and improved business processes.

The full effect of measures introduced after 2010 is still unclear as many of the projects that have been subject to these changes are ongoing and new modalities are being introduced or are coming to the evaluation stage only now.

Purpose and Methodology

98. Evaluations have consistently shown that the efficiency and sustainability of sovereign operations are weaker than their relevance and effectiveness. This has been reported extensively in previous AERs and in ADB's DEfR.[53] At the same time, evaluations have shown that over the past decade, both efficiency and sustainability have improved. This chapter explores some of the key variables and factors involved, emphasizing those pertaining to project design and preparation.[54] When these are properly taken into account, they should improve the likelihood of smoother implementation (i.e., process efficiency), higher economic efficiency, and greater sustainability of outcomes after project completion. Ample attention is given to what ADB has already done to improve project efficiency and sustainability, and some results and lessons in this area are discussed, including the views of senior operations staff on recent initiatives.

99. **Methodology**. Four interrelated activities were undertaken to provide the quantitative and qualitative basis for this chapter: (i) a statistical analysis was made of data on efficiency and sustainability variables mined from 286 RRPs that had PVRs and PPERs for projects completed from 2012 onwards (Linked Document F), (ii) a review of major ADB policy and strategy documents was carried out, (iii) an analysis was made of all 63 RRPs for sovereign operations approved in 2009 and an equal number of RRPs for sovereign projects sampled from projects approved from 1 January 2016 to 30 June 2017,[55] and (iv) interviews with 31 operations department directors and portfolio administration unit heads.

100. The statistical analysis identified significant variables that had a proven effect on project process efficiency and sustainability. In this context, process efficiency means either no implementation delays or below average delays. Sustainability is taken to mean the sustainability rating of the project in the evaluation

[53] ADB. 2017. *2016 Development Effectiveness Review*. Manila.

[54] Among five critical success factors (monitoring, coordination, design, training, and institutional environment), design came out as most important factor in a 2011 investigation in the World Bank, followed by monitoring. See Ika, L.A., Diallo, A. and Thuillier, D. 2012. Critical Success factors for World Bank Projects: an Empirical Investigation. *International Journal of Project Management.*

[55] The sample of projects approved from January 2016 to June 2017 represents 63% of the total. PBLs were excluded from this analysis because of their very different efficiency profile.

report. The analysis of RRPs before and after 2009 looked at measures taken by ADB at the project level to address efficiency and sustainability. The review of the RRPs issued in 2016–2017 also served to check on whether the significant variables identified by the statistical analysis had been taken into account in recent operations. The review of policy and strategy documents allowed for a more general assessment of contextual developments in ADB affecting project design and preparation. Finally, interviews with senior operations staff reflected experiences with and possible effects of more recent measures taken by ADB on project efficiency and sustainability. Lessons from these four sources were triangulated to inform the discussion in this chapter (Linked Document G). Key terms are defined in Box 2.

101. The next section presents trends for project efficiency and sustainability and in particular compares project performance on these criteria before and after 2009. This is followed by the statistical analysis section, which tests variables that were assumed to be important at the design and preparation stages. The fourth section explores contextual developments, mainly recently introduced ADB strategies and business processes, that may have contributed to improvements in efficiency and sustainability. The fifth section reviews impressions from operations staff on the recent changes in measures and practices, and examines whether any changes are evident in RRPs that were approved in 2016–2017. The main findings are summarized in the last section.

Box 2: Definitions and Notes

Economic efficiency. This is a function of the Asian Development Bank referred to in its Charter. For projects, it measures whole-of-life economic benefits against economic costs and ideally it is captured by calculating the economic rate of return. Project efficiency is a measure of how well a project used resources to achieve its outcome(s). By avoiding start-up delays through better designs, ADB enhances economic efficiency as it increases the present value of the benefits streams of these projects.[a]

Process efficiency. This is a measure of the adequacy of the time taken for project preparation and implementation and of cost underruns or overruns, and their effects on project performance. Improved process efficiency has an impact on economic efficiency as it facilitates more lending using the same resources. Process efficiency also addresses the integrity of the processes (e.g., procurement and fiduciary). Because ADB's system does not enable staff costs to be assigned to the design and preparation of individual projects, process efficiency is addressed here primarily in terms of the time taken to complete project implementation.

Sustainability. This is a measure of the likelihood that project outcomes and outputs will be maintained over the economic life of the project (for investment operations) or over a meaningful timeframe, responding to the continued demand for project services supported by institutional actions (for policy-based operations). Three dimensions are addressed in the Independent Evaluation Department guidelines: (i) financial sustainability through the provision of operation and maintenance of project assets, (ii) institutional sustainability, and (iii) environmental and social sustainability (now covered by the 2015 Sustainable Development Goals and 2015 Paris Climate Agreement). The assessment of sustainability at the post-completion stage is recognized by ADB to be a judgment, which is expressed as the likelihood of sustainability. Achieving planned economic efficiency is also linked to the sustainability of the achieved benefits.

[a] Every 2 months that benefits are brought online earlier represents a 1% increase in the present value of economic benefits of ADB's projects at a discount rate of 12% (ADB's target economic internal rate of return is 12%). There are two competing effects: (i) the higher present value of bringing forward benefits by 1 year at a discount rate of 12% per year or 2% for 2 months; and (ii) the offsetting effect of demand and benefits growing at about 6% per annum, the current average economic growth across ADB's DMCs, or 1% for 2 months (ADB. 2017. *Asian Development Outlook: Transcending the Middle-Income Challenge*. Manila). The net effect is that the likely increase in the economic value of ADB's portfolio would be about 1% for every 2 months of delay avoided.

Sources: Asian Development Bank. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila; Asian Development Bank. 1966. *Agreement Establishing the Asian Development Bank*. Manila. Article 2, Function iii.

Project Efficiency and Sustainability Performance and Changes over Time

102. **Efficiency and sustainability are improving but remain weaker than other project performance criteria.** Project efficiency and sustainability ratings over the past 16 years were compared with those for project relevance and effectiveness. The analysis was split into two periods: 2001–2009 and 2010–2017. The year 2009 marks a turning point as: (i) Strategy 2020 had been approved in 2008, (ii) a 200% general capital increase was approved in 2009 (leading to an increase in project finance available), (iii) the SPS was approved in 2009, and (iv) new streamlined business processes began in 2010. Taken together, these changes had potentially important consequences for the performance of sovereign operations implemented after 2009. Given that an insufficient number of projects approved after 2009 have been evaluated so far, Table 3 compares the performance of projects completed with project completion reports (PCRs) issued before 2010 with those completed and with PCRs issued after 2009. While the relationship of this comparison with the changes mentioned above is crude, it allows four important conclusions to be made:

(i) performance has improved across all four criteria in 2010-2017;[56]
(ii) efficiency and sustainability had the lowest ratings in 2001-2009 and 2010-2017 (efficiency was rated 3%–4% lower than effectiveness and sustainability was rated 4%-6% lower);
(iii) the low performance of efficiency and sustainability applied to both investment projects and PBL; and
(iv) improvements have been stronger for PBLs than for investment projects, especially for effectiveness and efficiency.

103. The analysis found that 58% of operations were assessed efficient in 2001–2009, a percentage that improved to 68% in 2010–2017. It found that 57% of operations were assessed sustainable in 2001–2009; this figure rose to 66% in 2010–2017. By comparison, 61% of operations in 2001–2009 and 72% in 2010–2017 were assessed effective and 83% of operations in 2001–2009 and 87% in 2010–2017 were assessed relevant.

104. A few cautions are in order. The pattern of lower efficiency and sustainability identified at the aggregate level masks differences in the performance of projects in different sectors, using different modalities, and implemented in different countries. Although these differences are not stable over longer periods, operations in the finance and WUS sectors encountered the largest problems with both efficiency and sustainability. By contrast, operations in energy and agriculture had higher ratings for efficiency, and projects in energy and education had higher ratings for sustainability. However, efficiency ratings have dropped significantly for transport projects (from 84% in 2001–2009 to 70% in 2010–2017). Also, rural projects have been more efficient than urban projects, and non-infrastructure projects have been significantly more efficient than infrastructure projects (Linked Document H).

105. Although country portfolios varied in terms of their efficiency and sustainability, there was an overall trend of improvement from 2001–2009 to 2010–2017. The average efficiency level of the eight largest portfolios in 2010–2017 (Bangladesh, PRC, India, Indonesia, Pakistan, the Philippines, Sri Lanka, and Viet Nam) was 70%, compared with 65% for other DMCs. This was an improvement over 2001–2009 when the eight largest DMCs had an average efficiency level of 57%. The PRC showed the highest level of efficiency and Pakistan the lowest in both periods. In 2010–2017, the proportion of projects of the eight largest borrowers judged likely sustainable (70%) was higher than the proportion for the rest of ADB's DMCs (62%). Completed projects in Viet Nam showed the highest level of sustainability and projects in Pakistan the lowest in 2001–2009. For 2010–2017, PRC projects were ranked highest, up from second place in 2001–2009.

106. In conclusion, while some countries, sectors, and modalities stand out positively in terms of the efficiency and the likely sustainability of their projects, over time, this has proved subject to change due to factors such as changes in portfolios. A cursory examination of the data trends suggests that the reasons for the projects' lower efficiency and sustainability performance overall is probably related

[56] The table used only IED project evaluations and PVR ratings from 2006 onwards and PPER ratings and 10 PCR ratings before 2006 as no validations were done at that time.

Table 3: Comparison of Performance in 2001–2009 and 2010–2017 (% of Sovereign Operations)

Period	(Highly) Successful	(Highly) Relevant	(Highly) Effective	(Highly) Efficient	(Most likely) Sustainable
			Investment Projects[a]		
2001-2009	63	83	65	62	56
2010-2017	72	88	73	68	66
Difference	+9	+5	+9	+6	+10
			Policy-Based Loans[b]		
2001-2009	51	80	44	41	57
2010-2017	70	84	65	64	68
Difference	+19	+4	+21	+23	+11
			Overall Sovereign Operations		
2001-2009	61	83	61	58	57
2010-2017	72	87	72	68	66
Difference	+11	+5	+11	+10	+9
	No. of Projects	No. of Policy-Based Loans			
2001-2009	266	75			
2010-2017	381	103			

Notes:
Column headings conflate the two top ratings for project criteria, e.g., highly successful and successful.
[a] Includes investment loans, multitranche financing facilities, and the project component of sector development programs (SDPs).
[b] Includes policy-based loans and program component of SDPs.
Sources: Independent Evaluation Department evaluation rating database based on project completion report (PCR) circulation year. Data on 2001–2009 ratings from mainly PCR validation reports (PVRs) and project or program performance validation reports (PPERs), and 10 PCRs. All 2010–2017 ratings were taken from PVRs and PPER.

to weaknesses in the capacities and practices of both ADB and client countries, as well as to unforeseeable developments during project implementation. More in-depth analyses are provided in the succeeding sections.

Statistical Analysis of Factors Influencing Efficiency and Sustainability

107. The statistical analysis of 286 projects with PVRs or PPERs completed from 2012 onwards used data already available in an IED database, and additional data mined from a special document review (Linked Document F). Two regression models are presented. The first model is on process efficiency, with the severity of implementation delays as the dependent variable, while the second model is on sustainability, with the sustainability rating in PVRs as the dependent variable.[57] The document review employed a checklist with a wide range of explanatory variables affecting efficiency and sustainability that need to be taken into account at the project design and preparation stage: political stability of the country, size of the country's economy (measured by gross domestic product [GDP] at purchasing power parity), commitment of the government to the project and assurances given by it, availability of project preparatory technical assistance (PPTA) and capacity development technical assistance, executing or implementing agency's previous ADB experience, availability of cofinancing, replicability of the project, size of the project, number of project components (as a measure of complexity), project's readiness, safeguards, rural or urban setting, an identified need to raise tariffs or operation and maintenance budgets during or after the project, and any special assessments done on capacity, risk, and procurement.

[57] A regression model using the efficiency rating in PVRs as dependent variable was also estimated, and presented in Linked Document F.

108. The sample size, though small, is sufficient to detect fairly large or significant population differences. There are some data limitations. Some variables proved hard to verify, with many missing observations, rendering the determination of their statistical significance to the project's efficiency or sustainability difficult. Others were found to be not entirely independently assigned to the projects in the sample reviewed. For example, the inclusion of TA or capacity development components in sovereign operations is probably related to ADB's judgment on the strengths and weaknesses of the executing or implementing agency. Hence, the likelihood that projects with TA or capacity development components would be more efficient or sustainable than projects without such TA is not self-evident (and it was not found). While several variables were found to be statistically insignificant, this did not necessarily imply that they are substantively insignificant.

109. Despite the sample's limitations, the regression analysis identified some significant statistical results for (i) PPTA, (ii) loan components, (iii) environmental risks, (iv) country political instability, (v) midterm reviews, (vi) geographic location, and (vii) GDP of the country. The regression analysis is in Linked Document F, and the key findings are provided below.[58]

1. Findings on Efficiency[59]

- Projects with PPTA were likely to have had fewer implementation delays: the predicted probability of the implementation delay for projects without PPTA was 8 percentage points higher for those with PPTA.
- Projects with more components were more likely to have delays: the predicted probability of the implementation delay for projects with one or two components was 15 percentage points lower than for those with three to five components.
- Projects with low environmental risk were less likely delayed: the predicted probability of an implementation delay for medium- to high-risk projects (Category A and B) was 17 percentage points higher than for low or no risk projects (Category C or FI).
- Projects in politically unstable countries were more likely to be delayed.

2. Findings on Sustainability

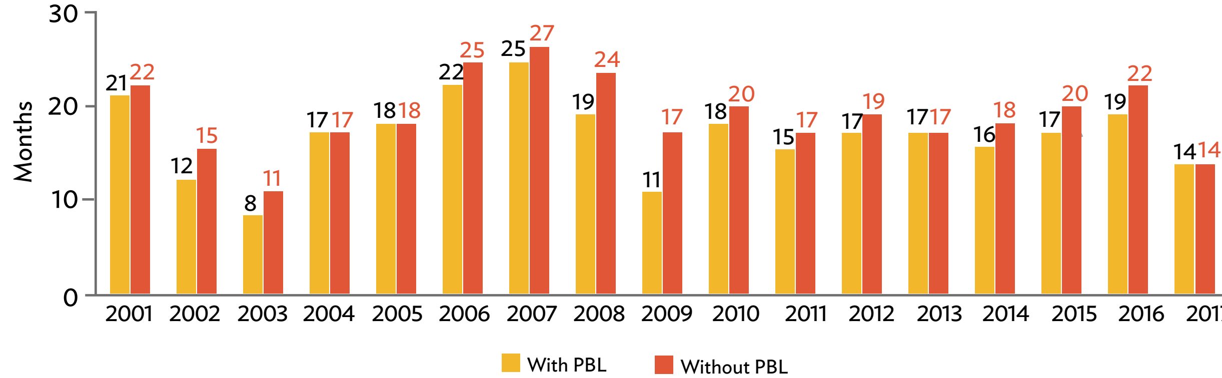
- Projects with a midterm review (MTR) were more likely to be sustainable: the predicted probability of a project being sustainable was 12 percentage points higher for projects with an MTR than for those without an MTR.
- Projects with more components were less likely to be sustainable: the predicted probability of projects with one or two components being sustainable was 20 percentage points higher than for those with three components, and 27 percentage points higher than those with more than five components.
- Projects with low or no environmental risk were more likely to be sustainable: the predicted probability of low-risk or no risk projects being sustainable was 16 percentage points higher than for medium- to high-risk projects.
- Rural projects were more likely to be sustainable.
- Projects in countries with a high GDP (at purchasing power parity) were more likely to be sustainable.

110. **Influence of the significant design and preparation variables on current RRPs**. For some of the significant variables, the degree to which they apply to currently approved projects (i.e., RRPs issued in 2016–2017) was assessed. As far as loan components are concerned, there was no significant difference in the average number of components, meaning the situation has not improved or deteriorated. As for the location of the project, recent projects are more often tagged "national" rather than either rural or urban (meaning that they are less likely to benefit from the identified increase in sustainability that comes with rural projects). The frequency of PPTA, another significant variable in more recent projects, is not higher or lower than that in the sample of older, evaluated projects. IED recognizes that currently fewer but larger TAs are done for project preparation. The same is true for category A environmental safeguard projects, which are not likely to be found among current projects. The increasing GDP (at purchasing power parity) in all countries indicates higher economic development, increasing the likelihood of better technical capacity and more government budget being available, and hence a higher likelihood of project results being sustained. Some

[58] To check for robustness of the models, diagnostics tests on misspecification errors (e.g., omitted variables and endogeneity of explanatory variables), multicollinearity, and heteroskedasticity were conducted.

[59] As approximated by process efficiency (see Box 2 for the definition). Because ADB's system does not enable staff costs to be allocated to the implementation of individual projects, process efficiency is addressed here primarily in terms of the time taken by the project from its approval to its completion. The dependent variable is the period of implementation delay from the intended project duration. If a project is delayed by longer than the average (19 months), it is regarded as seriously delayed. See also Linked Document F.

Figure 24: Trends in Implementation Delays of Sovereign Operations, with and without Policy-Based Lending



PBL = policy-based lending.
Note: Investment projects include tranches of multitranche financing facilities, results-based lending programs, sector projects, and regular projects. The year on the horizontal axis is the year of issuance of the project completion report.
Source: Asian Development Bank (Independent Evaluation Department).

caution is in order as to the influence of these variables due to the limitations of the samples.

111. The statistical analysis also checked the significance of some variables in the evaluation database related to project implementation. The significant variables positively affecting process efficiency were:

(i) involvement of the officer responsible for project preparation in project implementation;
(ii) a large number of supervision missions;
(iii) delegation of project to the resident mission; and
(iv) satisfactory implementation performance prior to the MTR.

112. **Effects of improvements in design and implementation variables on processing efficiency.** The overall aggregate effects of design and implementation improvements can be gauged from the extent of reductions in project processing and implementation times. Figure 24 shows a partial view of these trends for sovereign operations with and without PBLs, based on PCR data.

113. Implementation delays for sovereign investment projects averaged 20 months between 2001 and 2009 and 18 months between 2011 and 2016, indicating some project efficiency improvement. As can be seen, there was significant variation until 2010, and less thereafter. Since PCRs for investment projects are issued 6–10 years after approval, the effect of the 2010 streamlined business process on these data will have been limited so far.[60] It is too early to verify whether the increase in the number of project processing officers now being deployed in project administration, the greater number of supervision missions, and the greater delegation to resident missions are resulting in greater efficiency.

114. Project processing has proved only modestly responsive to the various measures taken to reduce delays. Although data on project initiation and design duration before the fact-finding mission were not tracked from 2010, it is likely that any time gains have been limited. Due principally to time gains in TA processing, the reduction in project design and processing time after 2010 was about 3 months with the total time to loan processing currently standing at about 20–21 months.[61]

Efficiency and Sustainability Measures Taken by ADB

115. Project efficiency and sustainability are not only dependent on design and preparation practices

[60] In addition, the focus of the streamlined business processes was more on project processing delays than on project implementation delays.

[61] The 2009 report Better and Faster Loan Delivery indicated a total period of 24 months for loan delivery prior to 2008. This included: (i) 4 months for PPTA processing, (ii) 5 months to recruit the PPTA consulting firm, (iii) 8 months to implement the PPTA, and (iv) 7 months to loan approval.

but also on the wider context in ADB, portfolio decisions, and the situation in a country of concern. All these keep changing over time, affecting performance in the aggregate. Of the many measures that ADB has undertaken to improve its development effectiveness since 2001, some have targeted project efficiency and sustainability, and they may therefore help to explain the rise in ratings for efficiency and sustainability, and the gains in project processing and implementation times. Several measures were specifically designed to improve business processes and to counteract the effects of the expansion of due diligence requirements and corporate agendas from the mid-1990s and their impact on project processing and implementation delays. The four most important measures and their likely impacts on project efficiency and sustainability were: (i) developments in the strategic context; (ii) the introduction of new modalities; (iii) increases in resources and staffing; and (iv) reforms to ADB business processes.

1. Developments in the Strategic Context

116. In 2002, a reorganization of ADB led to a shift from an organization that was focused on headquarters to a more regional- and country-led approach,[62] and to new matching business processes. This increased the depth of country and sector analysis, which may have contributed to the positive trends in both project efficiency and sustainability. The accelerated creation and expansion of country offices also promised to benefit project efficiency and sustainability—the statistical analysis found that projects delegated to resident missions at some point in the project cycle were more efficient and sustainable.[63]

117. In 2004, the enhanced poverty reduction strategy[64] removed the quota for poverty intervention projects and reduced the complexity of project design. ADB's Medium-Term Strategy, 2006–2008 introduced a sector focus, favoring some sectors. In 2008, Strategy 2020 led to greater emphasis on infrastructure provision, while work in PSM, health, and agriculture was deemphasized. All of this contributed to a different portfolio profile and this had consequences for the aggregate efficiency and sustainability performance. Strategy 2020 was accompanied by a results framework and the first annual DEfR which reported efficiency indicators such as the project processing time, project approval to first disbursement time, and disbursement ratio to the Board of Directors. This elevated their importance.

118. Since 2010, Strategy 2020 has gradually been complemented by operational plans for almost all sectors. Several of these were very specific about sustainability risks, which may have contributed to the increased attention now given to the types of projects supported and their designs, and the treatment of sustainability risks and measures in project risk assessment, management plans, and DMFs.

119. The Sustainable Transport Initiative, ADB's transport operational plan, emphasized a range of new sustainability related topics to be addressed by transport projects, including safety, greenhouse gas emissions, air pollution, and gender, as well as traditional topics such as asset management. The Water Operational Plan, Urban Operational Plan, and Environment Operational Directions focused on tariffs and cost recovery as ways of making individual water supply agencies more financially independent. The Energy Policy of 2009, and subsequent developments in solar and wind power, lowered support for coal-fired power plants due to their high greenhouse gas emissions. Other operational plans also focused on sustainability issues to varying degrees.

120. In 2014, the MTR of Strategy 2020 reinstated health and agriculture as critical operational areas and made other adjustments, although ADB's infrastructure focus was reconfirmed.[65] Taken together, these contextual strategy developments may have contributed to improvements in recent ratings for the efficiency and sustainability of projects.

2. Introduction of New Modalities

121. In August 2005, ADB approved the Innovation and Efficiency Initiative which introduced several new modalities, of which the MFF and the local currency loan turned out to be the most promising and used.[66] Among other things, MFFs allow individual project tranches to add a component to prepare the feasibility study for, and design of, the next tranche. Separate RRPs

[62] ADB. 2001. *Reorganization of the Asian Development Bank*. Manila.

[63] ADB. 2001. *Business Processes for the Reorganized ADB*. Manila.

[64] ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific. The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

[65] ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

[66] ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila.

are not required for subsequent tranches, implying project preparation efficiencies. Recent projects have indeed demonstrated greater readiness and more detailed designs have been completed before project approval. ADB approved a new policy on additional financing in 2010 so that project implementation could be expanded without the need for a new RRP.[67] ADB has also learned to rely more on single-tranche standalone or programmatic PBLs, eliminating post-approval delays in loan disbursement.[68]

122. In 2011, ADB approved a $150 million project design facility to pre-finance detailed designs through project design advances (PDAs) to a maximum of $5 million, with the amount to be recouped from the likely loan.[69] Because of the low initial uptake, the facility was modified in 2014 by increasing the size of individual advances, to $10 million or 4% of the cost of the loan, among other changes. Since then a TA facility was approved to provide transaction advisory services, and several more specific project preparation facilities. In 2013, the RBL modality was introduced with a cap of a maximum of 5% of ADB financing during a pilot phase running to 2019.[70] This modality has good potential to strengthen development effectiveness, including project efficiency and sustainability.[71] All of these initiatives may have contributed to the recent improvement in efficiency and sustainability ratings of the ADB portfolio, although it is too early for some changes to have an impact on the ratings.

3. Resources Available for Lending and Staffing

123. In 2008, a review of ADB's Resident Mission Policy led to the accelerated expansion of resident missions and increases in their staff and responsibilities, with positive implications for project efficiency and sustainability. Since 2014, ADB has encouraged the posting of headquarters staff to resident missions.

124. In 2009, a 200% general capital increase allowed for major increases in ADB lending. The associated expansion in staffing increased the depth of staff resources available for various aspects of project preparation and supervision, although staff resources remained stretched due to the even greater increase in operations.

4. Reforms to ADB Business Processes

125. In 2010, another round of streamlined business processes was introduced following publication of the working group report *Better and Faster Loan Delivery*. The new process was to reduce the time from project identification to first loan disbursement without compromising project quality. This was to be achieved by synchronizing the project design phase —usually involving a PPTA—with loan processing. The Reconnaissance Mission was to become the key activity for initiating the design process combining the previous PPTA fact-finding with that of reaching an understanding with the client on the concept for the ensuing loan project. During this mission, all key parameters impinging on project design were to be first addressed. There was also a simplification of the peer review process, a greater emphasis on project readiness, and a new maximum length of the RRP's main text at 10 pages (down from 20+ pages).

126. In 2014, the MTR of Strategy 2020 produced an action plan that aimed to further streamline business processes, improve project readiness, and reduce implementation delays.

127. In 2015, a further 22 business process reforms included: (i) facilitating the use of advance contracting and retroactive financing; (ii) preparing a new procurement policy; (iii) accelerating disbursement under PBLs; and (iv) streamlining financing of partnership operations, including delegating approval authority to the President on administration of cofinancing.[72]

128. In August 2014, a 10-point procurement reform action plan was initiated to reduce procurement time, increase administrative efficiency, and improve project delivery in advance of the finalization of the new procurement policy. In 2017, a new Procurement Policy, which is expected to lead to streamlined and more efficient procurement was approved.[73] Through use of a risk-based approach, the policy removed

[67] ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila.

[68] IED's ongoing evaluation of PBL.

[69] ADB. 2011. *Establishing the Project Design Facility. Manila*. March.

[70] ADB 2013. *Piloting Results-Based Lending for Programs.* Manila.

[71] IED. 2017. *Corporate Evaluation: Results-Based Lending at the Asian Development Bank: An Early Assessment*. Manila: ADB.

[72] ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila.

[73] ADB. 2017. *ADB Procurement Policy. Goods, Works, Nonconsulting and Consulting Services*. Manila.

the distinction between international competitive bidding and national competitive bidding as this had encouraged the slicing up of contracts below the international competitive bidding limit in many countries. Procurement will now be carried out on the basis of open competitive bidding. The procurement rules of other MDBs can now also be accepted for ADB projects.

129. In addition to changes at ADB, developments in contemporary Asia have impacted project preparation and processing times. Many of these changes will be positive, given the likelihood of technical capacity increases within countries, as all but two of ADB's DMCs have now attained middle-income status. But shifts in technologies, climate change, the ageing of the population, and increasing inequality require changes to diagnostics and approach. Political upheaval and national and international financial crises remain unpredictable, and all these will have an impact on project efficiency and sustainability in uncertain ways.

Likely Effects of Improvement in Factors Determining Efficiency and Sustainability

130. Interviews were held with 31 senior staff heading divisions and project administration units in regional departments regarding recent developments discussed in the earlier section and their likely effects. Together with the statistical analysis and the observation of management actions, information from these interviews was used to draw up a set of factors affecting efficiency and sustainability. Subsequently, likely effects of improvements in these factors were assessed to understand their implications on efficiency and sustainability. The assessment was complemented by views from expert staff. Their views on the application and effects of recent measures could sometimes be triangulated with the comparison of the sample of RRPs issued in 2009 and 2016–2017. (Linked Document G).

1. Improvement in Factors Determining Project Efficiency

131. **Project preparatory TA**. Staff corroborated the importance of the presence of funds for PPTA, a significant factor identified by the regression analysis. This factor was the most frequently mentioned by staff of the top 15 most important design and preparation factors (Table G.14, Linked Document G). While such TA was not required for every kind of project, staff said it often improved the chances of efficiency and sustainability, especially when the TA was client- and project-specific. Developments affecting TA were viewed as positive in spite of frequently recurring messages that there has been a decline in TA resources. The RRP comparative analysis showed that 54% of the 2016–2017 RRPs had used TA for project preparation compared with 41% of the 2009 projects. However, ADB's emphasis on reducing project processing times was viewed by several operations staff as involving some risk with respect to the quality of project design; staff did not see much scope for further reductions in processing time.

132. **New modalities**. Staff saw the availability of the MFF modality since 2006 in particular as helping project efficiency, as it builds in time and resources for project preparation and engineering design (Table G.14, Linked Document G). This was also confirmed by an analysis of PVR ratings for MFFs in the past 6 years. However, in some cases, the time taken during MFF implementation for the design of future project tranches was still viewed as insufficient, as supervision consultants and agencies are overloaded with pressing implementation problems. It was reported that some countries will not borrow for the provision of consulting services and this was seen as affecting MFFs in those countries. The introduction of RBL in 2013 was confirmed by most to be a promising initiative, which was also the conclusion of IED's evaluation. However, no RBL has been completed, so the modality's contribution to efficiency and sustainability performance is yet to be known.

133. **Detailed designs**. Of crucial importance to infrastructure project efficiency was the availability of a project's detailed designs at the time of loan or grant approval. Project readiness, particularly the availability of detailed designs, was the third most important design and preparation factor (Linked Document G, Table G.14). Staff said that the availability of detailed project designs at the time of loan or grant approval

was crucially important to infrastructure project efficiency. The main positive change noted was that more infrastructure projects now have detailed designs completed at the time of project approval. Two-thirds of the sample of 2016–2017 RRPs reported having a detailed design available at approval, a similar figure to that reported by the 2016 DEfR,[74] compared to only one project in the 2009 sample (1.6% of the sample). In the new RRPs, 8% reported making use of PDAs. This means that most of the large increase in design-readiness seen in the new projects is due to other mechanisms, including use of MFFs, TA loans, bilaterally-funded TA, and possibly governments' own funds. Although the PDA was viewed as a promising modality by several staff, others said governments were reluctant to use it (as funds would have to be borrowed to take advantage of it).

134. **Project readiness**. Staff saw the project readiness checklist introduced in 2007 as an important instrument. Of the 2016–2017 RRPs that were examined, 84% indicated the checklist had been used, compared with 41% in 2009.[75] In contrast, there was little change evident in the retroactive financing and advance contracting for services and civil works. Both the 2009 and 2016–2017 RRPs show similar shares in terms of usage; about 60% for retroactive financing and 70%–76% for advance contracting.

135. **Implementation capacity**. Several staff opined that local capacity should never be taken for granted even where agencies had prior experience with ADB. Capacity assessments were mentioned by staff as the third most important design and preparation factor (Table G.14, Linked Document G). The analysis of RRPs shows that the percentage of agencies with prior experience of ADB-supported projects had grown to 70% by 2016–2017, compared with 63% in 2009. Staff felt that the limited experience of internationally funded and supervised projects in some agencies and the high staff turnover in many others meant that assessments of the capacity for procurement, financial management, safeguards, and risk assessments had to be regularly updated. Staff reported favorably on the improved quality of the project administration manual (PAM) since 2009 in line with the instruction of April 2010.[76] The improved PAMs are project-specific and are developed during project preparation. They have helped executing and implementing agencies to understand projects and have contributed to improved implementation. In all the 2016–2017 RRPs, human and institutional capacity support to executing and implementing agencies to enhance efficiency and sustainability was included in project components or in TA. This compares with three-quarters of the 2009 RRPs. Seventy percent of the new RRPs reported that this support was provided via a loan component (compared with 51% in 2009), implying that capacity components are increasingly funded by loans, rather than by ADB grants through TA.

136. **Policy-based lending**. A critical change in the use of PBLs has been the gradual shift from multitranche standalone loans to single-tranche loans. The former often led to ambitious designs with major reforms funded by later tranches. Difficulties with these reforms often led to non-implementation of the second or third tranche and its eventual cancellation, lowering the efficiency of PBL. The newer programmatic PBLs are a series of single-tranche loans that can be better managed, and hence increase process efficiency, as Table 3 shows.[77]

137. **Use of country systems**. Staff reported that where government agencies use their own procurement systems and contract documents, the need for capacity support is greatly reduced and efficiency improves. IED's analysis of RRPs shows increased use of country systems in ADB supported projects.

138. **Risk assessments**. A positive development in this area has been that the consideration of

[74] The 2016 DEfR showed that 44% of projects were "procurement ready," meaning they had prepared bid documents including designs for engaging contractors, and that 75% were "design-ready" before project approval in 2016. The definition of "design-ready" by DEfR was that the projects "have either completed detailed engineering designs ... or they have completed preliminary design and specifications suitable for preparing and launching bidding documents for construction contracts that involve detailed design and/or turnkey or engineering procurement and construction contracts."

[75] The project readiness filters defined in Project Administration Instructions (PAI) 1.01 are incorporated in the PAM and cover major pre-project implementation actions to ensure project quality-at-entry. They include ensuring the project is consistent with government plans; the sector's institutional and political economy context is understood; capacity assessments of the executing agency have been updated; a stakeholder analysis, feasibility studies and preliminary designs have been completed; safeguard requirements have been determined, including right-of-way acquisition needs; and the schedule for government and ADB approvals is known.

[76] IED has also noted in PCRs that turnover of staff is a common cause of loss of capacity.

[77] PBLs are assessed only for process efficiency, not efficiency of investment, nor economic efficiency.

implementation risks as part of ADB's project design is improving. Of the 2016–2017 RRPs, 86% included a risk to smooth implementation in the DMF compared with 71% in the 2009 RRPs. These risks included delays in procurement and in the availability of counterpart funds and capacity weaknesses of implementing units. However, measures evident in new RRPs still do not always adequately recognize risks to economic efficiency caused by lower than forecast demand and the potential for cost overruns, both of which have negative consequences for economic efficiency. The greater engineering design-readiness seen in the 2016–2017 RRPs does in fact address the risks to cost overruns but RRPs seldom recognize the risk of lower than expected demand.

2. Improvement in Factors Determining Project Sustainability

139. **Project identification**. Staff stressed the importance of CPS and sector assessments based on up to date diagnostics in relation to designing for sustainable project outcomes. This factor was the seventh most frequently mentioned by staff of the top 15 most important design and preparation factors (Linked Document G, Table G.14). It was also mentioned that if good quality sector analysis was done infrequently, the loss of knowledge for these sectors could have adverse consequences for the quality of project design and preparation, and the sustainability of the project outcomes. Some staff expressed concern at the CPS reforms of 2015 that may, in practice, reduce the frequency of such sector assessments. This might then have adverse consequences for the quality of project design and preparation, and the sustainability of the project outcomes. Staff felt that sustainability concerns need to be increasingly addressed by looking across traditional institutional boundaries and classifications within ADB.

140. **Operational plans**. Staff generally welcomed the guidance of operational plans formulated for most sector programs. The comparison of the RRPs for 2009 and those for 2016–2017 revealed a growing attention to sustainability in the transport and water sectors in line with their operational plans for sustainability. Of the 2016–2017 projects, 65% included support for improved operation and maintenance systems compared with 48% in the 2009 projects. Over 41% of the new projects included covenants or measures to provide funds from the government's budget compared with 27% in 2009. In contrast, the use of dedicated maintenance funds reduced from 24% in 2009 to 14% in 2016–2017. In the 2009 RRPs, features were instituted to enhance asset management systems and related policies that were beneficial at the sector-level rather than being confined to the project and this practice has increased since that time.

141. Direct support for sustainability measures has increased with 64% of new infrastructure RRPs including resilience features compared with 13% in 2009. The bulk of these features concern climate proofing in line with ADB policies and the 2015 Paris Climate Agreement. Almost 50% of the 2016–2017 projects supported one or more of the Sustainable Development Goals.

142. Given the time lag in completing the new generation of sustainable transport projects, the improvement in project designs evident since 2009 is not yet showing clearly in the ratings for completed and evaluated projects. However, the increased attention to tariff setting and cost recovery in urban water is beginning to bear fruit with a 12% improvement in sustainability ratings.

143. **Project modalities**. The launch of the MFF in 2006 reflected a more comprehensive and long-term approach to issues of institutional development, sector management, and sustainability. Of the 25 tranches evaluated so far, 80% were rated likely sustainable or better, 12% higher than the overall rate of 68% for the whole group of projects with PCRs issued from 2010 to 2017. However, this finding may be premature and IED will complete an evaluation of the MFF in 2019. By then more MFF tranches with PCRs as well as PCRs for the full facility will be available.

144. In certain instances, RBLs appeared to be in tune with the sector-wide approach that ADB has also occasionally supported, in association with other development partners. Once issues identified at its pilot phase have been addressed and RBLs are fully mainstreamed, they should engender strong ownership through the use of country program systems, increasing the likelihood that their outcomes will be sustainable.

145. **TA reforms**. TA reforms approved in 2017 make it possible to approve a transaction TA much faster than before, with potentially positive outcomes for both project sustainability and efficiency.

146. **Project readiness**. Staff mentioned that adequately funded engineering design contributes to greater durability, lower operation and maintenance costs, and enhanced sustainability. While not many countries have utilized PDAs, 8% of the projects approved in 2016–2017 were based on the designs delivered through PDAs. Staff also considered the increase in trust funds allowing grant funds to be used for transactional TA as a positive development. For instance, funding from the Nordic Development Fund enabled ADB to establish the Project Readiness Improvement Trust Fund for Southeast Asia in 2016. The commitment was €7 million, so the funds available for designing projects are limited. While they may not be sufficient for transport projects, they may benefit other sectors.

147. **Capacity assessments and measures**. The analysis of the 2016–2017 RRPs revealed that capacity development support was provided in all projects, compared with 75% of RRPs in 2009. Although post-project training programs were considered useful by some staff, they were proposed in only 2% of new projects, compared with none in 2009.

148. **Use of technology and new design features**. The analysis of RRPs showed that about 20% of both the 2009 and 2016–2017 RRPs proposed the use of technology to enhance sustainability. The increase in the outsourcing of maintenance evident from 2009 to 2016–2017 was viewed by staff as favorable for sustainability. A positive development was the increased use of performance-based management and maintenance contracts that extend for several years into the operation of the project. ADB now allows loan proceeds to be used to fund these contracts for 2 years.

149. Staff commented that, while clients may favor technologies they are familiar with, it often pays to adopt more recent technologies to reduce whole-of-life costs (and enhance project sustainability). Staff emphasized the need to ensure project preparation teams include an appropriate range of technical specialists. An example referred to was the use of new technologies in the energy sector; although these may cost more initially, they have lower whole-of-life costs, including less transmission loss than technologies that country agencies may be familiar with. Introducing new technology is a challenge since some advanced technologies lack a sufficient operating track record in relevant environments.

150. With a similar mention of the use of technology in both recent and older RRPs, improvements over time in this area are not so clear cut. There were also changes in operation and maintenance arrangements that could potentially be seen as improvements, although these remain to be verified. In 19% of the 2016–2017 RRPs, compared to 8% of the 2009 RRPs, maintenance was to be contracted out to mainly private entities using performance-based maintenance contracts. These PPP arrangements had the potential to improve sustainability and both process efficiency and economic efficiency (through reduced risk-adjusted whole-of-life costs). But only 18% of the 2016–2017 RRPs involved PPPs compared with 26% in 2009, indicating mixed progress in this difficult area.

151. **Use of country systems**. Staff saw the rise in the use of country systems for procurement, safeguards, and financial management as beneficial for sustainability. The 2017 Procurement Policy may also have positive effects since quality is now explicitly stated to be one of the six procurement principles. The SPS of 2009 allows the use of country systems in ADB-supported projects, although not much progress on this has been made so far. RBLs allow use of countries' own program systems, following an assessment by ADB and any gap-filling measures required. Since the late 1990s, ADB has increasingly promoted using government agencies to do their own implementation, with only essential support provided by consultants, enhancing the prospects for improvements in agency capacity. Greater reliance on government systems during project implementation should increase the sustainability of these projects after completion.

152. **Risk assessment and DMF design.** The comparison of RRPs for operations approved in 2009 and 2016–2017 showed that the conditions affecting the sustainability of operations were generally elaborated in more detail in the 2009 RRPs than in the 2016–2017 RRPs, in part due to the page restrictions of the new RRPs. However, the same analysis found that the new RRPs were incorporating more country- and project-specific risk assessments for sustainability. For example, in 78% of the recent RRPs, sustainability was identified in the risks section of the RRP and mitigation measures were proposed. This compares with 60% of RRPs in 2009. Sustainability was also recognized as a risk in the DMF in 78% of the new RRPs compared to 29% of the 2009 RRPs.

153. Risk assessment and management plans in the 2016–2017 RRPs discussed sustainability risks more frequently than those from 2009, although not all the high risks identified were systematically reflected in the main text of the RRP.[78] The DMFs of 2016–2017 also reflected sustainability risks more frequently than in 2009. This may be because the operational plans in several infrastructure sectors are paying greater attention to sustainability.[79]

Summary

154. **While recent improvements have been made, project efficiency has remained weaker than relevance and effectiveness**. The improving efficiency ratings since 2010 are largely the result of reduced delays in implementation, continued learning by ADB, and stronger implementation capacity in DMCs. Findings of the comparison of RRPs from the two periods confirm that some lessons have filtered through in project design and preparation.

155. **The undue shortening of project preparation may affect the quality of project design**. ADB's internal efforts to reduce implementation delays and cut project preparation times since the start of the 2000s have led to reductions of 2–3 months in each and ratings have not suffered as a consequence. Nevertheless, several staff were concerned that any further shortening of project preparation and processing times would have consequences for the quality of project design. The intensifying development challenges in Asia and the Pacific require more sophisticated project solutions, and adequate time needs to be taken to prepare projects. But, just as importantly, it is essential to ensure that the projects are fully understood, and the DMCs' agencies are aware of potential solutions.

156. **Increased process efficiency enhances the economic efficiency of ADB's portfolio**. The combination of ADB's long-running and multi-pronged efforts to speed up project preparation and project readiness means that its projects are producing their benefits sooner than they would have done in the absence of these measures, resulting in enhanced economic efficiency.

157. **Project sustainability has also remained weaker than relevance and effectiveness notwithstanding improvements**. Again, the reasons lie in ADB and client weaknesses related to one or more of the identified project design and preparation factors, and to contextual issues. Even so, sustainability has improved and is likely to continue doing so, given measures taken in recent years. The review of RRPs showed that project designs addressed sustainability issues generally well in both periods. Recent improvements were the result of: (i) the sector operational plans for each sector that have been rolled out since 2010; (ii) detailed design being done more often before loan or tranche approval; (iii) the high use of the MFF, which has increased the resources available for sector analysis, project preparation, and engineering design; and (iv) lessons from the past filtering through to project design. Key points are:

- Staff generally confirmed the importance of addressing challenges to sustainability presented by operation and maintenance and funding constraints, agency capacity, governance structures and policies, and cost-recovery.
- Although the new RPPs contain improved designs for sustainability, loan and project documentation already demonstrated a thorough assessment of sustainability risks and proposals for mitigating actions. The continuing poor sustainability performance is most likely because of continuing difficulties clients have in meeting the requirements in RRPs, such as raising recurrent budgets and tariffs and improving capacities, even though these are often well spelled out, and assurances given.
- External factors such as economic crises and natural hazards also continue to exert unforeseen effects on project sustainability and may even be increasing.
- While the new RRPs are generally comprehensive, the actions and components to improve the likelihood of sustainable results are scattered across various parts of the RRP and the loan or project agreement, reducing the likelihood of their follow up.

158. An area of future work could be a comprehensive analysis of factors affecting the efficiency and sustainability of projects not only at the design and preparation stage but also at the project implementation stage.

---

78 Risk assessment and management plans were intended to focus on risks in public financial management, corruption, and procurement.

79 The DMF column on assumptions and risks does not allow for a very systematic discussion or assessment of the likely probability or consequences of particular risks.

Implementation of IED Recommendations

4

Highlights

Timeframes. Recommendations from country, corporate, and thematic evaluations require longer timeframes compared with country-level sector and impact evaluations.

Implementation rate. The implementation rates of the recommendations from country, corporate and thematic evaluations are better than those from country-specific sector and impact evaluations.

Management action record system (MARS) reforms. Continuing improvements to the MARSare positively contributing to the quality of both recommendations and planned actions. Whether these translate into more successful implementation will be the focus of future assessments.

159. This chapter provides an annual update of the Management's acceptance and implementation of IED recommendations and discusses progress since the 2017 AER. It also reviews efforts to evolve the management action record system (MARS) from a basic tracking and reporting system to a more dynamic learning tool that informs on the outcomes of evaluation recommendations and on what works and what does not.

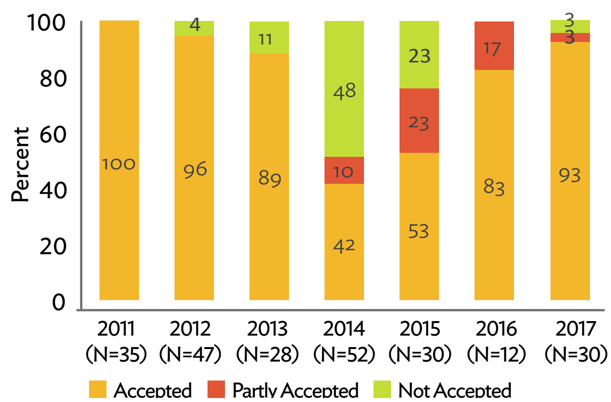
Acceptance of Recommendations

160. Management acceptance[80] of evaluation recommendations was high in 2016 and 2017. The acceptance rate since 2015 at 98%, is better than the average of 95% from 2011 to 2013.

1. Rate of Acceptance from Approved Evaluation Reports in 2017

161. The acceptance rate in 2017 remains very high at 96%, just under 100% acceptance in 2016 (Figure 25). The partial acceptance rate fell to 3% in 2017 from 17% in 2016. Management rejected 1 of 30 recommendations from 6 approved evaluations during the year — this was a recommendation to ensure that RBL programs exclude category A involuntary resettlement activities.[81]

Figure 25: Management Acceptance of IED Recommendations, 2011-2017



IED = Independent Evaluation Department.
Source: Asian Development Bank (Independent Evaluation Department).

162. **The intensified interaction between IED and Management before meetings of the Development Effectiveness Committee (DEC) contributed to an improvement in the rate of full acceptance from 83% in 2016 to 93% in 2017.**[82] A technical meeting before the DEC meeting is now held to improve the substantiation, clarity, and actionability

[80] An evaluation normally contains more than one recommendation and Management records its acceptance, partial acceptance, or non-acceptance of each recommendation. The acceptance rate for a particular reporting year is the percentage of recommendations that Management agrees to implement (fully or partially) from new IED reports issued in that year.

[81] In 2017, recommendations from two high-level evaluation reports were not required to be uploaded to the MARS: IED. 2017. *Synthesis Paper: Lessons from Country Partnership Evaluation: A Retrospective*. Manila: ADB; IED. 2017. *Knowledge, Finance, and the Quality of Growth: An Evaluative Perspective on Strategy 2030*. Manila: ADB.

[82] See paras 177-180 for more details.

Table 4: 2017 Approved Evaluation Reports with Recommendations in the MARS, CY 2017

Evaluation Report	Accepted	Partly Accepted	Not Accepted	Total	AR (%)
2017 Annual Evaluation Review	3	0	0	3	100
TP on Knowledge, Finance, and the Quality of Growth: An Evaluative Perspective on Strategy 2030	6	0	0	6	100
CAPE India	8	0	0	8	100
TE on ADB Support for Gender and Development	4	0	0	4	100
CE on Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products	4	1	0	5	80
CE on Results-Based Lending at the Asian Development Bank: An Early Assessment	3	0	1	4	75
Total	28	1	1	30	93

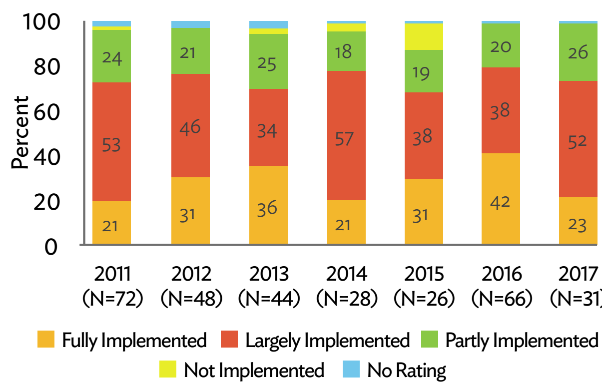
ADB = Asian Development Bank, AR = acceptance rate, CAPE = country assistance program evaluation, CE = country evaluation, CY = calendar year, MARS = management action record system, TE = thematic evaluation, TP = topical paper.
Source: Asian Development Bank (Independent Evaluation Department).

of recommendations. The low number of rejections reinforces the point that the objective of the technical meetings is not to ensure agreement but to produce high-quality recommendations, irrespective of the decision that Management is prepared to take. Table 4 shows the reports finished in 2017 and the number of accepted, partially accepted, and not accepted recommendations. (Linked Document I).

2. Assessing Implementation of Actions on Recommendations

163. **In 2017, three of four agreed recommendations were validated as having been fully or largely implemented.** This result is within the long-term average implementation rates of 69%–80%. As in the past, deviations in self-assessed and validation ratings persist, especially for the fully and largely implemented categories. The post-validation shares of self-assessed recommendations that are fully implemented declined to 23% in 2017 from 42% in 2016 (Figure 26). Conversely, recommendations that were largely implemented rose from 38% to 52% in the period. Despite this year's results, the 3-year average ratios for fully implemented recommendations was slightly higher at 32% in 2015–2017 compared with 29.3% in 2012–2014.

Figure 26: Implementation Assessment Ratings of Recommendations, RY 2011-2017



RY = reporting year.
Source: Asian Development Bank (Independent Evaluation Department).

164. **The percentage of self-assessed fully implemented actions was reduced by validation from 55% to 23%, similar to trends from previous years.**[83] Self-assessments in 2017 posited that 17 of the 31 due actions were fully implemented. Of the 17 actions, validations concurred with 6, downgraded 9 to largely implemented and two to partly implemented (Linked Document J). All 11 actions on recommendations were downgraded because of differing IED and Management perceptions on the adequacy of the actions taken. This gap is expected to close as most of recommendations and corresponding action plans are now being formulated with greater interaction between IED and Management.

[83] IED. 2017. *Annual Evaluation Review*. Manila: ADB.

Status of IED Reports with all Recommendations Completed in 2011–2017

165. The 2017 AER introduced an analysis of the implementation success of evaluation reports where all recommendations were completed in a given year. The 2018 AER updates this analysis for evaluation reports for which all recommendations were completed in 2017. It also summarizes the findings from the collective assessment of selected evaluation reports, this allows for a broader perspective on the implementation performance of these completed reports.

166. In 2011–2016, 75% of accepted recommendations were either fully or largely implemented. The rate of implementation for 2017 was slightly lower at 71%. The implementation period for completed recommendations averaged 3.8 years in 2017, as it did in 2016, but this was still much longer than the average implementation period of 2.5 years in 2011–2015 (Appendix 5, Table A5.1).

167. **ADB successfully implemented 90% of the accepted recommendations of the thematic and corporate evaluations in 2017; just over half of the recommendations of country evaluations were implemented.** Table 5 details the 10 evaluation reports completed by reporting year 2017 with all

Table 5: Implementation of Accepted Recommendations for Evaluation Reports Completed in RY 2017

Report Category and Short Title		IED Validation Rating						
	AR (%)	TI	FI	LI	PI	NI	NR	% of FI/LI
A. Country								
CAPE Lao People's Democratic Republic: Sustainable Growth and Integration	100	5	2	2	-	-	1	80
SAPE on the Education Sector in Uzbekistan	100	4	-	1	3	-	-	25
SAPE on the Energy Sector in Lao People's Democratic Republic	100	4	-	1	3	-	-	25
CAPE Uzbekistan	100	7	2	4	1	-	-	86
CAPE for the Islamic Republic of Afghanistan	80	4	1	3	-	-	-	75
Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project	100	4	-	-	3	1	-	-
Subtotal country		28	5	11	10	1	1	57
B. Thematic and Corporate								
SES on ADB Support for Promoting Good Governance in Pacific Developing Member Countries	100	4	2	2	-	-	-	100
SES on Knowledge Product Services: Building a Stronger Knowledge Institution	100	6	2	3	1	-	-	83
TE on ADB's Support for Achieving the Millennium Development Goals	100	7	2	5	-	-	-	100
CE on ADB Decentralization: Progress and Operational Performance	100	4	1	2	1	-	-	75
Subtotal thematic/corporate recommendations		21	7	12	2	-	-	90
Total 2017 Recommendations		**49**	**12**	**23**	**12**	**1**	**1**	**71**

- = zero, ADB = Asian Development Bank, AR = acceptance rate, CAPE = country assistance program evaluation, CE = corporate evaluation, FI = fully implemented, IED = Independent Evaluation Department, LI = largely implemented, NI = not implemented, NR = not rated, PI = partly implemented, RY = reporting year, SAPE = sector assistance program evaluation, SES = special evaluation study, TE = thematic evaluation, TI = total implemented.
Source: Asian Development Bank (Independent Evaluation Department).

recommendations accepted. Sector assistance program evaluations (SAPEs) seem to do worst, which does not bode well for IED's initiative to re-focus on sector evaluations (though some of these are Asia-wide and not country specific). Only 25% of the recommendations in each of the two SAPEs were successfully implemented. The Nepal shallow-tubewell impact evaluation fared worst, with none of its recommendations implemented, a sign that such evaluations may not be the best way for providing highly country-specific recommendations. These observations on SAPEs and impact evaluations are confirmed by their long-term rate of 65% (Table 6). IED will therefore have to further look closely at the formulation and implementation of recommendations for these two types of reports.

168. **Recommendations from completed CAPEs and thematic and corporate evaluations implemented for more than 4 years from 2011 to 2017 shows the highest implementation rates, at over 90%.** This longer period of implementation is consistent with the requisites of recommendations from these types of evaluations. For example, CAPE recommendations should follow the implementation cycles of CPSs of about 6 years. Thematic and corporate evaluations are implemented ADB-wide and therefore must be given ample time for implementation. For country-specific sector and impact evaluations, implementation experience indicates a higher chance of success for recommendations implemented within 1–4 years. In all evaluation types, those implemented for less than 1 year have the lowest rates.

Table 6: Implementation Rate of MARS Recommendations by Report Type and Length of Implementation, Reporting Year 2011–2017

Report Type and Length of Implementation	Number of FI or LI	Total Number of Recommendations Implemented	Implementation Rate (%, FI/LI)
CAPE	**62**	**71**	**87**
Less than a year	1	2	50
1 to < 4 years	34	41	83
4 years and above	27	28	96
SAPE, Impact, Others[a]	**70**	**107**	**65**
Less than a year	7	13	54
1 to < 4 years	53	74	72
4 years and above	10	20	50
Thematic and Corporate	**109**	**146**	**75**
Less than a year	24	33	73
1 to < 4 years	73	100	73
4 years and above	12	13	92
All Reports	**241**	**324**	**74**
Less than a year	32	48	67
1 to < 4 years	160	215	74
4 years and above	49	61	80

CAPE = country assistance program evaluation, FI = fully implemented, LI = largely implemented, MARS = management action record system, SAPE = sector assistance program evaluation.
[a] Others includes three country-specific corporate and special evaluations.
Source: Asian Development Bank (Independent Evaluation Department).

Results and Lessons from the MARS Process

169. To strengthen IED's effectiveness and impact, the 2017 AER initiated special reporting on the implementation of recommendations at the report level. This shift broadens the perspective on implementation performance and enhances the role of MARS as a learning instrument. And it provides insights on what works and what does not. The 2018 AER highlights the key results of actions taken on all recommendations of the 10 completed evaluation reports (Appendix 5, Table A5.2). The current form of the MARS reports veers from assessing progress at the output level.

170. In the MARS report, all five country and sector evaluation self-assessments describe outputs in detail. Only two of the five go beyond this by informing on central outcomes. For example, the Uzbekistan CAPE and the energy SAPE for the Lao People's Democratic Republic give outcome-level information. The SAPE indicated strengthened capacity of the Ministry of Natural Resources and Environment to manage, monitor, and coordinate environmental and water resource issues. In Uzbekistan, actions taken which helped strengthen commercial banks and SME operations, internal controls, and risk and social management benefited ADB nonsovereign operations in the country.

171. Self-assessments of corporate and thematic evaluations also give good details on outputs. The corporate evaluation on ADB decentralization identified areas of progress in outputs, including continuing actions, to strengthen the roles, mandate, capacity, and resources of resident missions. The corporate evaluation on knowledge products and services also focused on outputs rather than assessing higher-level outcomes of knowledge identification, production, and sharing. In the future, self-assessments must go beyond outputs and capture the central outcomes of evaluation recommendations individually or collectively.

172. IED agreed with the Strategy, Policy and Review Department (SPD) in 2017 to include in the 2018 AER a synthesis of lessons learned from the implementation of recommendations for several reports selected from the pool included in Table 5. It was also agreed that IED would select a sample of country, sector, thematic and corporate evaluations.[84] Four country and sector-level reports (CAPEs for Afghanistan, Lao PDR, and Uzbekistan and the energy SAPE for Lao PDR), and two thematic and corporate evaluations (knowledge products and services, and ADB decentralization)[85] were selected. Meetings were organized between IED, SPD, and officers from the concerned regional departments or the Sustainable Development and Climate Change Department (SDCC) to discuss lessons learned (if any). The objective of the discussions was to identify the results, or lack of them, in implementing agreed recommendations from major IED reports. Did implementing the recommendations result in observable changes in program and/or CPS designs or in support modalities? Did it lead to changes in business processes? Were the recommendations clear and actionable–or was implementation hampered by a lack of clarity? Did the recommendations stay relevant or did changes in local context render them irrelevant? Below are the highlights of observations gathered from these meetings.

173. **CAPEs and SAPEs**. The assessments of the quality and relevance of CAPEs and their recommendations varied. In some cases (Lao PDR, Uzbekistan) recommendations were seen to be relevant and they fed directly into the formulation of the subsequent CPS. For Afghanistan, the recommendations were rejected or deemed irrelevant because they either addressed issues already tackled by Management or because they resulted from misunderstandings of the situation on the ground (perceptions of operations staff).

174. To facilitate effective planned actions, it was advised that the timetable for the implementation of recommendations should not exceed the timetable of the CPS or a country's election cycle. Institutional recommendations, for example on the need to improve coordination between sector divisions and resident missions, were appreciated and often led to concrete changes. Conversely, some recommendations (the Lao PDR's energy SAPE) were deemed relevant and useful at the onset but became unimplementable because

[84] The understanding is that in subsequent years, this exercise will result in a written or audio-visual knowledge product. For this year, the focus was more on introducing the exercise in the regional departments and Sustainable Development and Climate Change Department. .

[85] Responses to the special evaluation study on knowledge product services are still pending (to be coordinated by SDCC).

Box 3: Guiding Principles for the Management Action Record System

The current management action record system (MARS) was introduced in 2009, with the objective of capturing and monitoring the implementation of Independent Evaluation Department (IED) recommendations by the Asian Development Bank (ADB) Management. Only the recommendations of IED reports that are discussed at the Development Effectiveness Committee (DEC) enter the system and Management is required to upload its action plan no later than 60 days after the DEC meeting. The following guiding principles for MARS were adopted by IED and Management:

1. Recommendations must be actionable and suitable for monitoring;
2. Management should clearly indicate whether it agrees with the recommendations, and provides appropriate reasons in case of disagreement.
3. Recommendations agreed by Management should have clear proposed actions and a reasonable timeframe for implementation.

Source: Asian Development Bank (Independent Evaluation Department).

ADB withdrew from the sector. Now that ADB is back in the sector, many of the original recommendations are to be followed up by the Southeast Asia Department.

175. **Corporate and thematic evaluations.** The recommendations in the evaluation of ADB's ongoing decentralization process were considered relevant and useful, not because they identified new issues but because these were instrumental in speeding up organizational and staffing changes and changes to business processes. This confirms Management's assessment that recommendations focused on institutional matters are often appreciated and seen as useful.

176. IED and SPD have agreed to jointly prepare a guidance note for MARS focal points for better MARS reporting, particularly on completed evaluation reports.

Progress on MARS Improvements

177. When the 2016 Update on the Implementation of IED Recommendations was discussed at the DEC meeting, the committee encouraged Management and IED to communicate more closely on drafting recommendations and planned action, and to agree on the context and intention of the recommendations and follow up actions.[86]

178. In response, IED and Management agreed to improve the MARS process over 2017. Because of changes in assigned responsibilities by Management, the process got stalled for several months (March to September 2017). When SPD took on a coordinating role, the process was put back on track and good progress has been made.

179. IED and Management agreed that the quality of the recommendations to a large extent determined the quality of action plans and thus, the satisfactory implementation of recommendations. Management also welcomed IED's decision to introduce a technical meeting exclusively on recommendations. These meetings have been held for all the reports for which there was a DEC meeting and recommendations were made. In 2017, this applied to the India CAPE, and the evaluations of ADB support for gender and development, credit enhancement products, and RBL.

180. As a result of the meetings, the quality of recommendations has improved, especially in their clarity, substantiation, and actionability (they have also become more concise). To complement the work done in these meetings, SPD played an important role in ensuring that action plans are meaningful and responsive to the intent of the original

[86] In parallel with this exercise in ADB, the Evaluation Coordination Group conducted a similar exercise across a number of MDBs: ADB, European Investment Bank (EIB), Inter-American Development Bank (IADB), International Fund for Agricultural Development (IFAD), Islamic Development Bank (IsDB), Global Environment Facility (GEF), and the World Bank. The final report is yet to be published, but the initial drafts showed a high degree of convergence across the MDBs in terms of the strengths and weaknesses of their respective MARS-type systems.

recommendations. However, the timely submission of action plans needs improvement.[87]

181. For all evaluation reports, it has been agreed that IED will include a table after the executive summary that links each recommendation to the relevant findings in the main text. A number of changes to the interface of the online system have also been agreed to, including that headline recommendations, accompanied by a hyperlink to relevant details, will go into the system, and a second hyperlink will be included to the annex summarizing recommendations and underlying findings. The reason for doing this is to provide context for specific recommendations. Once a reasonable number of evaluations have gone through the new process, IED and SPD will jointly prepare a short guidance note for MARS focal points.

182. A better appreciation of performance relative to results of actions on recommendations is needed. Performance measures outputs or specific action targets while results represent how the action or series of actions impact the broad evaluation report agenda.

183. The 2017 AER calls for IED and Management to jointly develop and operationalize protocols for monitoring both performance and results of actions taken on recommendations. This continues to be a key feature of the MARS improvement plan which is jointly led by IED and SPD. At the recommendations level, performance on planned actions continues to be self-assessed at their due dates and validated by IED. At the report level, the implementing and coordinating departments of the MARS will report on the progress made on their action or series of actions on the evaluation report agenda. This will be recorded in the MARS.

184. Further discussions on the protocols will include (i) ensuring evaluation report recommendations reflect clear outcomes and/or these are agreed to during IED and Management discussions on the action plan, (ii) establish time frames for reporting on results either at completion of the action on last recommendation or lagged to capture sustainability.

[87] Only 3 of 12 evaluations approved from 2015 to 2017 had action plans formulated within the required 60 days after the DEC meeting.

Outstanding MARS Recommendations

185. During 2018–2023, 60 recommendations will be due for completion from 20 reports. This total will increase as IED completes new evaluations. At present, 15 recommendations from 11 reports are due for completion and evaluation by the 2018 reporting year. As of March 2018, Management has formulated the action plans and action completion target dates of all approved reports' recommendations.

Table 7: Timeline for Completing MARS Recommendations, Reporting Year 2018–2023

Report Year	Number of Recommendations Due
2018	15
2019	10
2020	14
2021	14
2022	5
2023	2
Total	**60**

MARS = management action record system.
Source: Asian Development Bank (Independent Evaluation Department).

Conclusions and Recommendations

5

186. The 2018 AER aims to deepen the discussion of development effectiveness. It complements the usual analysis of the performance of ADB operations per accepted criteria and standards with an examination of the development results in strategic areas brought about by ADB's interventions in the region, based on the insights collected through the higher plane evaluations recently conducted by IED. This is intended to provide a more holistic view—beyond the individual thematic, sector, or county evaluations—of the way in which ADB is contributing to the improvement of contexts and lives in Asia and the Pacific and the limitations it is facing. Examples of such evidence include ADB's interventions in ESG, RCI, and gender. At the same time, there are also deficiencies that hinder the delivery of results and some of them are addressed in the report.

187. The central theme of the 2018 AER is efficiency and sustainability in projects. Achieving higher quality results also means a better understanding of the weak performance of project efficiency and sustainability. The report examines the factors affecting them and analyses the measures that management has put in place in this area. Continued innovation and monitoring of these measures is required going forward.

188. Focusing on the improvement of ADB's results, IED recommends that ADB:

(i) Seek opportunities to integrate social sector work and operations alongside hard-infrastructure sector operations in countries, through CPS planning and design processes, in line with the thematic approach that IED has recommended for ADB's strategy going forward.

189. Across ADB regions and countries, more cross-sectoral financing and knowledge solutions need to be embedded in ADB operations. For example, financing for public infrastructure can be better linked to support for health and social protection through mixed use of government land for social services; education sector work can be integrated with digital network infrastructure expansion projects; and knowledge products for education sector analysis can accompany financing support for technical and vocational education and training infrastructure. In doing so, ADB should capitalize on partnership and collaboration with the various players already working on these themes.

(ii) Improve operational efficiency by continuing ongoing business process reforms, initiating new reforms to respond to context dynamics, regularly reporting on their progress, and learning from the analysis of significant factors affecting efficiency.

190. ADB has promised or undertaken measures in many areas since the Strategy 2020 MTR. To maintain this momentum, recent measures need to be monitored and regularly reported on. Consideration needs to be given to the dynamics of business processes. Measures taken in the past may no longer be critical, and instead, new measures will need to be identified in the future. It would be helpful to investigate the effects of project design and implementation measures in more detail than this report was able to do.

(iii) Improve the sustainability of projects and their outputs and outcomes by systematically covering sustainability measures in project design documents.

191. Progress on improving the sustainability of projects may well require more special attention than improving efficiency. It would be beneficial if measures and targets related to sustainability were further consolidated in RRPs; either (i) sustainability risks and measures could be made a mandatory part of the risk assessment and management document, or (ii) a separate document could be created for this purpose (the current DMF already fulfills this function for development effectiveness). This would make it easier to monitor the progress of sustainability measures. In-depth analysis and monitoring is needed, perhaps in the DEfR, to make sure that the progress made in project sustainability is preserved and that improvement measures continue to be implemented.

(iv) Continue strengthening the MARS process to ensure that assessments of actions go beyond their direct outputs and report the outcomes of implementing the evaluation recommendations, as well.

192. The proposed assessment of outcomes must be (i) oriented towards institutional learning and (ii) the result of a collaborative effort between ADB Management, staff, and IED. The 2017 AER called for IED and Management to jointly develop and operationalize protocols for monitoring both performance and results of the actions taken on

recommendations. This continues to be part of the MARS improvement plan which is being jointly implemented by IED and SPD. At the recommendations level, performance on planned actions continues to be self-assessed at their due dates and validated by IED. At the report level, the implementing and coordinating departments of the MARS will report on the progress made on the expected outcome(s) of the evaluation. This will be recorded in the MARS.

Appendixes

APPENDIX 1: INDEPENDENT EVALUATION REPORTS COMPLETED IN 2017

Table A1.1: List of Completed Evaluations

Title	Approval
Project or Program Performance Evaluation Report	
COO: Economic Recovery Support Program—Subprograms 1 and 2	16 Jun 2017
PHI: Visayas Base-Load Power Development Project	28 Jun 2017
AZE: East–West Highway Improvement Project	10 Aug 2017
IND: National Highway Corridor (Sector) I Project	4 Oct 2017
TON: Strengthening Public Financial Management Program	8 Dec 2017
UZB: Second Small and Microfinance Development Project	12 Dec 2017
INO: Capital Market Development Program Cluster (Subprograms 1 and 2)	13 Dec 2017
TON: Economic Support Program	13 Dec 2017
GEO: Municipal Services Development Project; Municipal Services Development Project Phase 2	13 Dec 2017
VIE: Central Region Water Resources Project	15 Dec 2017
GEO: Growth Recovery Support Program	15 Dec 2017
Technical Assistance Performance Evaluation Report	
ADB Support for Social Protection: Responding to Shocks and Risks	12 Dec 2017
Thematic Evaluation	
ADB Support for Gender and Development	2 May 2017
Corporate Evaluation	
Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products	1 Jun 2017
Results-Based Lending at the Asian Development Bank: An Early Assessment	8 Nov 2017
Country Assistance Program Evaluation	
India, 2007–2015	23 May 2017
Validation Report: Country Partnership Strategy Final Review	
Mongolia, 2012–2016	2 May 2017
Afghanistan, 2009 to mid-2015	14 Mar 2017
Kazakhstan, 2012–2016	5 May 2017
Turkmenistan, 2002–2016	19 Sep 2017
Philippines, 2011–2016	20 Nov 2017
Annual Report	
2017 Annual Evaluation Review (discussed at the Board Meeting on 11 April)	20 Mar 2017
Topical Paper or Working Paper	
Knowledge, Finance, and the Quality of Growth: An Evaluative Perspective on Strategy 2030	7 Apr 2017
Experience with Donor Coordination: The Case of Water Supply and Sanitation in Sri Lanka	27 Sep 2017
Increasing Penetration of Variable Renewable Energy: Lessons for Asia and the Pacific	Nov 2017
Evaluation Synthesis	
Lessons from Country Partnership Evaluation: A Retrospective	30 Oct 2017

ADB = Asian Development Bank, AZE = Azerbaijan, COO = Cook Islands, GEO= Georgia, IND = India, INO = Indonesia, PHI = Philippines, TON = Tonga, UZB = Uzbekistan, VIE = Viet Nam.
Source: Asian Development Bank (Independent Evaluation Department).

Table A1.2: List PCR and XARR Validation Reports

Loan or Grant No.	Country	Project or Program Name	PCR / XARR Circulation Year
Validation of Project Completion Reports for Sovereign Operations			
2245/2246/0080	UZB	Land Improvement Project	2016
0178	CAM	Strengthening Technical and Vocational Education and Training Project	2016
2220/0031/0032	SAM	Education Sector Project II	2016
2277/2551/0065/ 0105/0160	NEP	Education Sector Program (Subprograms I-III)	2016
2371/0091	SRI	Education for Knowledge Society Project	2016
0360	SAM	Public Sector Financial Management Program	2016
0416	KIR	Strengthening Fiscal Stability Program	2016
2478/2786	INO	Second Local Government Finance and Governance Reform Program—Subprogram 1	2016
2201	SRI	Local Government Infrastructure Improvement Project	2016
2244	PRC	Hunan Flood Management Sector Project	2016
1993/2275/2276/ 2757/2758	SRI	Secondary Towns and Rural Community-Based Water Supply and Sanitation Project	2016
2046/2456	IND	Urban Water Supply and Environmental Improvement in Madhya Pradesh	2016
2265/8225	BAN	Secondary Towns Water Supply and Sanitation Sector Project	2016
2603/2055	FIJ	Suva–Nausori Water Supply and Sewerage Project (Supplementary Loan)	2016
2347	IND	MFF-Madhya Pradesh Power Sector Investment Program (Tranche 4)	2016
2165/0004	AFG	Power Transmission and Distribution Project	2016
2332/2333/2334	BAN	Sustainable Power Sector Development Program	2016
2661/3031	BAN	Bangladesh–India Electrical Grid Interconnection Project	2016
2641/0208	NEP	Rural Finance Sector Development Cluster Program (Subprogram 2)	2016
2151	IND	Multi-sector Project for Infrastructure Rehabilitation in Jammu and Kashmir	2016
2154	IND	National Highway Sector II	2016
2445	IND	MFF: Rural Roads Sector II Investment Program (Project 3)	2016
2526	PRC	Xinjiang Urban Transport and Environmental Improvement Project	2016
2539	CAM	Greater Mekong Subregion: Cambodia Northwest Provincial Road Improvement Project	2016
2540	PAK	National Highway Development Sector Investment Program— Tranche 2	2016
2541	FIJ	Emergency Flood Recovery (Sector) Project	2016
2546	SRI	Eastern and North Central Provincial Road Project	2016
2562	KAZ	CAREC Transport Corridor 1 (Zhambyl Oblast Section) Investment Program—Tranche 2	2016
0051	NEP	Road Connectivity Sector I	2016
2301/9138	MON	Urban Development Sector Project	2016
2588/2589/2590	PNG	Civil Aviation Development Investment Program (Tranche 1)	2016
2697/8251	KAZ	CAREC Transport Corridor 1 (Zhambyl Oblast Section) Investment Program—Tranche 3	2016
2742/2743	PAK	Flood Emergency Reconstruction Project	2016
3155	ARM	Infrastructure Sustainability Support Program	2017
2954/2955/0321/0322	REG	South Asia Subregional Economic Cooperation Trade Facilitation Program	2017

Loan or Grant No.	Country	Project or Program Name	PCR / XARR Circulation Year
2536/2537	IND	Mizoram Public Resource Management Program	2017
2768	INO	Urban Sanitation and Rural Infrastructure Support to the PNPM Mandiri Project	2017
2516	INO	Indonesian Infrastructure Financing Facility Company Project	2017
2361	INO	Poverty Reduction and Millennium Development Goals Acceleration Program	2017
2895	INO	Financial Market Development and Integration Program	2017
2619/8245/0198	INO	Java–Bali Electricity Distribution Performance Improvement Project	2017
2691/2692	PAL	Water Sector Improvement Program	2017
2515/0148	PHI	Credit for Better Health Care	2017
2489/2840	PHI	Governance in Justice Sector Reform Program (Subprogram 1)	2017
0042	PNG	HIV/AIDS Prevention and Control in Rural Development Enclaves	2017
2398/2399/8237/0102	PNG	Lae Port Development Project	2017
2709	PRC	Yunnan Integrated Road Network Development Project	2017
2457/0117	REG	Greater Mekong Subregion: Sustainable Tourism Development Project	2017
0442	TUV	Strengthened Fiscal Sustainability Program	2017
2680/3050	VIE	Second Small and Medium-Sized Enterprises Development Program	2017
2511/0147	VIE	Thanh Hoa City Comprehensive Socioeconomic Development	2017
2468	VIE	Health Care in The South Central Coast Region	2017
3081/3335	VIE	Financial Sector Deepening Program	2017
2302/8227	VIE	Greater Mekong Subregion Kunming-Hai Phong Transport Corridor: Yen Vien-Lao Cai Railway Upgrading Project	2017
2582/2583	VIE	Secondary Education Sector Development Program	2017
Extended Annual Review Validation for Nonsovereign Operations			
7222	PAK	New Bong Escape Hydropower	2016
7239	INO	Deutsche Bank (Acquisition and Securitization of Motor Loan Portfolios)	2016
7257	PAK	JS Private Equity Fund	2016
7274	MLD	Housing Development Finance Corporation	2016
7279	PRC	Municipal District Energy Infrastructure Development	2016
7319	PAK	Zorlu Enerji Power Project	2016
7343	ARM	SME Finance Project (ACBA Credit Agricole)	2016
7376	THA	Theppana Wind Power Project	2016
7380	PRC	Clean Bus Leasing	2016

AFG = Afghanistan, ARM = Armenia, AZE = Azerbaijan, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, CAREC = Central Asia Regional Economic Cooperation, CDTA = capacity development technical assistance, COBP = country operations business plan, CPS = country partnership strategy, FIJ = Fiji, FSM = Federated States of Micronesia, IND = India, INO = Indonesia, KAZ = Kazakhstan, KGZ – Kyrgyz Republic, KIR = Kiribati, LAO =Lao People's Democratic Republic, MFF = multitranche financing facility, MLD = Maldives, MON = Mongolia, MYA = Myanmar, NAU = Nauru, NEP = Nepal, PAK = Pakistan, PAL = Palau, PCR = project completion report, PHI = Philippines, PNG = Papua New Guinea, PRC = People's Republic of China, REG = regional, RMI = Republic of Marshall Islands, SAM = Samoa, SME = small and medium-sized enterprises, SOL = Solomon Islands, SRI = Sri Lanka, TA = technical assistance, TAJ = Tajikistan, THA = Thailand, TIM = Timor Leste, TON = Tonga, TUV = Tuvalu, UZB = Uzbekistan, VIE = Viet Nam, XARR = Extended Annual Review Report.
Source: Asian Development Bank (Independent Evaluation Department).

APPENDIX 2: EVALUATION REPORTS DISCUSSED BY THE BOARD OF DIRECTORS AND THE DEVELOPMENT EFFECTIVENESS COMMITTEE IN 2017

Title	Date of Management Response	Management Response	DEC Discussion	DEC Chair Summary
Briefing on Evaluation Methods for Private and Public Sector Operations	None	None	15 February 2017	Yes
2017 Annual Evaluation Review-Chapters on Learning from Documented Lessons from Project Evaluation, and Update on Implementation on IED Recommendations	29 March 2017	Yes	7 April 2017	Yes
Knowledge, Finance and the Quality of Growth, An Evaluative Perspective on Strategy 2030	24 April 2017	Yes	28 April 2017	Yes
Asian Development Bank Support for Gender and Development (2005–2015)	18 May 2017	Yes	25 May 2017	Yes
Country Assistance Program Evaluation for India, 2007–2015	7 June 2017	Yes	14 June 2017	Yes
Boosting ADB's Mobilization Capacity: The Role of ADB's Credit Enhancement Products	21 June 2017	Confidential	30 August 2017	Yes
IED Work Program for 2018–2020 and 2018 Budget	None	No	17 October 2017	Yes
Lessons from Country Partnership Evaluation: A Retrospective	16 November 2017	Yes	23 November 2017	Yes
Results-Based Lending at the Asian Development Bank: An Early Assessment	27 November 2017	Yes	4 December 2017	Yes

ADB = Asian Development Bank, DEC = Development Effectiveness Committee, IED = Independent Evaluation Department.
Source: Asian Development Bank (Independent Evaluation Department).

APPENDIX 3: EVALUATION METHODS FOR PUBLIC SECTOR OPERATIONS

<table>
<tr><th>Item</th><th>Project or Program Performance Evaluation Reports</th><th>Validation of Project or Program Completion Reports</th><th>Country Assistance Program Evaluation</th><th>Validation of Country Partnership Strategy Final Review Report</th></tr>
<tr><td>Coverage</td><td>• IED is expected to conduct in- depth field-based evaluations of 10%–20% of completed projects.
• The selection of completed public sector operations for a project or program performance evaluation report (PPER) is based on purposive sampling.</td><td>• In a given year, IED will validate at least 75% of all completed project or program completion reports (PCRs).
• The selection of PCRs for validation is based on a random sample stratified by sector.</td><td>• A country assistance program evaluation (CAPE) assesses ADB's work and its results (development impact) in a particular country over periods of 7–12 years. It can cover two or three country partnership strategies (CPSs).</td><td>• A CPS final review validation report (CPSFRV) generally covers one CPS period, although it may include earlier periods, and usually also includes implementation and results of projects approved</td></tr>
<tr><td>Approach</td><td>• Based on an assessment of actual versus intended project outputs, outcomes, and impacts.
• PPERs are in-depth assessments of projects, based on evidence from documentation and files, as well as field visits, occasional surveys, and interviews with ADB staff, government staff, and other stakeholders.</td><td>• Based on an assessment of actual versus intended project outputs, outcomes, and impacts
• Project or program validation reports (PVRs) rely on a rapid assessment of project performance based mainly on desk reviews and cross-checking of the PCR, the report and recommendation of the President (RRP) and associated documents.</td><td colspan="2">• A CPSFRV generally follows the CAPE methodology unless otherwise specified
• A CPSFRV relies mainly on information and data in the CPSFR report, relevant documents, interviews with key ADB staff and a short field visit to interview staff from the government, counterparts, and development partners
• CAPEs undertake more extensive data collection than CPSFRVRs.</td></tr>
<tr><td>Evaluation Rating</td><td colspan="2">• Evaluated or validated operations are rated highly successful, successful, less than successful, or unsuccessful.
• For projects, equal weights are applied to the four core evaluation criteria in order to determine the overall success rate.
  • Relevance in terms of alignment with the country's development priorities and with ADB's strategies, and appropriateness of the project design; continuing relevance from design to completion.</td><td colspan="2">• A country program is rated highly successful, successful, less than successful, or unsuccessful.
• Equal weights are applied to the following five core evaluation criteria in order to determine the overall success rate:
  • Relevance: Appropriateness of CPS objectives to meeting the country's needs and ADB objectives, its strategic positioning and sector program relevance and design quality, and development partner coordination.</td></tr>
</table>

<table>
<tr><th>Item</th><th>Project or Program Performance Evaluation Reports</th><th>Validation of Project or Program Completion Reports</th><th>Country Assistance Program Evaluation</th><th>Validation of Country Partnership Strategy Final Review Report</th></tr>
<tr><td></td><td colspan="2">Effectiveness in achieving project outcomes and outputs based on the design and monitoring framework and on the revised scope and targets, if any. Safeguards, the gender action plan, and unintended outcomes are also assessed.
Efficiency of how resources were converted to results through measures of process efficiency.
Sustainability of project outcomes and outputs over the economic life of the project (for investment operations) or of results from policy actions taken (for policy-based operations).
In addition, the likely impact of the project or program; the performance of the ADB (and the cofinancier, when applicable); and the performance of the borrower and executing agency in relation to the project or program under review are rated. These do not affect the overall rating.</td><td colspan="2">Effectiveness: The degree to which the intended sector, project, or program and technical assistance outcomes were achieved or are likely to be achieved based on outputs delivered.
Efficiency: CPS program costs versus benefits; program implementation and disbursement and contract award performance; and other measures affecting efficiency.
Sustainability: Adequacy of various factors to sustain results, adequacy of risk mitigation arrangements.
Development Impacts: ADB's contribution to development results in the country, unintended outcomes and impacts, including unintended safeguard impacts, and unplanned institutional impacts.</td></tr>
</table>

ADB = Asian Development Bank, CAPE = country assistance program evaluation, CPS = country partnership strategy, CPSFR = CPS final review, CPSFRV = CPS final review validation report, IED = Independent Evaluation Department, PCR = project or program completion report, PPER = project or program performance evaluation report, PVR = validation of project completion reports.
Source: Asian Development Bank (Independent Evaluation Department).

APPENDIX 4: PERFORMANCE EVALUATION REPORTS IN 2017 ON SOVEREIGN PROGRAM AND PROJECT OPERATIONS

In 2017, IED completed 10 program or project or program performance evaluation reports (PPERs) for sovereign operations. Below are the summaries of their ratings and key findings.

Azerbaijan: East–West Highway Improvement Project (2006–2010). The project was rated successful (relevant, effective, less than efficient, likely sustainable). It responded to the need to improve the quality and efficiency of transport on the east–west highway and selected local roads. The project achieved its targets for road surface roughness and accident reduction, but not for traffic volume. The reevaluated overall economic internal rate of return (EIRR) was 5.9%, lower than 17.9% at appraisal, due to the lower traffic volumes and lower than predicted speed increases. The government administers a dedicated road fund for the maintenance of national roads.

Cook Islands: Economic Recovery Support Program (2009–2010 for Loan 2565 and 2013–2014 for Loan 2946). The program was rated borderline successful (borderline relevant, effective, less than efficient, likely sustainable). It had design relevance issues because of its numerous policy actions and triggers, but it was effective in supporting the country's fiscal position and getting it through a difficult period. Many output targets were met and longer-term institutional reforms in infrastructure and public financial management were implemented. Strong government ownership and sustained government commitment to the program were present.

Georgia: Growth Recovery Support Program (2009–2010). The program was rated successful (relevant, effective, efficient, likely sustainable). The program was a short-term stop-gap measure to help the economy weather the global financial crisis and addressed some long-term structural issues via policy actions. The government's early actions enabled the well-timed approval and delivery of the program. After program completion, the PPER noted institutional capacity to maintain macroeconomic and financial stability.

Georgia: Municipal Services Development Project (2008–2013) and Municipal Services Development Project Phase II (2009–2014). The first project was assessed successful (relevant, borderline effective, efficient, less than likely sustainable), and the second, less than successful (less than relevant, borderline effective, efficient, less than likely sustainable). Design shortcomings limited the projects' achievements. Building institutional capacity and making the Municipal Development Fund stronger were not achieved. While the execution of subprojects was timely and the EIRRs of subprojects were generally above the threshold of 12%, the limited progress in reforming water tariffs has placed the project's sustainability at risk.

India: India National Highway Corridor (Sector) I Project (2004–2012). The project was rated successful (less than relevant, effective, efficient, likely sustainable). It developed a strategically important corridor in India, improved transport services and safety along the project highway, and contributed to socioeconomic development along the project corridor. The project's recalculated EIRR of 19.2% indicated that it was economically viable. However, the PPER noted that the project design was weak.

Indonesia: Capital Market Development Program Cluster (2007–2010). The program was rated successful (relevant, effective, efficient, likely sustainable). It supported the development of the market infrastructure and the government securities market, providing important building blocks for the development of capital markets. Program completion was on time and the government's commitment to reforms was sustained.

Tonga: Economic Support Program (2009–2011). The program was rated less than successful (less than relevant, less than effective, less than efficient, less than likely sustainable). The extent of the crisis appeared to have been underestimated during project design. Implementation delays reduced the timeliness of the budget support during the crisis period. Most policy actions were not deep enough to achieve lasting changes.

Tonga: Strengthening the Public Financial Management Program (2013–2014). The program was rated less than successful (less than relevant, less than effective, efficient, less than likely sustainable). While it helped to ease fiscal pressure on the government by providing quick and much needed budget support, program reform measures did not lead to a favorable fiscal position. Tonga's fiscal deficit persists, and institutional capacity remains thin.

Uzbekistan: Second Small and Microfinance Development Project (2010–2014). The project was rated successful (relevant, less than effective, efficient, likely sustainable). The outcome of expanded, viable, and sustainable finance operations for micro and small enterprises (MSEs) was partly achieved. The MSE portfolios of participating commercial banks have grown by an average of 17%–56% per year after project completion and nonperforming MSE loans have remained at less than 2%, auguring well for sustainability.

Viet Nam: Central Region Water Resources Project (2006–2013). The project was rated successful (relevant, effective, highly efficient, less than likely sustainable). The project contributed substantially to increasing agricultural production and income levels through its the irrigation subprojects. It was economically viable, as can be seen by its EIRR of 19.6%. Funding for the operation and maintenance of the irrigation systems continues to be a constraint, which threatens sustainability.

APPENDIX 5: EVALUATION REPORTS WITH ALL ACCEPTED RECOMMENDATIONS COMPLETED DURING REPORTING YEARS 2011–2017

Table A5.1: Evaluation Reports with all Accepted Recommendations Completed during Reporting Years 2011–2017

Year	No. of Completed Evaluation Reports	No. of Completed Evaluation Reports	AR (%)	No. of Accepted Recommen-dations Completed	Average Implementation Period (years)	Number Rated FI/ LI	FI/LI (% of total)
2011	14	14	86	51	1.6	37	73
2012	12	12	92	44	2.2	26	59
2013	15	15	95	58	2.4	45	78
2014	8	8	94	34	3.2	25	74
2015	4	4	87	20	3.2	15	75
2016	14	14	83	68	3.9	58	85
2017	10	10	98	49	3.8	35	71
2011–2017	77	77	91	324	2.5	241	74

AR = acceptance rate, FI = fully implemented, LI = largely implemented.
Source: Asian Development Bank (Independent Evaluation Department).

Table A5.2: Results Matrix of 10 Completed Evaluation Reports, Reporting Year 2017

Report Title	Key Messages of Recommendations	Outcomes and Outputs	Imple-mentation Rate
Country			
1. CAPE Lao People's Democratic Republic: Sustainable Growth and Integration	Strengthen ADB assistance for governance reforms and develop the government's PSM capacity; continue support for mainstreaming environment and social safeguards and climate change adaptation; build on innovative financing modalities to sustain growth; and further enhance ADB's service delivery and implementation through better coordination between sector divisions and the Lao PDR resident mission (5 recommendations)	(i) CPS 2012–2016 places strong emphasis on PSM, particularly PFM; (ii) implemented 10 TA projects to strengthen financial management and accountability and the use of CSS, and innovative co-financing and partnership arrangements in water, transport, and energy sectors at national and subnational levels; (iii) closer collaboration and coordination between the resident mission and sector divisions in CPS formulation and project implementation and management	80%
2. SAPE on the Energy Sector in Lao People's Democratic Republic	Focus capacity development to improve electricity access, operational and financial efficiency of the power utility, and development of large hydropower projects; design a knowledge management framework and solutions delivery; continue to offer financial assistance for (i) hydropower projects with a view to better compliance with	(i) Four CDTA projects (ADB funded and cofinanced) on renewable energy and capacity development of water and energy administrative agencies; (ii) rapid basin-wide hydropower sustainability assessment tool (RSAT) developed to assist decision making for sustainable hydropower development at all stages of the project cycle.	25%

Report Title	Key Messages of Recommendations	Outcomes and Outputs	Imple-mentation Rate
	environmental and social safeguards, and (ii) electricity access projects. Conduct policy dialogue to accelerate the formulation of a comprehensive energy policy and power systems integration across the Greater Mekong Subregion (4 recommendations).	At the outcome level, the capacity of the Ministry of Natural Resources and Environment (formerly the Water Resources and Environment Administration) to manage, monitor, and coordinate environment and water issues strengthened.	
3. CAPE Uzbekistan	Maintain focus on infrastructure and strengthen responsiveness; support reforms through demand-driven advisory TA; revive support for private sector development; develop a strategy for choosing financial instruments and lending modality; develop a strategy and program of knowledge products and services; raise the efficiency and effectiveness of Uzbekistan's procurement procedures; develop a results framework that holds ADB accountable for delivering results (7 recommendations).	(i) CPS, 2012–2016 and/or corresponding COBPs (a) have transport, energy and WUS accounting for two-thirds of portfolio, (b) include appropriate MFFs and project loans, (c) include a strategy for developing and building a program of knowledge products and services, (d) reflect continued efforts on enhancing procurement; and (e) include a simplified and monitorable country results framework; (ii) three nonsovereign projects on energy and finance sector development approved; (iii) at least 13 demand-based CDTAs on renewable energy, finance and debt management, procurement processes, public management, agriculture, rural infrastructure, industrial and inclusive growth implemented. At the outcome level, actions taken strengthened the operations of commercial banks and SMEs operations, internal controls and risk and social management, and transformed Uzbekistan into a major ADB nonsovereign operations client with the PSOD portfolio rising from zero to $706 million.	86%
4. SAPE on the Education Sector in Uzbekistan	Focus on higher education and vocational training to support new technology industries; build a stronger and more conducive policy and regulatory environment and support programs related to ICT and partnerships or joint ventures with international universities; build and operate a reliable system of monitoring and evaluation of education sector results (4 recommendations).	(i) CDTA on education and skills improvement reforms; (ii) PATA to develop a framework for a skills development system for industrial modernization and inclusive growth as well as to pilot a skills monitoring system; (iii) support for PPPs in education, including for policy and regulatory framework still at scoping stage.	25%

Report Title	Key Messages of Recommendations	Outcomes and Outputs	Imple-mentation Rate
5. CAPE for the Islamic Republic of Afghanistan	Acknowledge the conflict and set the next CPS period for 3 years or less; help coordinate development partner efforts; shift development approach so it responds to overall country demands; prioritize sustainability in the Kabul Process paying adequate attention to fiscal implementation and financial provisions; develop and closely monitor a tailored long-term capacity development and governance improvement plan (4 recommendations).	(i) CPS, 2017–2021 and COBP, 2018–2020 grounded on FCAS approaches and measures as well as the national development strategy and to include as a strategic pillar the strengthening of institutions and human capacities; (ii) donor coordination infrastructure facilitated; energy sector, and renewable energy and transport master plans updated; (c) five river basin master plans developed; (d) O&M incorporated at project level.	75%
6. Shallow Tubewell Irrigation in Nepal: Impacts of the Community Groundwater Irrigation Sector Project	Help make shallow tubewell irrigation accessible to small farmers through a broader package of agricultural and economic reforms; develop a unified policy to minimize government subsidy; take into account the links among food production, water and energy availability, marketing, and agribusiness; support the government's collection of good baseline data for projects so that solid impact evaluations can be conducted after project completion. (4 recommendations).	(i) PPTA and concept paper for Agriculture Sector Development Program; (i) one project collected good baseline data to evaluate investment	0%
Corporate and Thematic			
7. SES on ADB Support for Promoting Good Governance in Pacific DMCs	Shift emphasis from broad-scope policy lending to longer-term sector development programs in support of priority sectors; strengthen external and internal partnerships and collaboration; explore and apply nontraditional approaches to enhance transparency and participation; improve capacity of institutions responsible for statistics.	(i) Balance sector and macro level support based on a governance risk assessment (2 DMCs) and risk management plan (10 DMCs) at country strategy formulation; (ii) collaborate with partners and use information from inside ADB (e.g., procurement and peer review) and outside (e.g., diagnostic instruments); (iii) use innovative and nontraditional approaches (e.g., development coordination offices; lending and TA for policy making, public sector reform and public administration); and an FCAS handbook; (iv) support the Pacific Regional Statistic Strategy and its steering committee through a statistics program; carry out statistical strengthening activities (capacity building, public financial management); and coordinate with other partners for future support.	100%

Report Title	Key Messages of Recommendations	Outcomes and Outputs	Imple-mentation Rate
8. SES on Knowledge Product Services: Building a Stronger Knowledge Institution	Improve incentive structures for knowledge work; improve enabling technologies for knowledge storage, retrieval, and sharing; strengthen knowledge needs identification by expanding successful approaches by regional departments and preparing country-specific knowledge plans; strengthen knowledge sharing by better capturing and sharing tacit knowledge; strengthen knowledge use through the dissemination of knowledge products and services (KPS), providing easy-to-access on-time information and using specific feedback mechanisms to gauge client satisfaction; prepare a knowledge management strategic directions document building on ongoing work and incorporating recommendations in the evaluation, and prioritize key areas of focus.	(i) put in place incentive structures making learning and knowledge generation and use a natural feature of daily work (knowledge management directions and action plans); (ii) improve IT infrastructure and in dissemination, collaboration and exchange of information (dedicated databases set up and ICT architecture upgraded); (iii) provide client-driven knowledge solutions (based on a systematic understanding of DMC needs and priorities and ensuring that planning and implementing of knowledge solutions are grounded in the country level operations cycle); (iv) ensure better capture and sharing of tacit knowledge (key roles and training for new sector and thematic groups) and knowledge solutions (K-portal, South–South cooperation, centers of excellence, knowledge hubs, social interaction processes); (v) disseminate knowledge products and services using real-time information in the K-portal and use Top Task survey results; (vi) develop internal architecture for evolving ADB's knowledge solutions through the knowledge management framework (coordinate and leverage skills, available knowledge, business processes and partnership in support of DMC work to develop, implement, and evaluate knowledge solutions); combine or relate these to ADB operations while building "signature" knowledge areas where it is recognized as a leader and partner in knowledge solutions.	83%
9. Thematic Evaluation Study on ADB's Support for Achieving the Millennium Development Goals	Stretch ADB's role in ensuring the environmental sustainability of its main investments; maximize synergies and build alliances; strengthen monitoring and evaluation of MDGs; and develop a framework for allocating MDG support to DMCs in most need (7 recommendations).	(i) 2016 operations supporting (a) environmental sustainability comprise almost 50% of the total, (b) education increased by 32% to $771 million, and (c) climate change mitigation and adaptation reached $3.7 billion; (ii) collaboration and partnership strategies on MDGs expanded; and (iii) technical assistance and collaboration among multilateral institutions to strengthen monitoring and evaluation of MDGs increased.	100%

Report Title	Key Messages of Recommendations	Outcomes and Outputs	Imple-mentation Rate
10. CES on ADB Decentralization: Progress and Operational Performance	Strengthen the technical capacity of resident missions and delegate more operational responsibility to them; differentiate the types of resident missions to enable ADB operations and business processes to be more relevant and responsive to different types of countries, development contexts, and operational priorities; delegate direct operational support functions to regional departments or resident missions by increasing their capacity to undertake these functions; increase headquarter–resident mission connectivity and coordination and resident missions' participation in knowledge activities.	(i) Ensure sector specialist presence meets country-sector priorities and portfolio needs (project administration, PPP, knowledge solutions) by providing more incentives for resident mission work and mobility of technical staff going to a resident mission, higher budget and staff allocations; (ii) review and/or use different resident mission models; (iii) increase the capacity of regional departments and resident missions to carry out their direct operations support functions (procurement, disbursement, safeguards)—activities and responsibilities such as procurement decisions are increasingly delegated to PAUs in resident missions (as a result of procurement reforms); (iv) increase the role and contributions of resident missions in identifying and generating knowledge products, with country directors assuming the role of knowledge custodians through country knowledge plans.	75%

ADB = Asian Development Bank, CAPE = country assistance program evaluation, CDTA = capacity development technical assistance, CES = corporate evaluation study, COBP = country operations business plan, CPS = country partnership strategy, CSS = country safeguard systems, DMC = developing member country, FCAS = fragile and conflict-affected situations, GMS = Greater Mekong Subregion, ICT = information and communication technology, LRM = Lao Resident Mission, MDGs = Millennium Development Goals, MFF = multitranche financing facility, O&M = operations and maintenance, PATA = policy and advisory technical assistance, PAU = project administration unit, PFM = public financial management, PPP = public–private partnership, PPTA = project preparatory technical assistance, PSM = public sector management, PSOD = Private Sector Operations Department, SAPE = sector assistance program evaluation, SES = special evaluation study, TA = technical assistance, WUS = water and other urban infrastructure and services.
Source: Asian Development Bank (Independent Evaluation Department).

APPENDIX 6: LIST OF LINKED DOCUMENTS

2018 Annual Evaluation Review

The 2018 Annual Evaluation Review aims to deepen the discussion of development effectiveness in Asia and the Pacific. The report consists of (i) synthesis of performance and results of the Asian Development Bank (ADB) operations; (ii) analysis of design and preparation factors influencing efficiency and sustainability; and (iii) review of ADB's actions following evaluation recommendations.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

About the Independent Evaluation at Asian Development Bank

The Independent Evaluation Department evaluates the policies, strategies, operations, and special concerns of ADB relating to organizational and operational effectiveness. It contributes to development effectiveness by providing feedback on performance and through evaluation lessons.

Independent Evaluation Department
Asian Development Bank
ADB Avenue, Mandaluyong City
Philippines 1550
www.adb.org/evaluation
evaluation@adb.org
Tel: (+63-2) 632-4100
Fax: (+63-2) 636-2161

Printed on recycled paper