



# 2020 ANNUAL EVALUATION REVIEW

ADB's Project Level Self-  
Evaluation System



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Evaluation System

## March 2020

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## NOTE

In this report, "\$" refers to United States dollars

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# Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AER	–	Annual Evaluation Review
AfDB	–	African Development Bank
BTOR	–	back-to-office report
CAPE	–	country assistance program evaluation
CEP	–	credit enhancement product
CPS	–	country partnership strategy
CPSFRV	–	country partnership and strategy final review validation
CSS	–	country safeguard systems
DEC	–	Development Effectiveness Committee
DMC	–	developing member country
DMF	–	design and monitoring framework
EBRD	–	European Bank for Reconstruction and Development
ECG	–	Evaluation Cooperation Group
eOps	–	eOperations
ESHS	–	environment, social, health and safety
ESMS	–	environmental and social management system
FCAS	–	fragile and conflict-affected situations
GPS	–	good practice standards
IDB	–	Inter-American Development Bank
IED	–	Independent Evaluation Department
IEG	–	Independent Evaluation Group
IFAD	–	International Fund for Agricultural Development
IFC	–	International Finance Corporation
MARS	–	Management Action Record System
MDB	–	multilateral development bank
MFF	–	multitranche financing facility
MIGA	–	Multilateral Investment Guarantee Agency
MTR	–	midterm review
M&E	–	monitoring and evaluation
OCR	–	ordinary capital resources
PAM	–	project administration manual
PBL	–	policy-based lending
PCR	–	project completion report
PEF	–	private equity funds
PNG	–	Papua New Guinea
PPMS	–	Project Performance Management System
PPER	–	project performance evaluation report
PPR	–	project performance report
PRC	–	People's Republic of China
PSEI	–	private sector equity investment
PSM	–	public sector management
PSOD	–	Private Sector Operations Department
RBL	–	results-based loan
SMEs	–	small and medium-sized enterprises
SOE	–	state-owned enterprise
SPD	–	Strategy, Policy, and Partnerships Department
XARR	–	extended annual review reports



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Independent Evaluation Department remains fully responsible for the report.



# Foreword

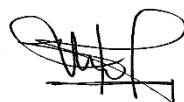
The Annual Evaluation Review (AER) is the flagship report of the Independent Evaluation Department (IED) on the operational performance and results of the Asian Development Bank (ADB). This is an important year for the AER as it marks the first full year of Strategy 2030's implementation. The AER provides a synthesis of the evaluations prepared by IED in the preceding year, updates performance trends, and draws lessons and offers recommendations to guide ongoing and future operations. The AER's assessments are based on IED validations of all project completion reports for sovereign operations and extended annual review reports for nonsovereign operations and all direct IED project evaluations.

This year's AER notes a decline in the performance of sovereign projects in the 2017–2019 review period which deviates from an improving trend since 2010–2012. The sustainability in results of ADB operations continues to be weak, affecting most of the projects that were evaluated as not successful. Measures to promote sustainability must be incorporated into project designs, such as instituting asset management systems, dedicating funds for operation and maintenance from government budgets, and undertaking public financial management reforms. The performance of nonsovereign operations continued its declining trend during the review period. This is a concern that needs to be addressed since Strategy 2030 envisages private sector operations becoming more prominent in ADB operations.

This year, the AER conveys some key high-level reflections on the use of ADB's lending modalities, based on a series of recent thematic and corporate evaluations. The multitranche financing facility, and policy- and results-based lending have contributed to improvements in processing efficiency and mobilizing cofinancing resources. While ADB's various financing modalities are well suited to supporting Strategy 2030's agenda, in order to fully harness their benefits, greater synergy between project and policy operations, organizational strengthening, and improved staff incentives and training on the use of the modalities are needed.

The special theme of this year's AER is the robustness and credibility of ADB's project self-evaluation system. This system plays a vital role in tracking ADB's progress and performance in meeting its mission and the new agenda set in Strategy 2030. The robustness and credibility of ADB's project self-evaluation system was assessed based on how the reliability, timeliness and usefulness of the information it generates supports accountability, learning and decision making. The assessment found the architecture of ADB's project self-evaluation system to be robust, credible, and useful for accountability and learning. Still, weaknesses particularly concerning data reliability, data management, institutional capacity and guidance in the use of the system need attention. There are few incentives to capture tacit knowledge throughout the project cycle. In the case of nonsovereign operations, a formal and comprehensive monitoring system, well linked to the evaluation system for projects is not yet in place, hindering the systematic tracking of performance, results and lessons. With greater attention to training, data management, incentives, guidance, and resources devoted to monitoring and evaluation, the project self-evaluation system of sovereign and nonsovereign operations, can be improved.



The impact of IED's recommendations contained in higher level evaluations depends on the quality of Management's action plans in to implement these recommendations and the extent to which the plans are executed. IED's assessments indicate that only 75% of actions in response to recommendations were either fully or largely implemented. The shortfalls in implementation are generally due to a lack of alignment between actions and recommendations, and the actions not being specific about intended outcomes—both of which can be improved through better engagement between Management and IED at the action plans formulation stage.



Marvin Taylor-Dormond  
Director General

# OVERVIEW OF ADB'S SUITE OF ANNUAL CORPORATE PERFORMANCE REPORTS

The Asian Development Bank (ADB) prepares a suite of three complementary yet distinct corporate performance reports annually. All three reports share the common goals of learning, and accountability to ADB shareholders and other stakeholders. This overview summarizes the unique focus, purpose, and value addition of each report. It maps their common areas of focus to cross-refer the reader between the reports for information about common topics.

	FOCUS	PURPOSE AND VALUE ADDITION
<b>Annual Evaluation Review</b>	The Board-required report of the Independent Evaluation Department (IED) is produced to promote accountability and learning. It focuses on the operational performance and results of ADB and provides a synthesis of the evaluations prepared by IED in the preceding year and an in-depth analysis of performance trends of completed operations. It includes a special topic to strengthen results, and reports on Management's acceptance and implementation of IED recommendations.	An evidence-based evaluation of performance that is independent and provides recommendations for improvement.
COMMON FOCUS  performance of completed operations		
<b>Development Effectiveness Review</b>	The review is Management's flagship report on ADB's performance in achieving the priorities of its corporate strategy, using indicators in the corporate results framework as the yardstick. Focusing on operations financed by ADB, it assesses ADB's development effectiveness, highlights actions ADB has taken to improve, and identifies areas where ADB's performance needs to be strengthened.	The findings provide the Board of Directors and ADB Management with performance information to guide ADB's strategic and operational directions and resource planning.
COMMON FOCUS  performance of active portfolio		
<b>Annual Portfolio Performance Report</b>	The report provides a strategic overview and analysis of the performance trends, size, composition, and quality of ADB's active portfolio based on key indicators. It includes all operations and projects, including those funded by special funds and cofinancing fully administered by ADB. It identifies key issues, actions taken by departments to support improvement, and lessons for future ADB interventions, and makes recommendations for improvement to ADB Management.	The report provides ADB Management with evidence-based recommendations grounded in an in-depth analysis, including by region, of ADB's full portfolio of active committed sovereign and nonsovereign operations and projects.

Note: Jointly prepared by the Independent Evaluation Department; Strategy, Policy and Partnerships Department; and Procurement, Portfolio and Financial Management Department of the Asian Development Bank.

## 2020 Annual Evaluation Review

The 2020 Annual Evaluation Review (AER) provides an independent update of the Asian Development Bank's (ADB) operational performance and consider all sovereign and nonsovereign operations and country assistance programs and strategies evaluated in 2019. The Independent Evaluation Department (IED) follows the Evaluation Cooperation Group's Good Practice Standards and brings greater credibility to corporate reporting of operational performance. The AER also provides an update on the implementation status of actions taken in response to evaluation recommendations and comments on the quality of action plan formulation and implementation. Each year the AER focuses on a special theme for deeper analysis, and this year's theme is ADB's project self-evaluation system. The report assesses the robustness and credibility of the system by checking its reliability, timeliness and usefulness, and identifies areas for improvement.

### RECOMMENDATIONS

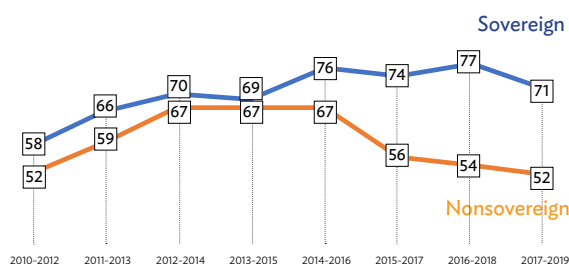
1. Ramp up efforts to address the issues causing weak sustainability of project outcomes.
2. Prioritize further efforts and resources to ensure a rigorous project monitoring and evaluation (M&E) system throughout the project cycle, including allocation of appropriate budget resources for M&E, enhanced capacity training for ADB staff and developing member countries counterparts, as well as effective integration of tacit knowledge.
3. Enhance the current monitoring and evaluation system for nonsovereign operations, including both development and financial indicators.
4. Revise the business processes for action plans.

### ROBUSTNESS AND CREDIBILITY OF ADB'S PROJECT SELF-EVALUATION SYSTEM

The AER assessed the robustness and credibility of ADB's project self-evaluation system as determined by the extent to which it generates reliable, timely and useable information for decision making, learning and accountability. Self-evaluation refers to monitoring and evaluation conducted by the department in charge of the operations as opposed to evaluation by the Independent Evaluation Department. The project self-evaluation system is a combination of processes and products for the systematic, empirical, and transparent monitoring and evaluation of an ongoing or completed project. The following are main findings from the assessment:

- The overall architecture of ADB's project self-evaluation system is robust and credible, and is aligned with international good practice, serving both accountability and learning objectives.
- Significant progress was made over the evaluation period on reporting of baseline and end-of-project data in completion reports. Recent improvements to the Project Performance Rating system and the forthcoming design and monitoring framework guidelines are likely to further enhance the performance tracking potential.
- However, the perceived reliability of the data contributing to the project completion and extended annual review reports is mixed. Staff perception survey results and focus groups discussions indicate that data generated by project M&E systems are not always considered reliable. A review of closed projects indicates that 20% of project M&E systems were not implemented well, and beneficiary surveys were often not conducted even when stipulated at appraisal.
- Suboptimal project and central-level databases, low country level technical and institutional capacities, a lack of integrated and user-friendly guidelines, and not enough targeted resources devoted to M&E, affect the reliability of M&E systems.
- A formal and comprehensive M&E system for the systematic tracking of private sector operations performance and results and for learning is not yet in place.
- It takes an average of nearly 15 months for the circulation of completions reports from the date of project financial closure. Recently, ADB stipulated a 12-month delivery standard from financial closing to project completion report (PCR) circulation.
- ADB's system generates information that fosters usage, learning and knowledge, but it is not fully optimized because tacit knowledge is largely untapped.

**Performance of ADB Operations, 2010–2019**  
(3-year moving average)





## PERFORMANCE OF ADB OPERATIONS

- **ADB sovereign operations.** The success rate of sovereign operations declined from 77% in 2016–2018 to 71% in 2017–2019.
- **Performance dropped against all evaluation criteria except for efficiency.** Relevance was affected by complex and ambitious designs, unrealistic timelines and lack of flexibility to respond to changing conditions. Effectiveness was affected by inadequate government readiness. Weak government commitment to reforms including inadequate budget allocations for operations and maintenance and insufficient tolls and tariffs for cost recovery affected sustainability of projects.
- **Except for East Asia performance declined in all regions.** Project performance in People's Republic of China remained strong while that in the Pacific region remained low. Performance in South Asia was affected by the weaker effectiveness and sustainability of projects. Southeast Asia's decline in performance was due to design complexities, coordination issues and inadequate project readiness.
- **Performance of ADB nonsovereign operations was 52% continuing a decline since 2014–2016.** Performance declined against all sub criteria except for investment profitability. Performance in terms of development results has declined since 2014–2016. Work quality performance declined the most in the recent period, which was attributed to weak screening, appraisal and structuring. ADB's additionality performance has been declining since 2010–2012.
- **The proportion of successful country program and strategies declined by 4 percentage points to 83% in 2017–2019.** Over the longer period the project and country level success rates were about the same.

## FINDINGS FROM THE USE OF ADB FINANCING MODALITIES

- **ADB's financing modalities—multitranches financing facilities (MFFs), results-based loans (RBLs), performance-based loans (PBLs), private equity investments and credit enhancement products (CEPs)—are well suited to further ADB's Strategy 2030 agenda.** The modalities show considerable complementarity and address both sovereign and nonsovereign clients. They have the potential to bring greater processing efficiency and to mobilize more cofinancing than the standalone investment projects, and they have the potential to deliver integrated solutions.
- **Implementation experience suggests additional reforms could bring greater benefits from the use of different public sector financing modalities.** The MFF modality

needs to keep transaction costs low and implementation schedule realistic. PBLs should focus more on policy actions critical to realizing outcomes. RBLs should pay greater attention to issues such as internal quality assurance and assessment of corruption risks as required by ADB policy.

- **Harnessing the full potential of private sector modalities such as private equity and CEPs requires organizational strengthening and improved staff incentives.** For ADB to make greater use of private sector equity investment, it needs to pay special attention to developing equity skills at ADB. The staff incentive structure needs to be changed for greater deployment of guarantees.

## FOLLOW-UP ON IED RECOMMENDATIONS

- **Of the accepted recommendations, 75% were fully or largely implemented during 2011–2019.** The next steps within the Management–IED engagement process to ensure implementation of recommendations should focus on improving (i) the alignment of action plans to recommendations, and (ii) the implementation of action plans.
- **The quality of recent action plans indicates there have been positive results from changes to the process for the design of recommendations and formulation of action plans e.g., through technical meetings between Management and IED.** Action plans for the 11 evaluation reports approved over 2017–2018 show: (i) 88% responded well to the recommendation and Management's response and (ii) 78% were well defined with monitorable targets and outputs.
- **The degree of implementation of recommendations in ADB and selected multilateral development banks (MDBs) saw mixed results.** Learning from experience, evaluation departments of MDBs are now stepping up the assessment of implementation of actions.

## ISSUES

- Sustainability is still the weakest element in the performance of ADB sovereign operations.
- Attention to project M&E systems during implementation is at times deficient and this affects ADB's ability to track development outcomes.
- Tacit knowledge is not systematically captured by the current formal self-evaluation processes and products.
- ADB does not provide strong incentives to mitigate the biases that are intrinsic to self-evaluation.
- Weak borrower technical capacity and borrowers' low interest in M&E are key barriers to a more robust project self-evaluation system.

# Executive Summary

## **Asian Development Bank (ADB) Performance, 2017–2019**

The proportion of successful sovereign projects fell to 71% in 2017–2019 from 77% in 2016–2018. However, there has been an improving trend in performance since 2010–2012. Performance declined in both the infrastructure and non-infrastructure sectors. Performance declined in all regions in 2017–2019, except for East Asia. The percentage of successful nonsovereign operations decreased to 52% in 2017–2019 from 54% in 2016–2018, continuing a decline since 2014–2016. Of the country programs and strategies, 83% were rated *successful* in 2017–2019 and there has been an improving trend in country-level performance since 2010–2012. Country level performance in the long-term was very much in line with the average long-term project performance.

## **Findings from ADB Financing Modalities**

The five modalities discussed in this report are in principle well suited to the requirements of delivering the Strategy 2030 agenda. However, the implementation of multitranche financing facilities (MFFs), results-based loans (RBLs), and performance-based loans (PBLs) suggests that changes are needed in their design. The Asian Development Bank's (ADB) organization for credit enhancement products and private equity operations needs to be strengthened. MFFs need lower transaction costs and more realistic implementation schedules; the policy actions in PBLs should focus on those that are critical to realizing outcomes; and RBLs should focus on internal quality assurance and corruption risks (as the 2019 ADB policy to mainstream the modality requires). The private sector modalities require organization strengthening and improved staff incentives to harness their full potential.

## **Robustness and Credibility of ADB's Project Self-Evaluation System**

ADB's project self-evaluation system is robust and credible, and the system is useful for accountability and learning; however, further and sustained attention to project monitoring and evaluation (M&E) systems during implementation is needed to improve the reliability of the data they generate for measuring development outcomes at completion. Suboptimal project and central-level databases, the absence of integrated and user-friendly guidelines from ADB on M&E principles and practices, low country level technical and institutional capacities, and insufficient targeted resources are impacting on the reliability of M&E systems. For nonsovereign operations, a formal, separate and comprehensive monitoring system for the systematic tracking of performance, results and lessons is not fully in place. ADB's project self-evaluation system is timely on average and generates information that fosters usage, learning and knowledge, but it is not fully optimized because tacit knowledge is largely untapped. Stronger incentives, such as staff time and resources, are needed to mitigate the biases that are intrinsic to self-evaluation.

## **Implementation Status of Action Plans in Response to Independent Evaluation Recommendations**

Of the actions due for completion in 2017–2019, the Independent Evaluation Department (IED) assessed 74% as having been fully or largely implemented. Action plans were better aligned with recommendations and more specific as a result of greater engagement between ADB Management and IED. Completed actions on recommendations informed and guided staff to manage and implement projects more effectively.

## Performance of ADB Operations

The Asian Development Bank (ADB) strives to achieve high levels of performance through relevant, effective and efficient delivery of support to its developing member countries and by ensuring that development outcomes are sustainable. Performance assessment is based on the degree to which ADB operations met the criteria of relevance, effectiveness, efficiency, and sustainability. Relevance examines whether the project objectives matched the priorities of major stakeholders and whether project designs were

appropriate. Effectiveness assesses the extent to which planned outputs and outcomes were achieved. Efficiency examines whether the amount of resources used to achieve the outcomes was optimal. Sustainability concerns the likelihood of the changes brought about by the project being continued in the long term. The performance of ADB operations is assessed by Independent Evaluation Department (IED) validations of project completion reports (PCRs) in the case of sovereign operations and extended annual review reports (XARRs) for nonsovereign operations. Project or program performance

evaluation reports (PPERs), i.e., direct project evaluations by IED for selected operations, are also prepared. Success is reflected by the proportion of operations assessed successful or highly successful in the case of sovereign operations, and excellent or satisfactory in the case of nonsovereign operations.

**The proportion of successful public sector projects fell to 71% in 2017–2019 from 77% in 2016–2018.** Performance dropped across all evaluation criteria except for efficiency, which remained stable. The factors affecting relevance included complex and ambitious designs, unrealistic timelines, and lack of flexibility to respond to changing conditions. Factors affecting effectiveness included unrealistic or ambitious targets and partial achievement of output and outcome targets due to government agencies' lack of readiness and cancellations of projects. Sustainability was generally affected by weak government commitment to reforms. In the transport sector, it was constrained by insufficient toll revenues for operation and maintenance and, in the energy sector, by inadequate electricity tariff reforms that did not allow for full recovery of power purchase costs.

**Performance declined in both the infrastructure and non-infrastructure sectors.** Infrastructure performance was driven mainly by the decrease in the performance of transport projects. The decline in non-infrastructure performance was driven mainly by the fall in the performance of education and finance sector projects.

**Performance declined in all regions except for East Asia.** The performance of operations in South Asia was driven by lower performances in Bangladesh and India. Considerable declines in performance in operations in Indonesia and the Philippines were responsible for the decline in project performance in Southeast Asia. Central and West Asia performance was affected mainly by the drop in performance in Uzbekistan. Project performance in the Pacific decreased from 59% in 2016–2018 to 42% in 2017–2019 due to weak performance in Papua New Guinea and Samoa.

**The percentage of successful nonsovereign operations decreased to 52% in 2017–2019 from 54% in 2016–2018, continuing a decline since 2014–2016.** Performance decreased against all

criteria except for investment profitability which remained almost the same. Additionality performance has been declining since 2010–2012. The performance of ADB work quality declined the most, which was attributed to poor screening, appraisal and structuring of projects. Southeast Asia had the highest success rate for nonsovereign operations. Performance over a longer period (2010–2019) showed that infrastructure projects performed best with an 85% success rate followed by financial institutions with 56% and private equity funds with 37%.

**The proportion of successful country programs and strategies declined by 4 percentage points to 83% in 2017–2019.** The performance over the period 2010–2019 averaged 74%, very much in line with the average long-term project performance. Of the eight country evaluations in 2019, one was rated *less than successful* on the borderline, while the other seven were rated *successful*, two of which were on borderline.

### Analysis of ADB Financing Modalities

The report offers a set of high-level observations based on the evaluation findings on the opportunities or solutions that five different financing modalities provide in the context of Strategy 2030. These are grouped under four areas: delivery of integrated solutions, shift towards more private sector operations, mobilizing more financing resources, and improved business process efficiencies.

Although stand-alone investment lending remained ADB's dominant modality, the use of policy-based lending (PBLs) and results-based loans (RBLs) has increased. While the use of multitranchise financing facilities (MFFs) increased in the initial years after the adoption of the MFF in 2005 until 2012, there has been a declining trend in recent years. The use of private equity and credit enhancement products (CEP) has been consistently low. Though performance of MFF projects was weak in 2018 and 2019, over the longer term it has been comparable to that of standalone projects. Performance of PBL operations has been improving over the years, although there was a slight fall in 2019.

**There is limited evidence of ADB's various modalities supporting the delivery of integrated**

**solutions as expected in Strategy 2030, although either individually or in combination they have the potential to do so.** The modalities have been mostly used to address specific development problems in specific sectors. For instance, the existing MFF policy allows ADB to finance projects in numerous sectors and thematic areas but such operations are not widespread, perhaps due to their inherent complexity or lack of demand. Not much PBL support was provided to deliver integrated solutions in the water and other urban infrastructure and services, energy, and transport sectors. Although RBLs, CEPs, and private equity funds are not intrinsically suited to delivering integrated solutions, they can be used to complement sector- or area-wide interventions.

**There is good potential for ADB to strengthen its operations in the private sector through the private equity, CEP and PBL modalities.** IED's PBL evaluation emphasized the need for policy actions to improve business regulations and the enabling environment for private sector operations. IED's private equity evaluation noted the developmental role that ADB can play by taking equity in companies in fragile and difficult environments. However, ADB's use of private equity and CEPs needs organizational strengthening and improved staff incentives if it is to increase.

**MFFs, PBLs, and RBLs have demonstrated their potential to mobilize cofinancing from development partners.** MFFs had twice as much mobilized cofinancing as stand-alone projects. Cofinancing for PBL operations was also significant. However, it is not clear whether the participation of development partners was influenced by ADB since their financing was done in parallel to that of ADB. RBLs fostered development partnerships by sharing a common government-owned results framework with partners and financing a common expenditure framework. ADB's use of private equity and CEPs has been limited so far, although these modalities can be highly demonstrative and catalytic in mobilizing other funds. Because of its historic orientation as a debt provider, ADB's equity skills are limited and need to improve. The staff incentive structure is one of the reasons for the underuse of CEPs. PSOD has been working to improve the share of CEPs in its business; in 2019, the value of CEPs amounted to about \$1.5 billion.

Of this, the share of risk transfers still dominates, about \$900 million.

**The examined modalities have varying levels of processing efficiency when compared with stand-alone projects.** MFFs in the first decade after 2005 had some processing efficiency advantages, but these were later reduced by new and cumbersome approval and reporting procedures. The design of PBLs has improved over time with a reduction in the number of policy actions making the modality more efficient. The processing of guarantees and equity investments is too complex and time-consuming.

**Overall, the five modalities are, in principle, well suited to deliver the Strategy 2030 agenda.** However, better design and organizational changes, including better staff incentives can help them to reach their full potential.

## Robustness and Credibility of ADB's Project Self-Evaluation System

ADB's project self-evaluation system covers the processes and products for the systematic, empirical, and transparent monitoring and evaluation of an ongoing or completed project, conducted by the operations department in charge of the activity.

A robust and credible project self-evaluation system is one that generates and stores high-quality and reliable information in a timely manner and that transforms this information into knowledge for decision making and performance improvement. Chapter 3 assesses the robustness and credibility of the ADB self-evaluation system with regard to three key characteristics: reliability, timeliness, and usefulness.

## Evaluation Questions, Metrics, and Instruments

**The overarching evaluation question of this assessment was: is ADB's project self-evaluation system robust and credible?** This was underpinned by the following subsidiary questions:

- (i) To what extent does the ADB project self-evaluation system (including the monitoring and evaluation system) generate reliable data?



(ii) Are self-evaluation data and products delivered in a timely manner?

(iii) Does the self-evaluation system generate information that can be used in decision making and lesson learning?

In assessing reliability, the evaluation looked at the following indicators: baseline and end-of-project data on outcomes and outputs; beneficiary and other surveys; staff perceptions on the reliability of monitoring and evaluation (M&E) and outcome/output data; government project level M&E system; and the government PCR. The timeliness of the system was primarily evaluated by looking at the time periods between a project's loan closing and financial closure as well as between financial closure and circulation of completion reports. The usefulness of the system was assessed by conducting an in-depth analysis of projects implemented through multiple phases and by analyzing the perceptions of ADB staff as revealed in a survey.

**Various instruments were deployed to gather data on the three characteristics.** IED conducted a document review of ADB projects, an internal staff perception survey, focus group discussions, a literature review on self-evaluation, and interviews with staff from ADB and other MDBs. The document review analyzed 666 validated completion reports during the evaluation period (circulated during July 2008 to June 2018), including 559 sovereign and 107 nonsovereign operation. From the total of 666 PCRs and XARRs, a subset of 94 projects with follow-on phases (149 PCRs and 27 XARRs) was identified for in-depth analysis. The survey had a representative sample of 234 respondents, out of which, 218 had previous experience in either writing, reviewing, validating, contributing data to, or using information from, PCRs and XARRs.

A limitation of drawing on validated completion reports is that it may not reflect the impact of recent reforms to the system. The assessment considers these reforms, although it is too early to fully evaluate their effectiveness.

## Architecture of the ADB Project Self-Evaluation System

For both public and private sector financing, the architecture of ADB's project self-evaluation system has three components and is very similar to the systems at comparable multilateral development banks (MDBs). These are: (i) design of the monitoring framework, (ii) monitoring and evaluation of operations being implemented, and (iii) self-evaluations upon completion (public sector) or at an early operating maturity (private sector). ADB's project self-evaluation system for nonsovereign operations has unique features given the dual mandate of development effectiveness and ADB's financial sustainability. In the end, self-evaluations are typically validated by the independent evaluation function.

## Findings

**The architecture of ADB's project self-evaluation system is robust and credible; however, its reliability is affected by weaknesses in the M&E systems during implementation.** The individual elements of the project self-evaluation system are in line with international standard practices. Significant progress was made over the evaluation period on reporting of baseline and end-of-project data in completion reports. The new guidelines for the preparation of the design and monitoring framework and the improvements to the project performance rating system are likely to improve the performance tracking potential. However, the reliability of the data contributing to the completion reports (PCRs and XARRs) is mixed. In the staff survey, some 50% of respondents agreed with the statement that, overall, data in the PCR/XARRs are reliable, while 27% perceived the data generated by the project performance monitoring systems to be reliable. In a subset of 100 PCRs that had a specific loan covenant, to establish and maintain an M&E system, one fifth of the PCRs indicated that this was not fully complied with. Surveys, which are an important source of reliable data on development outcomes, are often stipulated at approval but not implemented at completion.

**In particular, for nonsovereign operations, reliability is affected by the low priority placed by existing monitoring systems on tracking development objectives during implementation.**



Reporting of baseline and end-of-project data at completion improved over time in XARRs, but there is much room for improvement. Only five of the 27 XARRs sampled had more than 90% of outcome indicators with baseline data, and only 12 had more than 90% of the outcome indicators with end-of-project data. Only three of the 27 XARRs reported that a project monitoring and evaluation system had been established. Surveys were rarely conducted even when stipulated at appraisal.

**In recent years, M&E has received more consistent attention, starting from design; however, it is not fully supported by explicit targeted resources, well-functioning project and central-level databases, adequate country level technical and institutional capacities, nor it is steered by integrated and user-friendly guidelines.** When data were collected, they were not systematically stored in easily accessible databases either in the country or centrally in ADB through the eOperations system. Currently, the eOperations system is considered by ADB's Office of Risk Management to be a high business system risk due to a range of issues, including its non-integration with applications, lack of flexibility and unreliable data. A review of 149 PCRs revealed that only 35% contained DMF data consistent with the eOperations system. Hence, the eOperations system cannot be used to verify whether a project M&E system is functioning well. Moreover, although a series of comprehensive project administration instructions are available to guide staff on the M&E function, integrated and user-friendly guidelines for both sovereign and nonsovereign operations are not available. Perceptions of the reliability of government PCRs were low, reflecting weak technical and institutional capacities of governments for project-level monitoring and reporting. Design and monitoring frameworks rarely contain specific budget lines devoted to M&E, and this potentially reduced the attention paid to the monitoring function. The reliability of the data and information generated by the ADB project self-evaluation system is affected by the lack of incentives to produce realistic and candid completion reports.

**On average, the project self-evaluation system is timely.** There is a 15-month average gap between the early operating maturity date and XARR

circulation. For PCRs, the average time from financial closure to circulations was 14.7 months for the projects reviewed over the evaluation period (PCRs circulated during July 2008 to June 2018). However, 12.9% of the PCRs were circulated more than 24 months after financial closure. Completion reports are a key source of knowledge and wider institutional learning and for this reason concerted efforts are required to further improve the timeliness of the system, for example, in ensuring that government PCR is prepared on time, PCR missions are not delayed, and staff incentives are in place. Interim self-evaluation products such as back-to-office reports and midterm reviews figure offer an opportunity to capture and synthesize lessons during implementation and make them available before project physical or financial closure.

**ADB's project self-evaluation system does generate information that could increase learning and knowledge, but it is not fully optimized.** The current system is useful for both accountability and learning, though there are areas that can be improved. Opportunities for learning exist, especially for nonsovereign operations but the M&E system is not fully developed to tap them. Although overall the project self-evaluation system incorporates explicit knowledge and allows for learning, tacit knowledge remains largely undocumented. Appropriate incentives to improve the documentation from missions, including interim reports, may harness the potential to synthesize lessons by tapping tacit knowledge and increasing the usefulness of the project self-evaluation system. So far, the templates used for back-to-office reports and midterm review reports have not been fully exploited to capture, synthesize and disseminate lessons.

### **Lessons from Comparable Multilateral Banks**

**The drivers and constraining factors for a robust project monitoring and evaluation system are similar across MDBs.** The attention to the quality of project design at entry, the development of sectoral tools and templates for both self- and independent evaluations, and capacity building of staff determine the reliability of the project self-evaluation system. However, data quality and availability vary across MDBs and even within ADB, particularly between sovereign and

nonsovereign operations. Staff levels, mobility, and lack of incentives constrain M&E. With regard to nonsovereign operations, the European Bank for Reconstruction and Development, Inter-American Development Bank Invest, and, recently, also the International Finance Corporation have adopted ambitious ex-ante development impact frameworks which may over time provide useful inputs for self-evaluations. However, these tools are also complex and likely to prove more expensive than existing methods to operate. The time-lag between project completion, circulation of the PCR, and validation by the independent evaluation office has been reduced across MDBs; the completion report is usually prepared within 6 months of project closure in the World Bank. As in the case of ADB, project self-evaluation systems in other MDBs are useful for fostering learning, yet accountability is still considered the main driver of self-evaluation.

**The purpose of validations by an independent evaluation function is to ensure consistency and credibility and to encourage candid and critical self-evaluation by operations departments.** The Evaluation Cooperation Group Good Practice Standards state that, for purposes of corporate reporting, 100% of completion reports or a statistically representative sample should be validated. Among the MDBs, the World Bank, International Fund for Agricultural Development, the Inter-American Development Bank (IDB) and ADB validate 100% of completion reports for sovereign operations. ADB, IDB Invest and the African Development Bank validate 100% of the completion reports prepared at maturity for private sector operations. The World Bank, IDB and ADB use independently validated ratings for corporate reporting.

## ADB Response to IED Recommendations

**ADB Management fully or largely implemented 75% of the actions recommended by IED in 2011–2019.** The next steps within the Management–IED engagement process for ensuring adequate implementation of recommendations should include (i) improving the alignment of action plans to recommendations; and (ii) improving implementation of action plans.

**The patterns observed in the degree of implementation of recommendations in other MDBs are not very different from those observed at ADB.** The implementation of actions has been slow and incomplete. However, other MDBs are also significantly stepping up the assessment of implementation of recommendations of their evaluation departments, and there is room for ADB to learn from these experiences.

**In 2019, ADB Management completed the implementation of all the actions in response to accepted recommendations of four evaluations.** The actions in response to these recommendations were generally appropriate and well followed up. The implemented actions became part of key documentation that informed and guided staff and supported better project management and implementation.

**A high acceptance level of IED recommendations does not guarantee a similarly high degree of implementation of actions.** There was a difference of 13% between recommendations accepted, and actions implemented in the period 2011–2019. However, there was some improvement: the gap between the two fell from 20% during 2011–2013 to 9% during 2017–2019.

**The improved quality of recent action plans is evidence that there was a positive impact from changes made in 2017 to the process for the design of recommendations and formulation of action plans.** In 2017, Management and IED introduced technical discussions on recommendations to improve their clarity, substantiation and actionability. The subsequent action plans made by Management were in turn reviewed by IED for their actionability and measurability before they were finalized. Based on the actions in response to 11 evaluation reports approved over 2017–2018, IED found that almost all (88%) responded well to the relevant recommendation and Management's response. Furthermore, 78% were considered to have been well defined, meaning they had adequate targets and outputs that could be checked. The action plans that were reviewed during meetings between IED and Management indicated that systematic engagement (face to face, rather than only through email contact) when finalizing action plans had a positive effect.

**There have been delays in the submission of draft action plans.** The data from 2017–2019 showed that, on average, Management took around 100 days more for the submission of action plans, which is beyond the stipulated 60 days. And once these plans are submitted, the finalization phase, including discussions with IED, also tends to be protracted. Often finalization is done just before the finalization of the AER in which the action plan situation is reported. It may be worth considering an increase in the current 60-day time limit for the submission of action plans from the date of the discussion of evaluation report by the Development Effectiveness Committee. The Inter-American Development Bank and the World Bank both have a 90-day time limit.

## Issues

**Sustainability is still the weakest element in the performance of ADB sovereign operations.** Sustainability performance was an issue in 82% of the projects that were assessed *less than successful*. Poor sustainability limits not only project performance but also ADB's long-term development effectiveness. The causes include low government commitment to reforms, weak institutional capacity at government agencies, and insufficient budgets or tariffs to maintain built assets. Factors responsible for low sustainability vary across sectors. For road projects they can include uncertainty with respect to the adequacy of toll revenues for maintenance; diversion of funds meant for road maintenance to the rehabilitation of pilot roads; and lack of road maintenance capacity. For energy projects, electricity tariffs are not set high enough to cover the cost of purchasing power from producers.

**Attention to project M&E systems during implementation is at times deficient and this affects ADB's ability to track development outcomes.** ADB's project self-evaluation system incorporates processes and products that should ensure adequate performance monitoring. However, in practice, the perception is that there are reliability issues with the systems. A review of a subset of completed projects indicated that in about 20% of cases the M&E systems at the country level have not been implemented well. Moreover, centrally in ADB the current eOperations system is classified as a high business risk by ORM. These issues have had an impact on

the quality of the data and information the self-evaluation system captures. M&E has received more consistent attention in design documents in recent years, but resources are not often specifically allocated to the function. Unlike for the DMF, specific and integrated guidelines for ADB on M&E principles and practices are currently not available. For nonsovereign operations, the existing monitoring systems place a low priority on tracking development objectives. A formal, separate and comprehensive monitoring system is not yet fully in place for nonsovereign operations to capture knowledge and measure development outcomes, reflecting ADB's dual mandate of promoting development effectiveness and achieving financial sustainability in its private sector operations.

**Tacit knowledge is not systematically captured by the current formal self-evaluation processes and products.** The formal self-evaluation system does not incorporate alternative, interim and informal learning pathways. Tacit knowledge acquired during implementation is transferred mostly informally within the organization because of the scarce incentives in terms of staff time and resources to prepare adequate documentation from missions. Moreover, the templates for the preparation of interim project reports do not sufficiently encourage the synthesis and documentation of lessons during implementation.

**ADB does not provide strong incentives, to mitigate the biases that are intrinsic to self-evaluation.** There are no strong incentives in place, such as the adequate involvement of the staff that designed the project in the preparation of the PCR and clear signals from management on the importance of learning from failures, to ensure the preparation of high-quality and credible completion reports and to counteract some of the challenges to assessing one's own work. If ADB were to provide such incentives, this would demonstrate the importance it attaches to the self-evaluation system for both ADB and borrowers.

**Weak borrower technical capacity and borrowers' low interest in M&E are key barriers to a more robust project self-evaluation system.** Often data sources are inadequate because of poor in-country statistics, the low capacity of executing

and implementing agencies, and challenges in data storage and analysis. Countries often assign a low priority to effective project M&E systems. As a result, the data sources used to prepare self-evaluations are insufficient to enable ADB to generate reliable completion reports.

## Recommendations

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

**Recommendation 1: Ramp up efforts to address the issues causing weak sustainability of project outcomes.** ADB should focus on factors specific to the transport and water and other urban infrastructure and services sectors, where the sustainability of outcomes has been the weakest and on DMCs and regions, including the Pacific and Central and West Asia, where sustainability performance is low. It should continue to assess the issues that reduce the likely sustainability of outcomes and ensure that projects have design elements supporting operation and maintenance expenses, including steps to institutionalize asset management systems. Loan covenants should be in place, to ensure dedicated operation and maintenance funds are available from the government's budget. More generally, ADB should support system wide and project level efforts to improve sustainability with instruments such as technical assistance or policy-based loans to improve public financial management and support needed governance reforms.

**Recommendation 2: Prioritize further efforts and resources to ensure a rigorous project M&E system throughout the project cycle, including allocation of appropriate budget resources for M&E, enhanced capacity training for ADB staff and DMC counterparts, as well as effective integration of tacit knowledge.** Building upon recent improvements to the project self-evaluation system, such as the revision of the project performance rating system to include output tracking and the forthcoming guidelines for preparing and using a DMF, ADB should ensure that data collection requirements in the DMF are feasible and that the DMF includes a separate activity with a budget line for M&E to ensure adequate monitoring throughout implementation. Moreover, ADB should ensure that an M&E system is established and maintained

for each project, including an effective central data repository which should be used consistently and effectively, and which should contain reliable and complete data for the self-evaluation process. This central data repository could be an improved version of the eOperations system, but it must be updated diligently and systematically, and complemented by robust inter-operable project-level M&E systems. Training should be provided to enhance the capacity of staff in ADB and in executing agencies to deliver effective M&E systems. Specific user-friendly guidance on M&E principles and good practices should be developed and implemented building on the existing project administration instructions. Stronger incentives, including more staff time and resources, should be allocated to the preparation of the documentation from missions; this includes the enhancement of the templates for interim assessments so they capture tacit knowledge that can be used for future project designs, increasing the usefulness of the system.

**Recommendation 3: Enhance the current monitoring and evaluation system for nonsovereign operations, including both development and financial indicators.** As part of the Operational Plan for Private Sector Operations 2019–2024, PSOD is undertaking a program to improve the measurement of the private sector contribution to development effectiveness. This includes the introduction of a tracking system to identify projects that are at risk of not achieving development effectiveness as well as an ex-ante development effectiveness tool to objectively evaluate the additionality and anticipated development results of each project. Building on these efforts, the system should be further enhanced to properly capture the dual mandate of development effectiveness and ADB's financial sustainability. It should be market-sensitive in terms of the cost of implementation, the information required and the obligations of market sponsors. It should incorporate the specificities of private sector investments and in particular their learning requirements. Greater priority should be given to effective tracking of development objectives and to improving the extent to which baseline and end-of-project data for outcome indicators are collected and tracked.

**Recommendation 4: Revise the business processes for action plans.** The processes should consider (i) effective dialogue with IED at the formulation and finalization stage; (ii) a flexible approach to action plan revisions during implementation; and (iii) an extension of the

window for the formulation of action plans from 60 days after Development Effectiveness Committee discussions of evaluation reports to 90 days.

### Linkage between Findings and Recommendations

Findings, Issues, and References	Recommendations
<p><b>Chapter 2: Performance and Results of ADB Operations</b></p> <p>Sustainability remains the weakest element of ADB sovereign operations. Sustainability performance was an issue in 82% of the projects that were assessed <i>less than successful</i>. Poor sustainability limits not only project performance but also ADB's long-term development effectiveness. The causes include low government commitment to reforms, weak institutional capacity, and insufficient budgets or tariffs to maintain built assets. Factors responsible for low sustainability vary across sectors: uncertainty with respect to the adequacy of toll revenues to maintain road projects; diverting funds meant for road maintenance to rehabilitation of pilot roads; lack of road maintenance capacity; or electricity tariffs not set high enough to cover the cost of purchasing power from producers (para. 16).</p>	<p><b>Recommendation 1:</b></p> <p><b>Ramp up efforts to address the issues causing weak sustainability of project outcomes.</b></p>
<p><b>Chapter 3: Robustness and Credibility of ADB's Project Self-Evaluation System</b></p> <p>Sustained attention to project M&amp;E systems during implementation is needed to improve the reliability of the data they generate for measuring development outcomes at completion. Suboptimal project and central-level databases, absence of integrated and user-friendly guidelines from ADB on M&amp;E principles and practices, low country level technical and institutional capacities, and insufficient targeted resources are affecting the reliability of M&amp;E systems. Tacit knowledge is largely untapped. Interim self-evaluation products such as back-to-office reports and midterm reviews offer an opportunity to capture and synthesize lessons during implementation and make them available before project physical or financial closure and contribute to both better timeliness and usefulness (paras. 124–126, 131, 198, 202, 203–205).</p>	<p><b>Recommendation 2:</b></p> <p><b>Prioritize further efforts and resources to ensure a rigorous project M&amp;E system throughout the project cycle, including allocation of appropriate budget resources for M&amp;E, enhanced capacity training for ADB staff and DMC counterparts, as well as effective integration of tacit knowledge.</b></p>
<p><b>Chapter 3: Robustness and Credibility of ADB's Project Self-Evaluation System</b></p> <p>For nonsovereign operations, a formal, separate and comprehensive monitoring system for the systematic</p>	<p><b>Recommendation 3:</b></p> <p><b>Enhance the current monitoring and evaluation system for nonsovereign</b></p>



Findings, Issues, and References	Recommendations
tracking of performance, results and lessons is not fully in place (para. 121–122, 125–126, 130, 144, 163, 198, 202).	<b>operations, including both development and financial indicators.</b>
<p><b>Chapter 4: Management Action Record System</b></p> <p>Differences in the assessments by IED and ADB Management of the degree of implementation of actions appear to have widened over time, from 8% in 2009–2016 to 18% in 2017–2019. Most of the downgrade in 2009–2019 by IED were as a result of inadequate implementation of action plans, insufficient evidence to assess implementation, and poor relevance of actions formulated to recommendations accepted. The gaps also reflect differences in perceptions between IED and Management on the adequacy of actions taken (para. 172).</p> <p>The percentage of fully or largely implemented actions on recommendations stayed around 75% in 2011–2019, as assessed by IED. This reflects issues related to action plans’ alignment with recommendations and their implementation. The divergence between Management’s self-assessment and IED’s validation of action plan implementation can be addressed by making action plans more relevant and specific (para. 192).</p>	<p><b>Recommendation 4:</b></p> <p><b>Revise the business processes for action plans.</b></p>

# 1

## Introduction



1. **The 2020 Annual Evaluation Review (AER) is a tool for both accountability and learning.** It updates the performance trends of ADB-supported operations based on the project and country independent evaluations, validations, and high-level corporate evaluations conducted by the Independent Evaluation Department in 2019.<sup>1</sup> In addition to reporting on recent performance, the AER highlights systemic and cross-cutting issues, lessons, and challenges for the Asian Development Bank (ADB), including the use of different financing modalities. A special chapter (Chapter 3) on ADB's project self-evaluation system assesses the robustness and credibility of the system and identifies areas for improvement. The 2020 AER also provides an annual update on the implementation status and results of actions taken by ADB Management in response to recommendations from the Independent Evaluation Department's (IED's) country assistance program evaluations and corporate and thematic evaluations. The 2020 AER has four chapters following this introduction.

2. **This AER compares the operational performance in the latest 3-year period (2017–2019) with that of the previous period (2016–2018), while also discussing performance trends since 2010 (Chapter 2).** The performance data are presented annually as well as in 3-year moving averages to smooth out the fluctuations caused by the relatively small number of evaluations in any particular year.<sup>2</sup> Performance is measured by the percentage of ADB-supported operations assessed successful or highly successful in the case of sovereign operations, and excellent or satisfactory in the case of nonsovereign operations. For sovereign operations, each project's overall success is a simple average of the performance in terms of four criteria: relevance, effectiveness, efficiency, and sustainability.<sup>3</sup> For nonsovereign operations, overall success is based on the following criteria: (i) development results, (ii) ADB investment profitability, (iii) ADB additionality; and (iv) ADB work quality. No fixed weights are used to derive the overall success rating of nonsovereign operations;<sup>4</sup> instead, the aggregation rule varies with the type of the project. Success rating of a country program and strategy is derived from the following five criteria: relevance, effectiveness, efficiency, sustainability, and development impacts.

3. **Chapter 2 discusses operational performance by evaluation criterion, sector, region, country classification, and lending modality.** The discussion is based on a dataset that has been updated by validations of project completion reports (PCRs) for sovereign operations and extended annual review reports (XARRs) for nonsovereign operations during July 2018 to June 2019.<sup>5</sup> Country program performance is based on IED's (i) country partnership and strategy final review validations (CPSFRVs), and (ii) country assistance program evaluations (CAPEs) produced in 2019. One CAPE and seven CPSFRVs are included in this year's AER. Appendixes 1 and 2 provide a list of evaluation reports completed in 2019 and evaluations discussed by the Board of Directors and the Development Effectiveness Committee.

4. **Chapter 2 also synthesizes findings and lessons from the recent corporate evaluations produced by IED on five of ADB's financing modalities.** It discusses trends in the use of these modalities and highlights lessons and implications for ADB's corporate strategy, Strategy 2030.

5. **A special focus area of the 2020 AER is ADB's project self-evaluation system.** Chapter 3 examines the robustness and credibility of this system in terms of its reliability, timeliness in producing information, and usefulness. This is with the aim of understanding the self-evaluation system's role in the continual process of improving the design and implementation of future projects through better accountability and learning. This year's special focus builds on previous theme chapters: "Learning from the

<sup>1</sup> The evaluation methodology for ADB's operational performance is contained in the following guidelines: <https://www.adb.org/site/evaluation/methods-guidelines>.

<sup>2</sup> Covering 3 years of evaluations increases the number of evaluations and ensures the evaluations are more representative of the average sector and country mix of ADB operations.

<sup>3</sup> The rating scale for each criterion ranged from 0 to 3. If the average score of all criteria is greater than or equal to 1.75 the project is deemed *successful* and if it is greater than or equal to 2.5 it is *highly successful*. IED. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila: ADB.

<sup>4</sup> IED. 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Nonsovereign Operations*. Manila: ADB.

<sup>5</sup> In addition to validating all PCRs and XARRs (100% coverage), IED produced an average of eight project or program performance evaluation reports (in-depth field-based evaluations) per year.



Documented Lessons of Project Evaluations” in the 2017 AER and “Corporate Results Framework and Scorecard” in the 2019 AER. One of the findings of 2019 AER was that delays in delivering PCRs and XARRs affect the timely sharing of information with Board members and other stakeholders. This chapter therefore investigates the project self-evaluation system to identify potential areas for improvement.

6. **The conceptual framework for assessing the robustness and credibility of ADB’s project self-evaluation system was based on three characteristics: reliability, timeliness and usefulness.** The overarching question for this evaluation was: Is ADB’s project level self-evaluation system robust and credible? In the context of this evaluation, a robust and credible self-evaluation system is one that generates high-quality and reliable information, in a timely manner, and transforms this information into knowledge that is used to inform decision making and improve performance. The methodology of the assessment involved a review of reports and recommendations of the President, back-to-office reports, midterm reviews of projects, and project completion reports. This was complemented by perception questionnaires and focus group discussions and interviews with stakeholders to triangulate the data gathered from the desk review. Lastly, the chapter brought IED’s own evaluation experience and reporting to bear in this analysis.

7. **Following the usual practice, the 2020 AER provides an annual update of ADB Management’s implementation of Independent Evaluation recommendations and discusses progress since the 2019 AER.** Chapter 4 reports on the progress of Management’s actions following IED’s recommendations. Factors affecting the successful implementation of planned actions in response to recommendations and the continued efforts to improving the outcomes of evaluation recommendations are also discussed. The report provides conclusions and recommendations in Chapter 5.

8. **A limitation of this review is that the reporting on performance is based solely on high-level evaluations and validated self-assessments circulated to the Board of Directors.** This may leave out operations in certain parts of the region and some sub-sectors. However, when reporting on lessons, it relies on the stock of knowledge accumulated through various evaluations conducted by IED. The analysis of ADB’s project self-evaluation system in Chapter 3 also draws on validated completion reports, among other information sources, which may not reflect recent reforms to the system. Although it is too early to fully evaluate the effectiveness of these reforms, they have been considered in IED’s assessment.

# 2

## Performance of ADB Operations and Findings from Financing Modalities



## Highlights

### Performance of ADB support to Developing Member Countries, 2017–2019

- The proportion of public sector projects rated *successful* fell to 71% in 2017–2019 from 77% in 2016–2018. Performance dropped against all evaluation criteria except for efficiency. It declined in both infrastructure and non-infrastructure sectors and in all regions except for East Asia.
- The percentage of successful private sector operations decreased to 52% in 2017–2019 from 54% in 2016–2018, continuing a decline since 2014–2016. In the long term (2010–2019) infrastructure projects performed best (85%); followed by financial institutions (56%) and private equity funds (37%). Southeast Asia had the highest percentage of successful private sector operations.
- 83% of country programs and strategies were rated *successful* in 2017–2019. The long-term success rate was 74% (2010–2019), similar to the level of project performance.

### ADB Financing Modalities: IED Evaluation Findings and Lessons

- The five financing modalities considered in this review—policy-based loans (PBLs), results-based loans (RBLs), multitranche financing facilities (MFFs), credit enhancement products (CEPs) and private sector equity investments—all support the main objectives of Strategy 2030.
- Process efficiencies were higher with PBLs and RBLs than with stand-alone investment lending. The MFF's initial attractiveness after its launch in terms of lower processing times diminished over time due to the addition of procedures and processes which reduced flexibility.
- The PBL, RBL and MFF modalities showed higher mobilized financing from development partners and other third parties compared to stand-alone investment projects. If ADB is to tap the mobilization potential of CEPs and private equity funds (PEFs), it will need to improve its staff incentive structure and internal organization to strengthen its protection against increased risk.
- ADB needs to find ways to reduce transaction costs and to make and keep realistic implementation schedules for MFFs; to focus on policy actions that are critical to realizing outcomes in PBLs; and to strengthen internal quality assurance and assessment of corruption risks in RBLs.

9. The first part of this chapter presents the performance of both sovereign and nonsovereign operations, expressed as a percentage of the projects assessed successful by IED. It considers ADB's performance over a 3-year period to smooth out annual fluctuations and to ensure a similar sector mix for valid comparisons. Performance is discussed by evaluation criterion, sector, region, financing modality, and country classification. This section also presents country performance expressed as a percentage of country program and strategies assessed successful by IED. The second part of the chapter synthesizes lessons from the evaluation of five different ADB financing modalities: multitranche financing facilities (MFFs), policy-based lending (PBLs), results-based lending (RBLs), private sector equity investments (PSEI), and credit enhancement products (CEPs). It is based on recent corporate evaluation reports of these modalities by IED.

## A. Performance of ADB operations

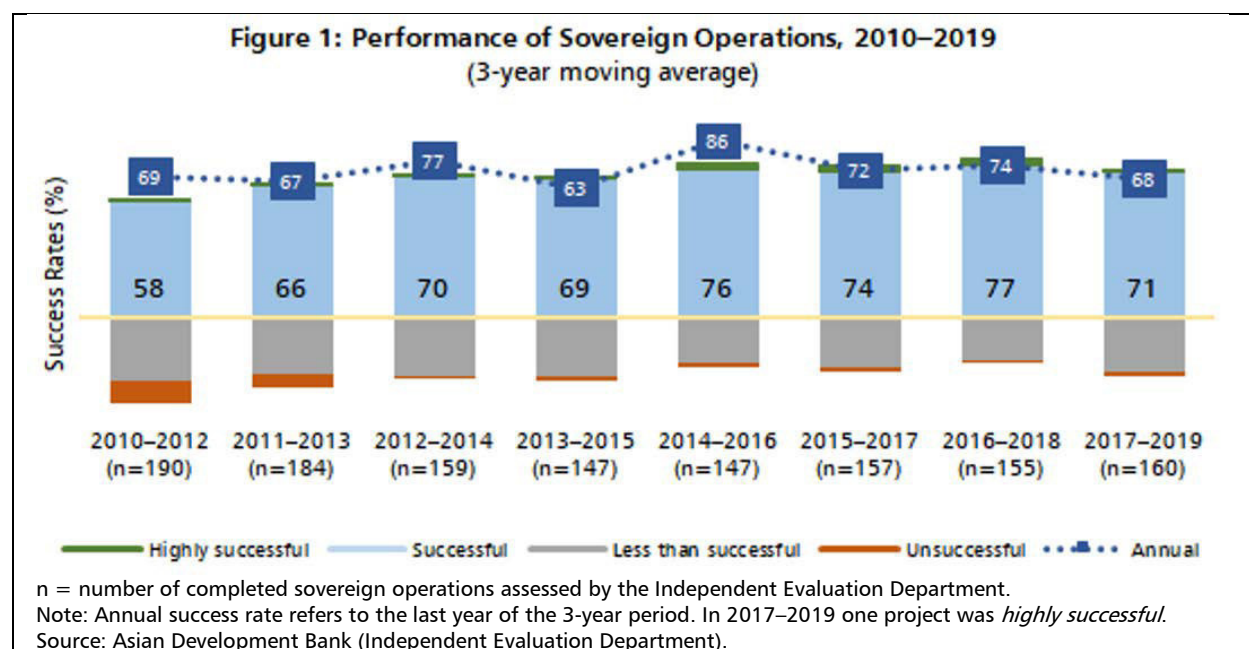
### 1. Sovereign Operations

10. This section updates trends in project performance by considering validated program and project completion reports (PCRs) and project performance evaluation reports (PPERs), circulated between July 2018 and June 2019.<sup>6</sup> PPERs are direct project evaluations by IED for selected operations. These included 55 validated PCRs and four PPERs. The number of sovereign operations assessed in 2017–2019 was 160, compared with 155 operations in 2016–2018.

<sup>6</sup> Performance in any year relates to validated program and project completion reports (PCRs) circulated between 1 July of the previous year and 30 June of the given year.

### a. Overall Performance

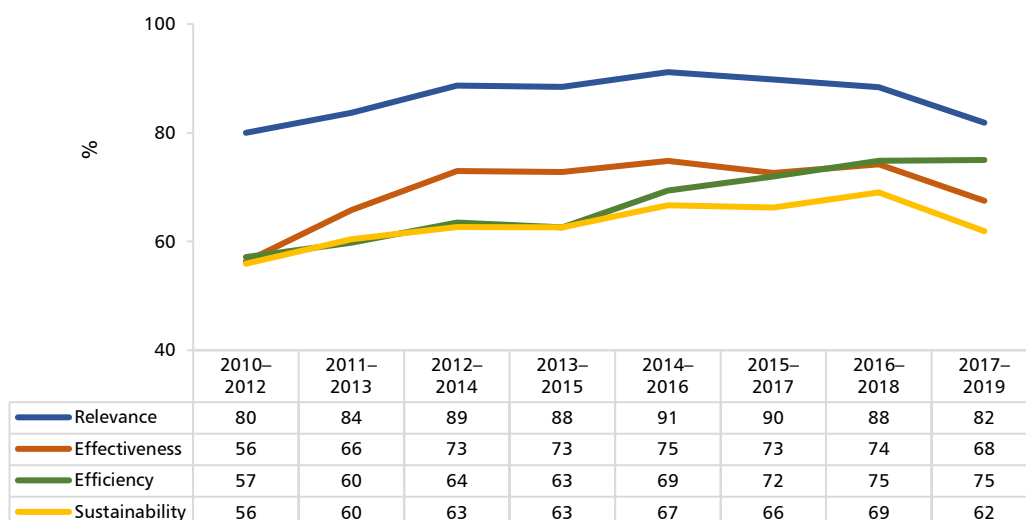
11. The percentage of successful projects in 2017–2019 declined to 71% from 77% in 2016–2018 (Figure 1). All regions except for East Asia experienced a drop in performance (Figure 5). The percentage of successful projects fell in education, finance, health, information and communication technology, public sector management, and transport; while the agriculture, natural resources, and rural development; energy; industry and trade; and water and other urban infrastructure and services sectors maintained their previous performance levels (Table 1).



### b. Performance by Evaluation Criteria

12. Each project's performance is a composite of four evaluation criteria: (i) relevance of projects to country development issues and ADB strategies and appropriate project design; (ii) effectiveness in achieving intended outcomes and outputs; (iii) efficiency in the use of resources; and (iv) sustainability of project outcomes and outputs after project completion. Each criterion is rated on a four-point scale 0–3, where 3 stands for highly relevant, 2 for relevant, 1 for less than relevant, and 0 for irrelevant. The ratings are similar for effectiveness and efficiency. For sustainability, the four ratings are: most likely, likely, less than likely, and unlikely sustainable. ADB performance declined against each of these criteria except for efficiency in 2017–2019 (Figure 2).

**Figure 2: Performance of Sovereign Operations by Evaluation Criteria, 2010–2019**  
(3-year moving average)



Source: Asian Development Bank (Independent Evaluation Department).

13. For sovereign operations, the performance for relevance was the highest rated criterion. The proportion of sovereign operations assessed *relevant or highly relevant* remained high at 82% in 2017–2019, although this was 6 percentage points lower than in 2016–2018. Factors that lowered the relevance of operations included: project designs that were too complex or too ambitious; unrealistic design elements and timelines; lack of flexibility in the project design to enable the project to adjust to changes in market conditions and pursue alternative strategies; project designs that failed to recognize the risks identified at appraisal, resulting in serious safeguard issues and the non-materialization of succeeding projects; and design and monitoring frameworks that did not reflect stakeholder analysis and consultations.

14. The sovereign operations rated *effective or highly effective* declined from 74% in 2016–2018 to 68% in 2017–2019. Effectiveness is affected by partial achievement of outputs due to ambitious or unrealistic targets and project cancellations. In 2019, 3 of the 7 MFFs validated in 2019 were rated *less than successful or unsuccessful*. In two of these operations, targets were not met due to the government's inadequate readiness, leading to the cancellation of subsequent tranches of the investment program. Targets were not met in an agriculture project in Indonesia due to the government's inadequate readiness leading to cancellation of subsequent tranches of the investment program.<sup>7</sup> The National Capital Region Urban Infrastructure Financing Facility in India experienced social safeguard issues due to inadequate due diligence of the subprojects.<sup>8</sup> The consequent implementation delays led to cancellation of subsequent tranches. The implementation of the Post-Literacy and Continuing Education project in Bangladesh was severely affected by the dissolution of the executing agency at the beginning of the project implementation. This led to prolonged project implementation delaying the achievement of intended outcomes and outputs.<sup>9</sup> Design weaknesses, institutional weaknesses regarding subsidy provision, poor procurement design and implementation, and lack of due diligence impacted the performance of a housing finance program in Uzbekistan.<sup>10</sup>

<sup>7</sup> IED. 2019. *Validation Report: Integrated Citarum Water Resources Management Investment Program in Indonesia*. Manila: ADB.

<sup>8</sup> IED. 2019. *Validation Report: National Capital Region Urban Infrastructure Financing Facility in India*. Manila: ADB.

<sup>9</sup> IED. 2019. *Validation Report: Post-Literacy and Continuing Education Project in Bangladesh*. Manila: ADB.

<sup>10</sup> IED. 2018. *Performance Evaluation Report: Housing for Integrated Rural Development Investment Program—Tranches 1, 2, and 3 in Uzbekistan*. Manila: ADB.

15. **Efficiency performance remained unchanged at 75% in 2017–2019.** There has been a trend increase in the percentage of projects rated *efficient* or *highly efficient* since 2010–2012. As noted in the 2018 AER, this trend may be an outcome of ADB's introduction of advanced project design and other project preparation facilities.<sup>11</sup> IED evaluations of the PBL and RBL modalities noted their shorter processing times compared to stand-alone investment projects. In 2019, positive assessments of efficiency performance were based on the economic viability of projects meeting or exceeding the economic internal rate of return as estimated at appraisal, as well as the project's cost-effectiveness and timely delivery of outputs at lower costs. Efficiency performance is also affected by the time taken for various processes, e.g., efficiency was boosted in finance projects because the introduction of an online system reduced the time for the processing of loan applications. In some projects, efficiency was weak because of delays and the underutilization of funds or because of overly optimistic economic internal rate of return or the use of insufficiently rigorous methods for estimating them. Process deficiencies can prevent a project from achieving the intended results, e.g., in one MFF, project start-up delays and long procurement and resettlement processes affected the outcomes, despite the allocation of additional resources and an extension of the project.

16. **The performance of sovereign operations was generally weakest against the sustainability criteria.** This has been so for many years now. IED's 2018 AER had devoted a chapter to the issue of sustainability and efficiency (footnote 11) and it led, among other things, to a recommendation that ADB should cover sustainability measures more systematically in project design documents. In response, Management, in 2019, added a sustainability section to the report and recommendation of the president (RRP) template, which is useful. The results from this change may take several years to materialize. Meanwhile, the issue remains urgent and other actions on policy reform, project design and capacity development are still needed. Sovereign operations rated *likely sustainable* or *most likely sustainable* fell to 62% in 2017–2019 from 69% in 2016–2018, although there has been an improving sustainability trend since 2010–2012. The decline in 2017–2019 could well be a short-term deviation. Factors responsible for the low sustainability rating in the projects evaluated in 2019 included weak government commitment to reforms, budget deficits, uncertainty with respect to the adequacy of toll revenues to maintain highways, diversion of funds meant for road maintenance to the rehabilitation of pilot roads, lack of road maintenance capacity, or electricity tariffs that were insufficient to cover the cost of purchasing power from producers. Sustainability continues to be an issue in ADB operations; 82% of the projects that were assessed *less than successful* had project sustainability issues and were assessed as *less than likely sustainable* or *unlikely sustainable*. Likely sustainability of outcomes is lowest in transport and water and other urban infrastructure and services (WUS) projects and the Pacific and Central and West Asia were the regions with weakest project sustainability performance.<sup>12</sup> In the case of a CAREC Corridor 3 (Shymkent-Tashkent Section) Road Improvement Project in Kazakhstan, the government did not have the capacity to maintain the new pavement material and neither the state budget for road maintenance nor the expected tolls were enough to maintain the road section.<sup>13</sup> Most of the transport and WUS projects in the Pacific were assessed *less than likely sustainable*. In an urban sector project in India wastewater and solid waste management components were less than likely sustainable.<sup>14</sup> The collection levels of user levies by urban local bodies were insufficient to meet the operation and maintenance costs of environmental sanitation assets. A key message here is that project design should pay adequate emphasis to government buy-in for reforms that would help finance operation and maintenance expenditures. Such reforms would reduce governments' subsidy burdens by setting tariffs and tolls at a sufficient level to allow for adequate cost recovery.

<sup>11</sup> IED. Quality of Project Design and Preparation for Efficiency and Sustainability. 2018 Annual Evaluation Review. Manila: ADB.

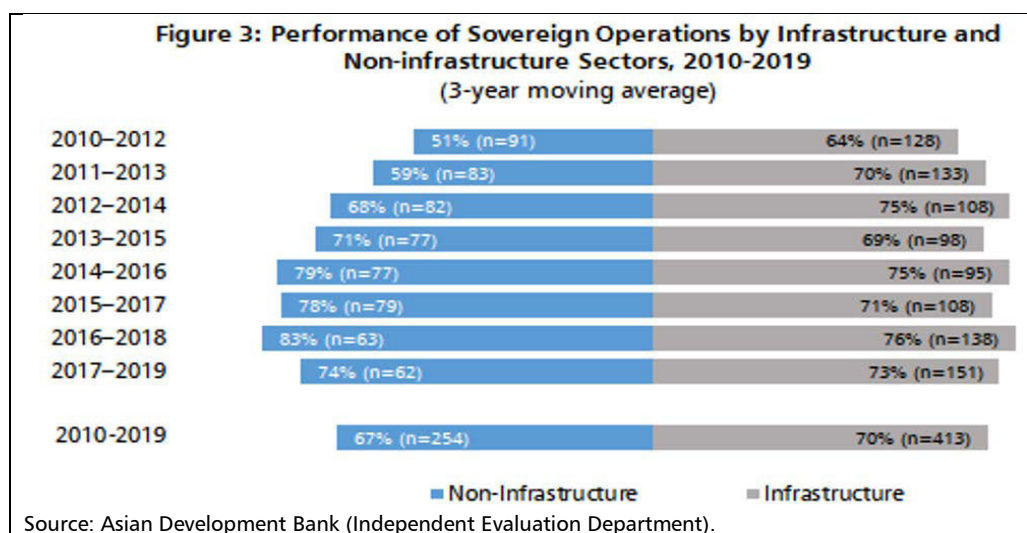
<sup>12</sup> Detailed data on sustainability performance is in Tables 8 and 9 in Linked Document A.

<sup>13</sup> IED. 2019. Validation Report: CAREC Corridor 3 (Shymkent-Tashkent Section) Road Improvement Project in Kazakhstan. Manila: ADB.

<sup>14</sup> 14 IED. 2019. Validation Report: Rajasthan Urban Sector Development Investment Program (Tranche 1) in India. Manila: ADB.

### c. Performance by Sector

17. The performance of non-infrastructure projects has shown a markedly positive trend over the years. Performance improved during each period starting from 2010–2012, peaking at 83% in 2016–2018. It dropped by 9 percentage points to 74% in 2017–2019 (Figure 3). The positive trend was driven primarily by the trend increase in the success of PBLs in public sector management (PSM). The decline in non-infrastructure performance in 2017–2019 was driven mainly by declines in the performance of education projects (which decreased by 13 percentage points to 56%) and finance projects (which declined by 15 percentage points to 60% in 2017–2019). The performance of PSM operations remained above 90% (Table 1). The less than successful assessment of finance projects can be attributed to a number of reasons, including the existence of government-subsidized lending programs that distorted the market for participating financial institutions in a small or medium-sized enterprise (SME) financing project in Kazakhstan<sup>15</sup> and the inability of some participating financial institutions in Armenia to utilize their allocations pending full compliance with environmental safeguards of ADB.<sup>16</sup> The performance of the education sector was affected by fiduciary risks in the technical and vocational education and training project in Bangladesh.<sup>17</sup> Mitigating the risks from the alleged non-transparency in the selection of nongovernment organizations in other government projects led to implementation delays. The design of an education sector development project in Sri Lanka lacked focus and synergy, and the project had too many education development activities.<sup>18</sup>



18. The performance decline in the infrastructure sectors was driven mainly by the decrease in transport sector performance. Project performance in agriculture, natural resources, and rural development; energy; and industry and trade remained unchanged, while that for water and other urban infrastructure and services marginally improved. Infrastructure performance did not show a clear trend and fluctuated between 64% and 76% in the 3-year periods. Performance was 73% in 2017–2019. Less than successful transport projects were impacted by either project delays or cost overruns, leading to non-achievement or partial achievement of output targets. The availability of funds for the maintenance of road projects has been an issue in many of the less than successful projects. In a road network project in Timor Leste, road maintenance interventions could not be implemented as funds had been spent to rehabilitate rapidly deteriorating pilot roads rather than for maintenance.<sup>19</sup> In another project in

<sup>15</sup> IED. 2019. *Validation Report: Small and Medium Enterprise Investment Program in Kazakhstan*. Manila: ADB.

<sup>16</sup> IED. 2019. *Validation Report: Women's Entrepreneurship Support Sector Development in Armenia*. Manila: ADB.

<sup>17</sup> IED. 2019. *Validation Report: Post-literacy and Continuing Education Project in Bangladesh*. Manila: ADB.

<sup>18</sup> IED. 2017. *Validation Report: Education for Knowledge Society Project in Sri Lanka*. Manila: ADB.

<sup>19</sup> IED. 2019. *Validation Report: Road Network Development Sector Project in Timor-Leste*. Manila: ADB.



Uttarakhand in India, government finances were unable to provide the required resources for road maintenance.<sup>20</sup>

**Table 1: Performance of Sovereign Operations by Sector, 2016–2018 and 2017–2019 (3-year moving average).**

Sector	2016–2018		2017–2019	
	Total No.	HS/S (%)	Total No.	HS/S (%)
<b>Infrastructure</b>	138	76	151	73
Agriculture, Natural Resources, and Rural Development	23	70	30	70
Energy	26	96	27	96
Information and Communication Technology	1	100	2	50
Transport	58	74	61	67
Water and Other Urban Infrastructure and Services	30	67	31	68
<b>Non-infrastructure</b>	63	83	62	74
Education	13	69	16	56
Finance	16	75	15	60
Health	7	86	5	80
Industry and Trade	3	100	4	100
Public Sector Management	24	92	22	91

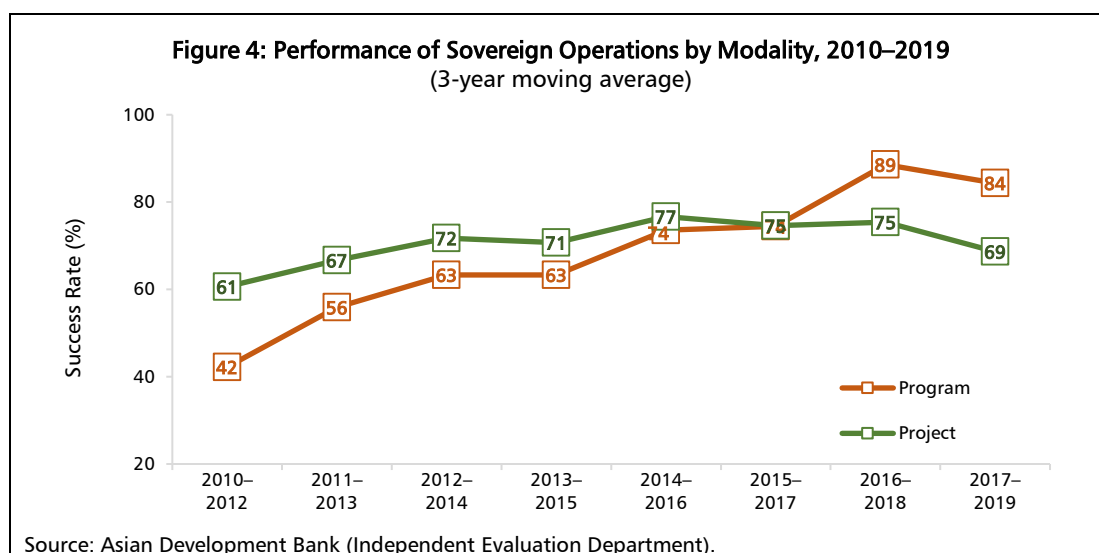
HS = highly successful, S = successful.

Note: Some projects are counted under several sectors, so the total number of projects in this table is higher than elsewhere in this report.

Source: Asian Development Bank (Independent Evaluation Department).

#### d. Performance by Modality

19. The performance gap between program or policy-based loans (PBL) and investment loans slightly widened in 2017–2019 (Figure 4).<sup>21</sup> For the second consecutive period, a higher percentage of PBLs were rated *successful* (84%) than investment loans (69%). PBLs fared better than investment loans across all evaluation criteria: PBL ratings were higher by 14 percentage points for relevance (94%), by 12 percentage points for effectiveness (78%), by 11 percentage points for efficiency (84%), and by five percentage points for sustainability (66%).



<sup>20</sup> IED. 2019. *Validation Report: Uttarakhand State-Road Investment Program (Project) in India*. Manila: ADB.

<sup>21</sup> RBLs come under programs but no project/program completion report validation reports have been completed for any of the RBL operations.



20. Success rates of PBL operations have been improving over the years, although there was a slight fall in 2019 (Table 2). Although the performance of MFF projects in 2018 and 2019 was down, over the long term the performance has been comparable to that of stand-alone projects.<sup>22</sup> However, only a limited number of MFFs have had validated PCRs.<sup>23</sup> The marked performance improvement in recent years, particularly for PBL operations in PSM, is evident in success rates that exceed 90%. IED's PBL evaluation noted that the performance of PBLs supporting PSM reforms increased from 37% in 1999–2007 to 88% in 2008–2017<sup>24</sup> and it cited greater use of single-tranche programmatic PBL, use of PBL to respond to crises, and the decreasing number of policy actions for the improvement, among other factors. RBL, the most recently introduced modality, has only a limited set of concluded projects from its pilot phase. The available evidence suggests that its focus on results and evidence has helped managers to promote results by developing different strategies to strengthen systems and to reach some difficult-to-attain targets.

**Table 2: Performance of Sovereign Operations by Modality, 2010–2019**  
(success rates, 3-year moving average, % of total)

Modality	2010–2012	2011–2013	2012–2014	2013–2015	2014–2016	2015–2017	2016–2018	2017–2019
<b>Project</b>	61	67	72	71	77	75	75	69
MFF			90	78	67	69	64	63
Non-MFF	60	66	70	70	78	75	78	71
<b>Policy-Based</b>	42	56	63	63	74	74	89	84
PSM	44	75	75	69	78	81	95	94
Non-PSM	41	45	59	54	67	68	81	73
<b>ADB</b>	58	66	70	69	76	74	77	71

ADB = Asian Development Bank, MFF = multitranche financing facility, PSM = public sector management.

Note: Sector development program loans are counted under both project loans and policy-based loans.

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

### e. Performance by Region and Country

21. **The assessed projects were dominated by a few countries.** Of the 160 sovereign operations assessed in 2017–2019, South Asia accounted for 29%, followed by Southeast Asia (24%), Central and West Asia (23%), the Pacific (12%), and East Asia (11%). Of the projects assessed in Central and West Asia, Pakistan and Uzbekistan each accounted for 24%, and these two countries made up 12% of the ADB total. The People's Republic of China (PRC) accounted for 94% of the 18 projects in East Asia, corresponding to 11% of the total ADB portfolio. India represented 45% of the 47 South Asia projects and 13% of the ADB portfolio. Papua New Guinea (PNG) had 21% of the 19 projects in the Pacific, or 3% of ADB total. In Southeast Asia, 41% of 39 projects were in Viet Nam, 10% of the ADB portfolio (Linked Document A).

22. **East Asia was the only region where performance improved, to 94% in 2017–2019 from 87% in 2016–2018 (Figure 5).** Performance in other regions declined, with the Pacific declining the most, by 17 percentage points to 42%. Projects in East Asia covered five sectors (agriculture, natural resources, and rural development; education; energy; PSM; and water and other urban infrastructure and services).<sup>25</sup> The projects were all assessed *highly successful* or *successful*. Transport improved by four percentage points to 89% in 2017–2019. The PRC accounted for 17 of the 18 assessed operations in the region and

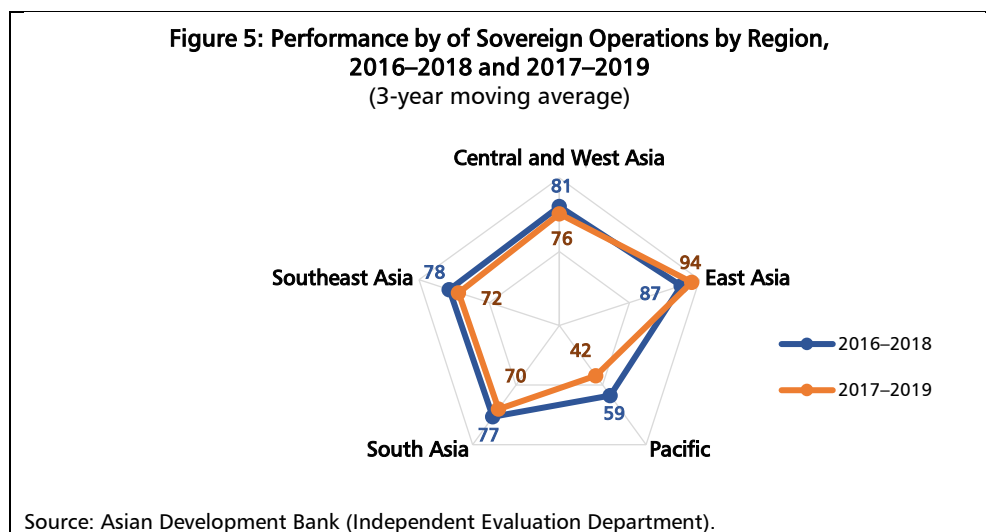
<sup>22</sup> The success ratings of each tranche as well as the rating of the entire facility are considered in the calculation of percentage of successful projects. The rating of the facility supersedes that of the last tranche.

<sup>23</sup> IED. 2019. *Corporate Evaluation: ADB's Multitranche Financing Facility, 2005–2018: Performance and Results Delivered*. Manila: ADB.

<sup>24</sup> IED. 2018. *Corporate Evaluation: Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila: ADB.

<sup>25</sup> Education is identified as one of the secondary sectors in L3356 (Beijing–Tianjin–Hebei Air Quality Improvement–Hebei Policy Reforms Program). In the discussion on sector level performance a project is counted under a sector if it is identified either as a primary or secondary sector in the project.

was primarily responsible for the positive performance of the region. Government commitment and capacity building initiatives played key roles in the positive assessments of projects in PRC. A successful agriculture project in the PRC, which invested in various income-generating subprojects and capacity building to improve the productivity of the sector, was particularly noteworthy. Training and support services centers helped to expand the financial and economic opportunities for participating agro-enterprises and affected smallholders.<sup>26</sup> A non-urban road transport project in the PRC was assessed *successful* based on the likelihood that outcomes and outputs would be maintained over time with stable funding for project maintenance works, given the government's continued commitment to developing the western region.<sup>27</sup> Training and capacity building initiatives on road safety and road asset management, which are integral to improving transport sector management, were also adequate and successful.



23. **Central and West Asia project performance declined from 81% in 2016–2018 to 76% in 2017–2019.** This was driven by Uzbekistan's performance, which dropped from 89% in 2016–2018 to 78% in 2017–2019, following successive improvements since 2013–2015. Pakistan's performance marginally declined, from 80% in 2016–2018 to 78% in 2017–2019. Of the 46 sovereign operations assessed in 2017–2019, 74% were infrastructure projects. All projects in the agriculture and energy sectors were assessed *successful*, while the performance of the water sector markedly improved. The performance of the transport sector fell, partly due to sustainability concerns in non-urban road transport projects: insufficient toll revenue to cover operating costs and debt servicing, and lack of government assurance on availability of funding for project road maintenance. Non-infrastructure projects in the region have been limited to the finance and PSM sectors since 2015. Finance was down by seven percentage points at 33% in 2017–2019, while PSM remained at 83%. The reasons for the decline in performance of finance projects in 2019 included design shortcomings. For example, in Kazakhstan, use of credit lines was not appropriate for addressing the key issue of limited access to credit for SMEs, nor for the nonperforming loans that affected the sustainability of SME financing.<sup>28</sup> In Armenia, the poor performance was caused by the slow disbursement of the financial intermediation loan as well as a lack of policy action to ensure sustained government commitment.<sup>29</sup>

24. **Project performance in the Pacific remained low.** The percentage of successful projects dropped from 59% in 2016–2018 to 42% in 2017–2019. One reason for the fluctuations in performance is the small number of projects in the Pacific. All the five PSM operations in 2017–2019 were assessed

<sup>26</sup> IED. 2019. *Validation Report: Dryland Sustainable Agriculture Project in the People's Republic of China*. Manila: ADB.

<sup>27</sup> IED. 2019. *Validation Report: Gansu Roads Development Project in the People's Republic of China*. Manila: ADB.

<sup>28</sup> IED. 2019. *Validation Report: Small and Medium Enterprise Investment Program (Tranche 2) in Kazakhstan*. Manila: ADB.

<sup>29</sup> IED. 2019. *Validation Report: Women's Entrepreneurship Support Sector Development Program*. Manila: ADB.

*successful*, but overall regional performance was pulled down by the low performance in the infrastructure sector, particularly in the transport (14%) and water (25%) sectors. Substantial changes in design due to the extensive deterioration in pilot roads for which funds were spent for rehabilitation rather than for maintenance had a negative effect on the performance of a non-urban road transport project in Timor-Leste.<sup>30</sup> The performance of an urban water supply project in Timor-Leste was negatively affected by inadequate government support to the implementing agency which delayed project activities.<sup>31</sup> PNG and Samoa, which had the greatest number of operations, had lower success rates. In PNG, performance declined: one out of three operations was evaluated *successful* in 2016–2018 compared with one out of four operations in 2017–2019. In Samoa, one out of two operations (50%) was assessed *successful* in 2016–2018, which improved to one out of three operations (33%) in 2017–2019. Design issues that reduced the project scope and cost overrun negatively impacted a transport project in PNG.<sup>32</sup> An education project in Samoa was affected by weak design and unrealistic assumptions about teacher interest in information and communication technology and the community access program.<sup>33</sup>

**25. Project performance in South Asia fell by seven percentage points to 70% in 2017–2019.** This was driven to a large extent by the weak project performance in India (57% in 2017–2019 down from 63% in 2016–2018) and in Bangladesh (71% in 2017–2019 down from 89% in 2016–2018). The performance of sovereign operations peaked in India in 2012–2014 but has declined since 2013–2015 (Table 3), generally because of effectiveness and sustainability issues.

**26. India accounted for 45% of the 47 operations in South Asia and 13% of ADB sovereign operations in 2017–2019.** These shares are much higher in terms of lending volume (59% of South Asia and 17% of ADB). Sovereign operations were concentrated in three sectors: energy (24%), transport (40%) and water (20%). While energy projects performed well, with 89% of them successful in 2013–2019, water (29%) and transport did not do so well (56%). Project performance was affected by sustainability and effectiveness issues. In 2017–2019, only 43% of operations were assessed as having outcomes that were *likely sustainable* or *most likely sustainable* and 58% were assessed *effective* in achieving planned outputs and outcomes.

**27. Since 2016, almost 60% of operations in India have been financed by MFFs.** The recent MFF evaluation noted that India had one of the highest cancellation rates of approved financing in completed tranches (15.4%) (Footnote 8). The CAPE India, 2007–2015 observed that some project tranches within the MFFs could not be completed within the 10-year limit for MFFs.<sup>34</sup> Examples of closed MFFs with large cancellations included the Uttaranchal Power Sector Investment Program (73% of approved funding cancelled) and the Agribusiness Infrastructure Development Investment Program (54% of approved funding cancelled). In the MFF project National Capital Region Urban Infrastructure Financing Facility, there were issues related to the practices of the executing agency and sub-borrowers not being in compliance with ADB's Safeguard Policy Statement. There were delays as they decided on remedial actions to address resettlement issues. As a result, the support extended by the facility to the sector was limited to only one tranche, as opposed to the intended plan of two or more tranches.

**28. The percentage of successful projects in the Southeast Asia region fell to 72% in 2017–2019 from 78% in 2016–2018.** This was driven by a 11% decline in performance in Indonesia (78% in 2017–2019, down from 89% in 2016–2018) and the weak performance in the Philippines where only one of the three projects was rated *successful* in 2017–2019 compared with three out of four in 2016–2018. In terms of sectors, the performance of agriculture projects fell by 15 percentage points to 45% in 2017–2019 (five

<sup>30</sup> IED. 2019. *Validation Report: Road Network Development Sector Project in Timor-Leste*. Manila: ADB.

<sup>31</sup> IED. 2019. *Validation Report: Dili Urban Water Supply Sector Project in Timor-Leste*. Manila: ADB.

<sup>32</sup> IED. 2019. *Validation Report: Highlands Region Road Improvement Investment Program-Project 1 in Papua New Guinea*. Manila: ADB.

<sup>33</sup> IED. 2019. *Validation Report: SchoolNet and Community Access Project in Samoa*. Manila: ADB.

<sup>34</sup> IED. 2017. *Country Assistance Program Evaluation: India, 2007-2017*. Manila: ADB.

out of 11 projects were assessed *successful*. An agriculture project in Viet Nam had an ambitious design with various activities spread over 16 provinces which made it difficult for the project to achieve the intended outcomes.<sup>35</sup> Some of the original targets were unrealistic and had to be reduced considerably during implementation. In general, factors affecting the performance included significant design deficiencies. For example, complex project design involving many stakeholders and a wide geographical area affected the efficient coordination of activities and overall implementation in a coastal resource management project in the Philippines.<sup>36</sup> A water resources management program in Indonesia did not progress beyond the first tranche due to the inadequate readiness of the investment program.<sup>37</sup>

**Table 3: India Portfolio and Operational Performance, 2010–2019**

Item	2010–2012	2011–2013	2012–2014	2013–2015	2014–2016	2015–2017	2016–2018	2017–2019
<b>Percentage of Successful Projects</b>								
South Asia	65	71	78	78	83	76	77	70
India	75	82	91	70	73	67	63	57
<b>India Portfolio Share in South Asia</b>								
% by number	19	23	24	25	28	33	40	45
% by volume	48	57	60	65	61	57	54	59
<b>India Portfolio Share in ADB</b>								
% by number	4	6	7	7	7	10	12	13
% by volume	11	17	17	20	20	20	15	17
<b>Portfolio Share by Modality</b>								
% share of MFF operations	13	18	27	30	36	33	58	57
<b>Sector Share of India Portfolio</b>								
ANR	0	0	0	0	0	0	10	8
ENE	25	18	9	20	27	19	29	24
FIN	13	9	9	20	9	6	0	4
PSM	0	0	9	10	18	13	10	4
TRA	50	55	55	40	36	44	33	40
WUS	13	18	18	10	9	19	19	20
<b>Performance by Evaluation Criteria</b>								
Relevance	88	91	100	90	82	80	74	71
Effectiveness	86	90	91	70	73	60	65	58
Efficiency	63	64	64	40	45	60	74	71
Sustainability	88	82	91	80	82	67	47	43

ADB = Asian Development Bank, ANR=agriculture, natural resources, and rural development, ENE=energy, FIN=finance, MFF = multitranchise financing facility, PSM=public sector management; TRA=transport; WUS=water and other urban infrastructure and services.

Source: Asian Development Bank (Independent Evaluation Department).

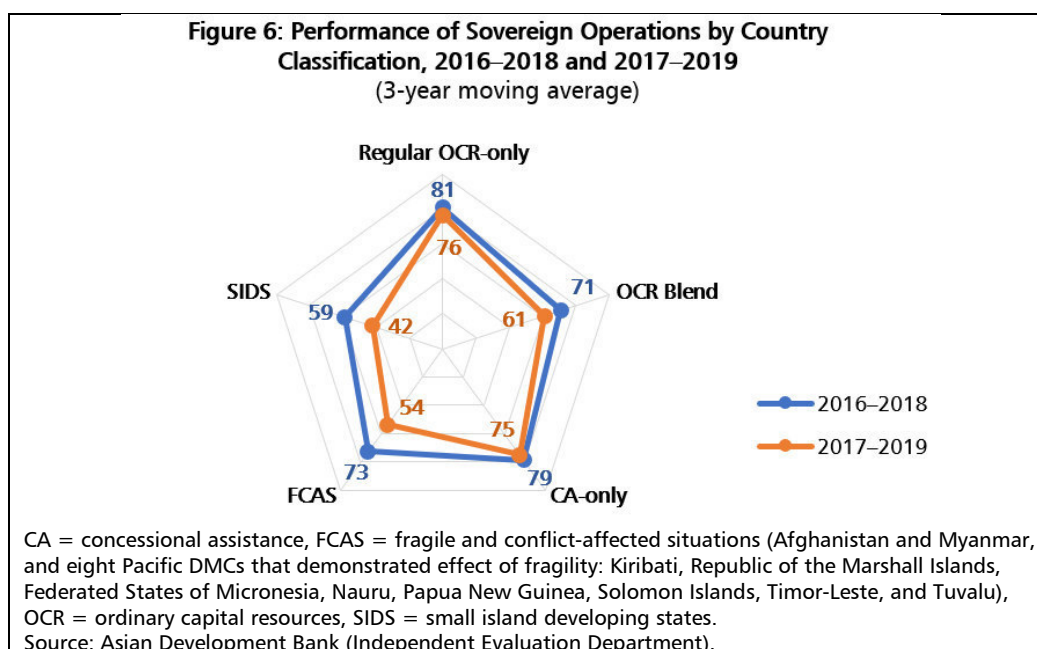
#### f. Performance by Country Eligibility Classification

29. The performance of sovereign operations according to the classification of DMCs varied (Figure 6). On average, a 5%-point decrease in the performance of operations was found in countries eligible only for ordinary capital resources (OCR), OCR blend (blend of OCR and concessional resources), and concessional assistance only. The weak performance of projects in the Philippines and in Indonesia influenced the drop in performance of the OCR group, the performance of projects in India and Uzbekistan affected the performance of blend countries, and the performance of projects in Kyrgyz Republic and Lao People's Democratic Republic affected concessional-assistance-only countries.

<sup>35</sup> IED. 2019. *Validation Report: Quality and Safety Enhancement of Agricultural Products and Biogas Development Project in Viet Nam*. Manila: ADB.

<sup>36</sup> IED. 2019. *Validation Report: Integrated Coastal Resources Management Project in the Philippines*. Manila: ADB.

<sup>37</sup> IED. 2019. *Validation Report: Integrated Citarum Water Resources Management Investment Program in Indonesia*. Manila: ADB.



30. The performance of projects in DMCs in fragile and conflict-affected situations (FCAS) declined by 19 percentage points in 2017–2019 after an all-time high of 73% in 2016–2018. FCAS countries comprise Afghanistan and Myanmar (afflicted by conflict) and the eight Pacific DMCs showing fragility (Kiribati, Marshall Islands, the Federated States of Micronesia, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu). The Pacific DMCs are small and geographically isolated, aid dependent, and vulnerable to the effects of climate change. They also have underdeveloped markets, limited infrastructure, and weak governance and institutions. Continued civil unrest and some sociopolitical instability in conflict-affected Afghanistan and Myanmar led to weak governance, damaged infrastructures, displaced communities, and disrupted service provision.<sup>38</sup> Of the 13 operations undertaken in FCAS countries in 2017–2019, seven were assessed *successful* compared with eight out of 11 operations in 2016–2018. The *less than successful* transport operations in PNG and Timor-Leste, stemming from design issues, pulled down the average. In Timor-Leste, output targets were partially achieved due to substantial changes in the project design. The outputs were reduced as efforts were diverted toward climate resilience; and the increased costs of starting the pilot roads, reduced the availability of funds for performance-based contracts that were planned.<sup>39</sup> The performance of operations in small island developing states (Maldives and all 14 Pacific DMCs) also dropped considerably. In 2016–2018, 10 of 17 operations (59%) were rated *successful* compared with eight of 19 operations (42%) in 2017–2019. The decline was brought about by *less than successful* assessments of an education project in Samoa (footnote 33) and a transport project in PNG (footnote 32).

## 2. Nonsovereign Operations

31. This section presents the performance of nonsovereign operations completed in 2010–2019 and evaluated using the IED evaluation methodology for nonsovereign operations.<sup>40</sup> Nonsovereign operations comprise the provision of any loan, guarantee, equity investment, or other financing arrangement to privately held, state-owned, or subsovereign entities. Nonsovereign operations may be: (i) without a government guarantee or (ii) with a government guarantee, under terms that do not allow ADB, upon default by the guarantor, to accelerate, suspend, or cancel any other loan or guarantee between ADB

<sup>38</sup> ADB. 2016. *Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific: The ADB Experience*. Manila.

<sup>39</sup> IED. 2019. *Validation Report: Road Network Development Sector Project in Timor-Leste*. Manila: ADB.

<sup>40</sup> IED. 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Nonsovereign Operations*. Manila: ADB.

and the related sovereign entity.<sup>41</sup> Nonsovereign operations support development in three broad areas: infrastructure, financial institutions, and private equity funds (PEFs). The performance of completed projects was determined through PPERs and IED's validations of extended annual review reports (XARRs) prepared primarily by the Private Sector Operations Department (PSOD).<sup>42</sup>

#### a. Overall Performance

32. The analysis of the performance of nonsovereign operations drew on a total sample of 118 evaluations conducted by IED in the period 2010–2019, including 12 new project evaluations finalized in 2019 (Linked Document B).<sup>43</sup> The 2019 evaluations comprised four equity investments in PEFs, seven finance sector loans (two for SME finance and leasing, two for finance sector development, one for housing finance, one for trade finance, and one for banking systems), and a partial credit guarantee for project bonds. The sample of nonsovereign operations added every year in the AER is small and, for this reason, the analysis of the trends in performance is analyzed by 3-year moving averages rather than by single years (Table 4). However, projects included in 2019 will also be discussed.

**Table 4: Portfolio of Evaluations of Nonsovereign Operations Included in the Annual Evaluation Review**

Year	Infrastructure		Financial Institutions		Private Equity Funds		Total	
	Successful	Total	Successful	Total	Successful	Total	Successful	Total
2010	1	1	0	2	1	2	2	5
2011	1	1	3	3	0	1	4	5
2012	3	4	3	8	0	1	6	13
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	4	5	2	4	0	1	6	10
2018	1	1	3	9	1	2	5	12
2019	0	0	6	7	0	4	6	11
<b>Total</b>	<b>28</b>	<b>33</b>	<b>31</b>	<b>55</b>	<b>11</b>	<b>30</b>	<b>70</b>	<b>118</b>

Note: The years are not based on the calendar years in which the projects were evaluated by Independent Evaluation Department, but on the years the XARRs for these projects were completed (ending 30 June). For example, year 2019 covers extended annual review reports circulated from 1 July 2018 to 30 June 2019.

Source: Asian Development Bank (Independent Evaluation Department)

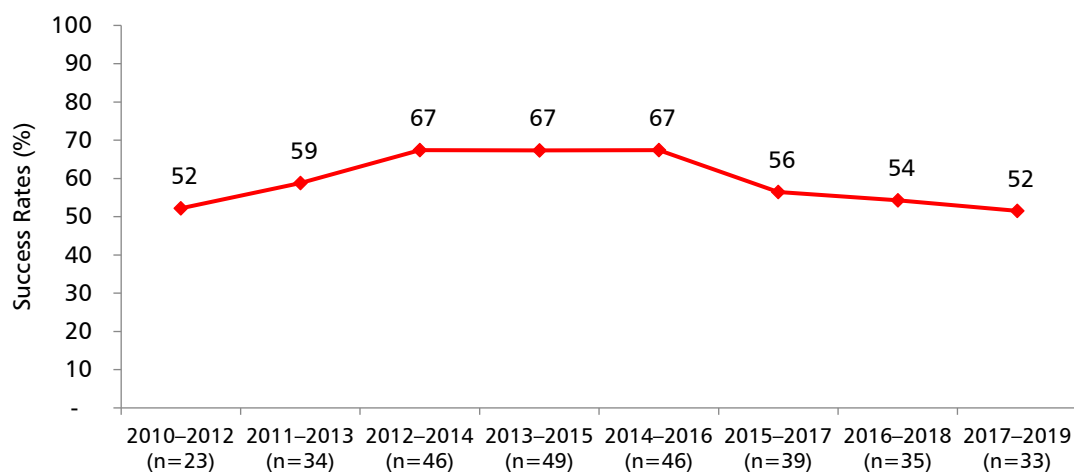
33. **The overall performance of nonsovereign operations has been declining since 2014–2016.** Figure 7 presents the performance during the study period using 3-year moving averages. The performance dropped from a peak of 67% *successful* projects in 2014–2016 to 56% in 2015–2017, 54% in 2016–2018, and 52% in 2017–2019.

<sup>41</sup> ADB. 2016. Nonsovereign Operations. *Operations Manual*. OM D10/BP. Manila.

<sup>42</sup> XARRs are prepared mainly by PSOD since most nonsovereign clients are private companies. However, regional departments also prepare XARRs if the nonsovereign project being evaluated is categorized as public (i.e., the client is a state-owned or subsovereign entity) and is administered by the regional department or resident mission.

<sup>43</sup> The 12 projects evaluated by IED in 2019 included a 2018 XARR. The PPER for this XARR was completed in 2019. For trend analyses purposes, it is included in 2018.

**Figure 7: Overall Performance of Nonsovereign Operations**  
(3-year moving average, 2010–2019)



n = number

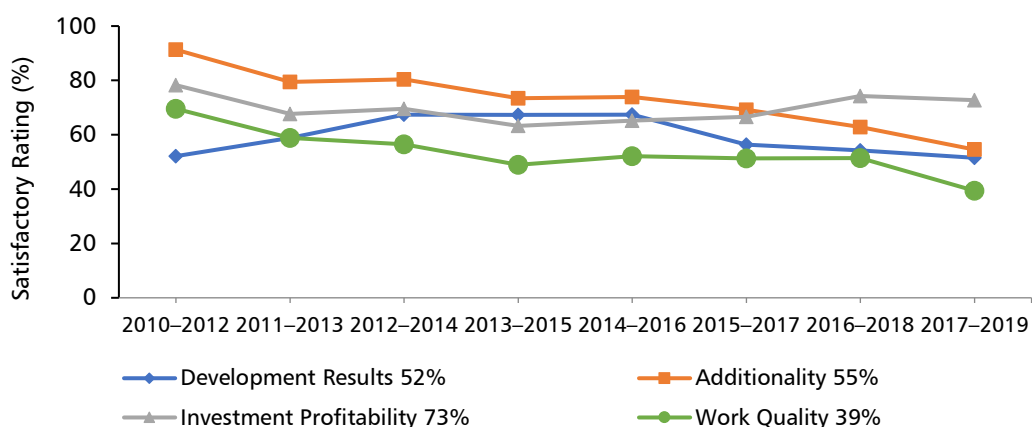
Note: Validated results are shown using extended annual review report dates.

Source: Asian Development Bank (Independent Evaluation Department).

#### b. Performance by Evaluation Criteria

34. The evaluation of nonsovereign projects used four main criteria: (i) development results, (ii) ADB additionality, (iii) ADB investment profitability; and (iv) ADB work quality. It used a four-point rating scale of excellent, satisfactory, less than satisfactory, and unsatisfactory. Excellent and satisfactory ratings indicate a satisfactory performance. Figure 8 shows the 3-year moving averages for all evaluated projects during 2010–2019 against the four main performance criteria.

**Figure 8: Development Performance of Nonsovereign Operations by Evaluation Criteria**  
(3-year moving average, 2010–2019)



Note: Success rates are based on independent evaluation of extended annual review reports prepared during 2010–2019. Satisfactory rates shown opposite the legends are for 2017–2019.

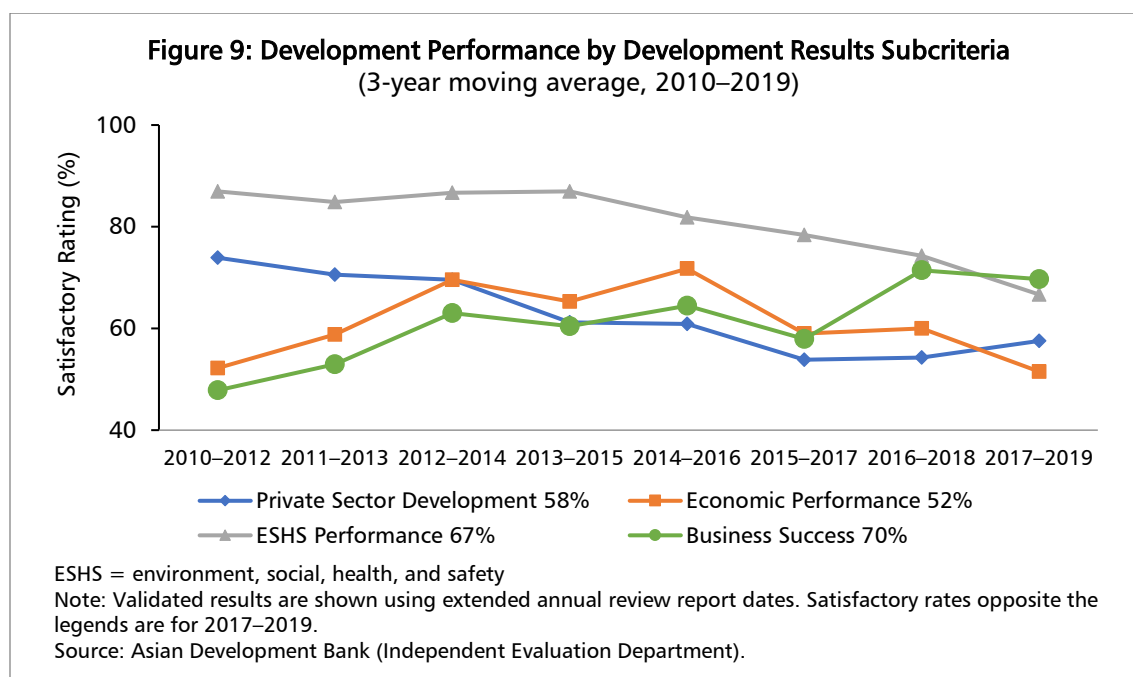
Source: Asian Development Bank (Independent Evaluation Department).



### c. Development Results

35. **The performance against the development criteria has been declining.** It dropped from a peak of 67% *satisfactory* ratings in 2012–2014, 2013–2015, and 2014–2016 to 56% in 2015–2017, 54% in 2016–2018, and 52% in 2017–2019 (Figure 9). This mirrors the overall project performance of nonsovereign operations. Hence, as stated in previous AERs, increased attention to the achievement of development results is the key to improving overall project performance.

36. Development results are a composite of (i) contribution to private sector development and ADB's strategic objectives; (ii) economic performance; (iii) environment, social, health, and safety (ESHS) performance; and (iv) business success. The following paragraphs explain the performance of ADB's nonsovereign operations against these.



37. **Nonsovereign projects' contribution to private sector development has been on a decade-long decline, but this was reversed in 2019.** On a 3-year moving average basis, the *satisfactory* rating for contribution to private sector development improved from 54% in 2016–2018 to 58% in 2017–2019. This was a reversal of the steady decline from 74% in 2010–2012 to 61% in 2014–2016 and to 54% in 2016–2018. On a single-year basis, the *satisfactory* rating for the contribution to private sector development jumped from 42% in 2018 to 73% in 2019.

38. **In 2019, eight of the 11 projects were rated *satisfactory* or better.** One PEF project (IDFC Private Equity Fund II) was rated *excellent* because of its exceptional demonstration and catalytic effects. It paved the way for other general partners to raise funds dedicated to India's infrastructure. By bringing in foreign investors, the fund was able to exceed its \$300 million target by 42%. The manager was also able to raise follow-on and diversification funds in greenfield infrastructure development and affordable housing. The manager's presence in industry forums raised the government's awareness of private sector investor needs. Innovative investments in urban gas distribution, telecommunications network equipment, and professional management of port services created new private sector segments in India. Seed capital investment in carbon trading and renewable energy development opened new business opportunities. Another PEF (Aureos South Asia Fund) was rated *satisfactory* as nine of its 14 investments had positive



demonstration impacts. However, two PEFs were rated *less than satisfactory* because they did not achieve their respective private sector development objectives.

39. Six of seven financial institution projects were rated *satisfactory*. The projects accomplished most of the output and outcome targets included in their respective DMFs. These included: (i) introducing a commercially viable credit enhancement product for infrastructure project bonds in India; (ii) improving financial inclusion for small farmers and self-help groups in India; (iii) expanding banking services to small farmers and women self-help groups; (iv) increasing the infrastructure portfolio of an important bank in Sri Lanka and financing key infrastructure projects; and (v) improving micro, small and medium-sized enterprises' access to finance in Sri Lanka. The only financial institution project that was rated *less than satisfactory* involved a loan to a housing finance institution in India which it prepaid. Outcomes could not be assessed due to an incorrect baseline and because the assisted financial institution did not provide ADB with the required information.

40. **The economic performance of ADB's nonsovereign operations fell by 20 percentage points from 72% in 2014–2016 to 52% in 2017–2019.** In 2019, three were rated *unsatisfactory* while one was rated *less than satisfactory* for economic performance. For PEFs, the funds' gross internal rates of return were used to measure their contribution to economic development. The gross internal rates of return of these funds were all below their weighted average costs of capital, hence the negative ratings. All but one of the financial institution projects were rated *satisfactory* because they generated substantial benefits for all major stakeholder groups, including (i) improved access to finance at affordable terms to borrowers; (ii) an expansion of the financial institutions' businesses; (iii) a rise in tax revenues for the government; and (iv) indirect benefits to the economy in terms of job creation, economic growth, social development, and environmental sustainability.

41. **Nonsovereign projects' ESHS performance dropped significantly from 87% in 2013–2015 to 67% in 2017–2019.** In 2019, six of the 11 evaluated projects were rated *less than satisfactory*, including three of the four PEFs. The funds basically met the minimum requirements of: (i) developing and maintaining an environmental and social management system (ESMS), (ii) assigning dedicated staff to implement the ESMS, and (iii) submitting annual monitoring reports. However, the funds' shortcomings included: (i) ESMS implementation did not meet ADB requirements for screening and reporting on subprojects; (ii) the funds' staff were not sufficiently trained and did not demonstrate the skills required for subproject appraisal and monitoring; and (iii) the monitoring reports lacked sufficient information to enable ADB to assess whether screening, categorization, and monitoring were adequate, and whether ADB requirements to develop ESMS procedures at portfolio companies were implemented.

42. **Three financial institutions projects were rated *less than satisfactory* for ESHS performance, but the reasons for this varied.** In one of the projects, not all subprojects were classified correctly, and two projects that were not in compliance with ADB's Prohibited Investment Activities List went unreported. In another project, information on the financial institution's environmental and social procedures and the performance of subprojects could not be verified as the borrower was unresponsive after prepaying the ADB loan. Meanwhile the third financial institutions project did not materially meet ADB requirements for ESMS and its implementation, including screening, categorization and review procedures, and developing skills and competence by attending the environmental and social training. The four other finance sector projects were rated *satisfactory* for ESHS performance because they complied sufficiently with ADB and national environmental and social requirements.

43. **The business success of nonsovereign projects improved from 58% in 2015–2017 to 70% in 2017–2019.** In 2019, all seven financial institutions projects were rated *satisfactory* because the assisted financial institutions met their business objectives and improved their financial performance. All four PEFs, on the other hand, were rated *unsatisfactory* as their respective financial internal rates of return were negative and therefore below their weighted average costs of capital.

#### d. ADB Additionality

44. **ADB additionality peaked in 2010–2012 with a *satisfactory* rating of 91% and has been going down since.** It declined to 80% in 2012–2014, 74% in 2014–2016, 63% in 2016–2018, and 55% in 2017–2019. It recorded its lowest annual satisfactory rating in 2019 with 45%. In 2019, ADB additionality was *satisfactory* in two of the four PEFs, as it helped attract other investors to the funds. In the two other funds, ADB financial additionality was *less than satisfactory* because it had invested late, and it was apparent that the funds would have reached their respective target sizes even without ADB's investment.

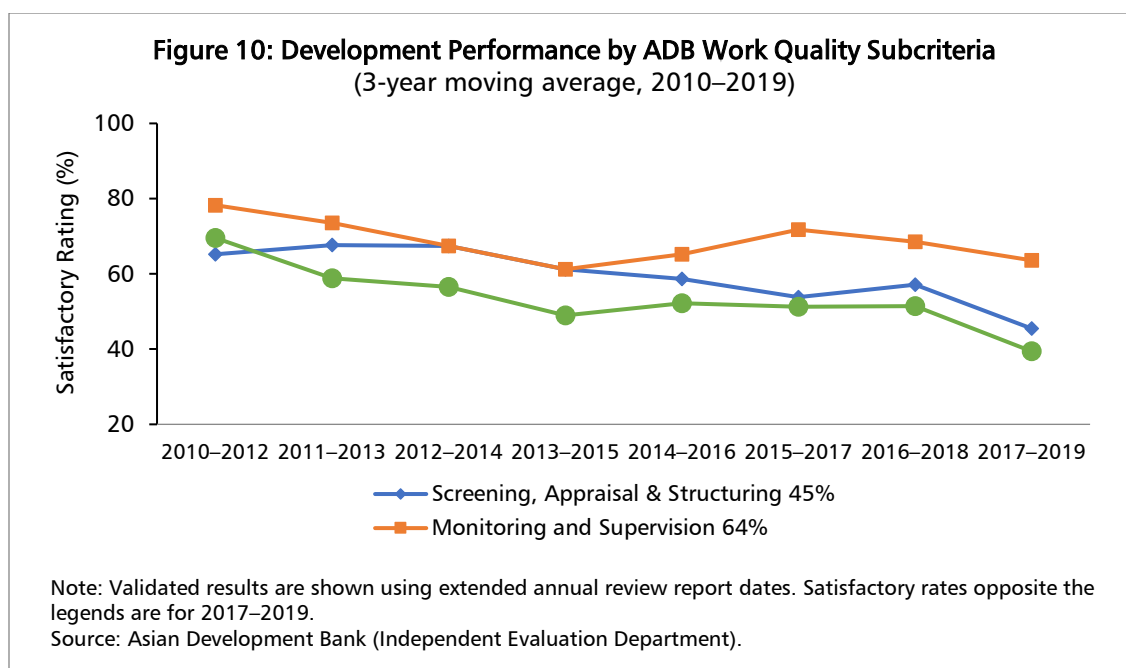
45. One the seven financial institutions projects evaluated in 2019 was rated *excellent* as it was successful in creating a new and innovative instrument for financing infrastructure projects in India. This was unlikely to have been achieved without the technical and capacity-building support provided by ADB. Two other financial institutions projects were rated *satisfactory* they contributed to the financial institutions' access to longer-term funding and helped them grow their SME loan businesses in Sri Lanka. For the four financial institutions projects that were rated *less than satisfactory*, there was no evidence that ADB funds were needed as the assisted financial institutions had access to various alternative funding sources.

#### e. Investment Profitability

46. **The investment profitability of nonsovereign projects steadily improved from 2013–2015 to 2016–2018 but decreased slightly in 2017–2019.** The success rate of ADB investment profitability increased from 63% in 2013–2015 to 74% in 2016–2018 but declined to 73% in 2017–2019. On a single-year basis, the satisfactory rating dropped from 75% in 2018 to 55% in 2019 as only six of 11 projects were rated *satisfactory* or better. All four equity investments in the PEFs evaluated in 2019 had negative returns and were therefore rated *unsatisfactory*. Another project was rated *less than satisfactory* because ADB was unable to price guarantees at a market-driven and risk-appropriate rate as a result of the government's cap on the guarantee fees payable to foreign financial institutions, which included multilateral organizations. The six projects that were rated *satisfactory* were loans to financial institutions that met ADB's pricing requirements and complied with scheduled interest and debt repayments.

#### f. ADB Work Quality

47. **ADB work quality deteriorated further from 51% in 2016–2018 to a new low of 39% in 2017–2019 mainly due to poor front-end work.** The assessment of ADB work quality covers: (i) screening, appraisal, and structuring; and (ii) monitoring and supervision. In 2019, ADB work quality was assessed *satisfactory* in only two of 11 projects evaluated, hence the big drop in performance in 2017–2019 (Figure 10). This was primarily due to ADB's poor performance in screening, appraisal, and structuring—nine of the 11 evaluated projects had *less than satisfactory* ratings, including all four evaluated PEFs. ADB shortcomings identified in this area included project design flaws and poor due diligence, including: (i) failure to identify the lack of checks and balances within the fund, which contributed to weak origination and investment screening; (ii) failure to address an unusually generous reward structure for senior officers of the fund manager; (iii) failure to have the fund manager make contractual commitments to fully implement ADB's safeguard policies; (iv) too many objectives, some of which may have been difficult to meet; and (v) failure to identify conflicts of interest that one of the general partners brought to the deal.



48. **ADB's front-end work in finance sector loans was also inadequate, with only one of six projects rating *satisfactory*.** Generally, the selection of the financial institutions was regarded as appropriate from a credit standpoint but in two instances ADB fell short in its assessment of the financial institution's environmental and social management capacity. In another case, more thought should have been given to providing a local currency loan. The US dollar loan was likely to result, after hedging, in a higher all-in funding cost compared with other local currency options for the assisted financial institution. Four projects had DMF issues. They either (i) did not reflect the expected outcomes of the project or (ii) had targets that were too low and were met before disbursement. Three projects had design problems with their attached technical assistance which led to difficulties in their implementation. The two finance sector projects that were rated *satisfactory* (i) were well-designed, (ii) were aligned with ADB and country priorities; and (iii) had DMFs that were well-articulated with measurable and meaningful targets.

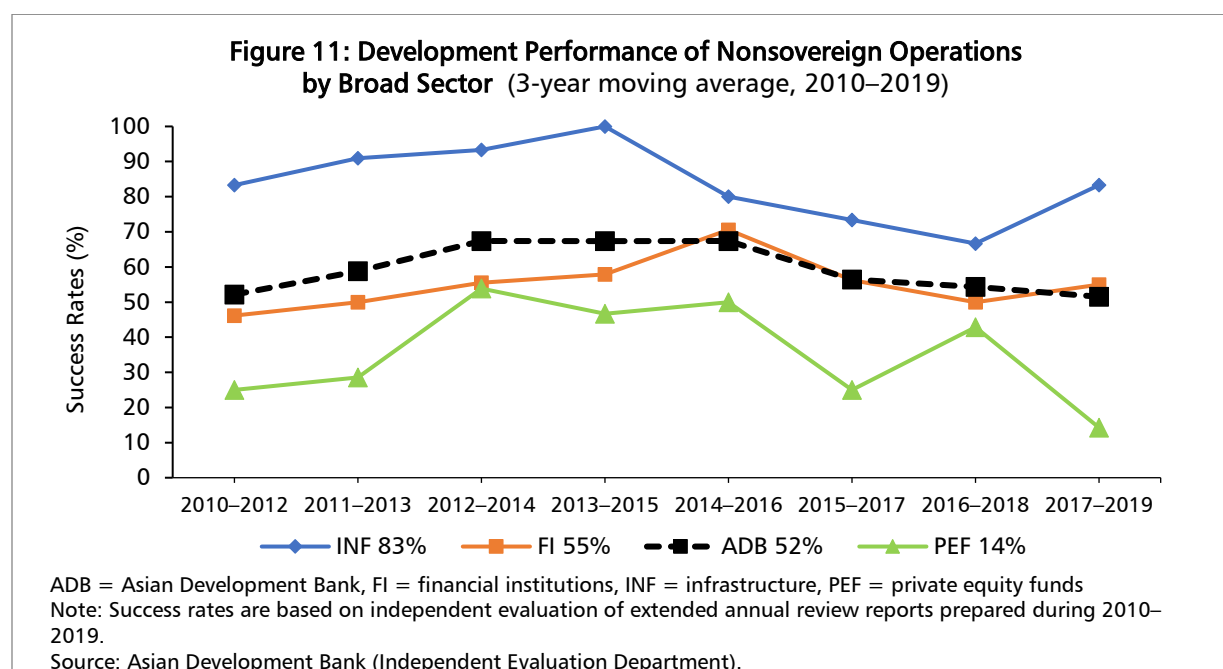
49. **Historically, ADB's performance in monitoring and supervision has been better than its front-end work and 2019 was no exception.** In 2019, seven of 11 projects (64%) were assessed *satisfactory*. Projects were monitored regularly and waiver and consent requests by the client were handled promptly. Supervision reports were also regularly prepared and were of good quality. Only one of four PEFs was rated *less than satisfactory* for monitoring and supervision. In this case, the rating was because ADB should have questioned the fund manager's shift in strategy earlier and its supervision practices were insufficient to monitor the compliance of the fund and the investee companies with ADB safeguard requirements. For finance sector loans, ADB's monitoring and supervision were considered *less than satisfactory* in three of seven projects. In one case, ADB failed to observe that several of the client's borrowers using ADB proceeds were operating in medium- and high-risk industry sectors and some projects were in the Prohibited Investment Activities List. Despite this, all subprojects reported in the annual environmental and social performance reports were classified under category C for environment. For the two other finance sector projects, the lack of progress in and information on the accompanying technical assistance was the reason for the *less than satisfactory* rating.

#### g. Performance by Operational Area

50. **Infrastructure projects have performed very well, with an overall success rate of 85% during 2010–2019, as compared with 56% for financial institutions and 37% for PEFs.** As clearly shown in Figure

11, the performance of operations in the three operational areas was consistent throughout each 3-year period, with infrastructure projects outperforming financial institutions and financial institutions outperforming PEFs.

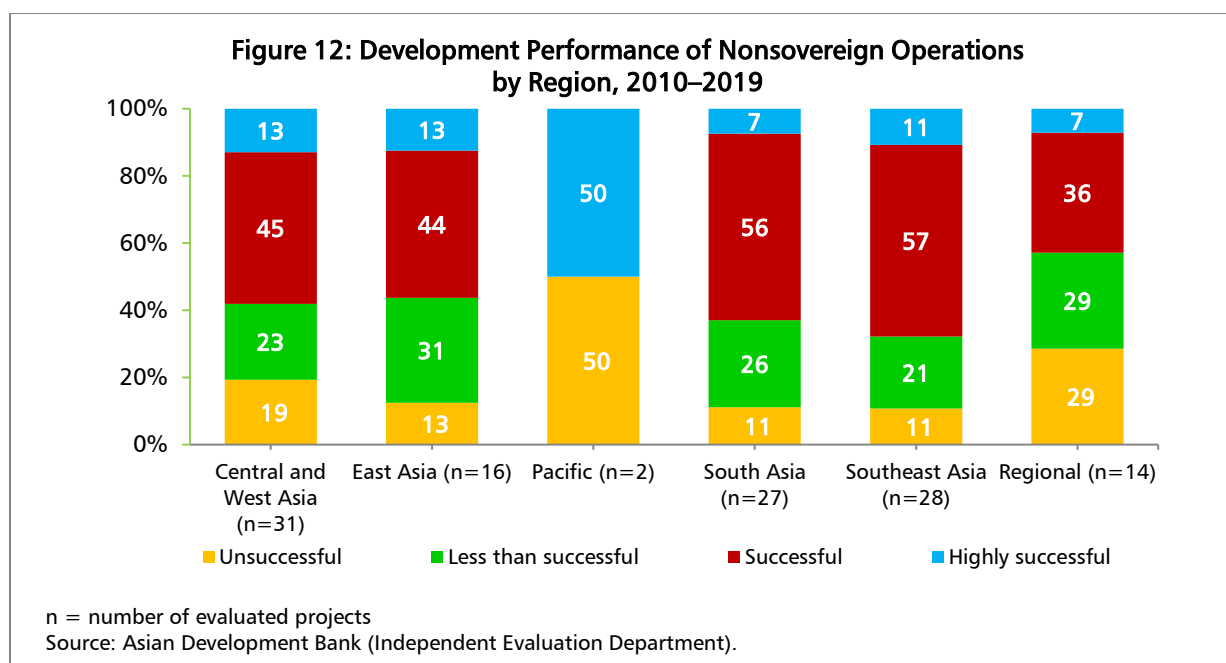
51. IED's evaluation of ADB private sector equity investments (PSEI) covering the period 2006–2017 found an overall success rate of 56%, with a marked difference between direct equity investments (85% rated *successful* or *highly successful*) and equity invested through PEFs (37%).<sup>44</sup> Direct equity investments and PEFs (although less so) have provided financial and non-financial value, been sustainable, and have contributed to development outcomes. The recent increase in direct equity investments in initial public offerings and commercially oriented PEFs has not yet significantly improved the performance as these are still at an early stage and the shift in focus raises questions about ADB's value addition. Credit enhancement products are a minor part of the ADB portfolio, and, in the way they have been implemented, they have often failed to make a significant impact.



#### h. Performance by Region

52. Performance by region did not change significantly from that reported in the 2019 AER (Figure 12). Southeast Asia had the highest share of *successful* and *highly successful* projects (68%), followed by South Asia (63%), Central and West Asia (58%), East Asia (57%), and the Pacific (50%). Regional projects, which were all PEFs, had the lowest success rate (43%).

<sup>44</sup> IED. 2019. *Corporate Evaluation: ADB Private Sector Equity Investments*. Manila: ADB.

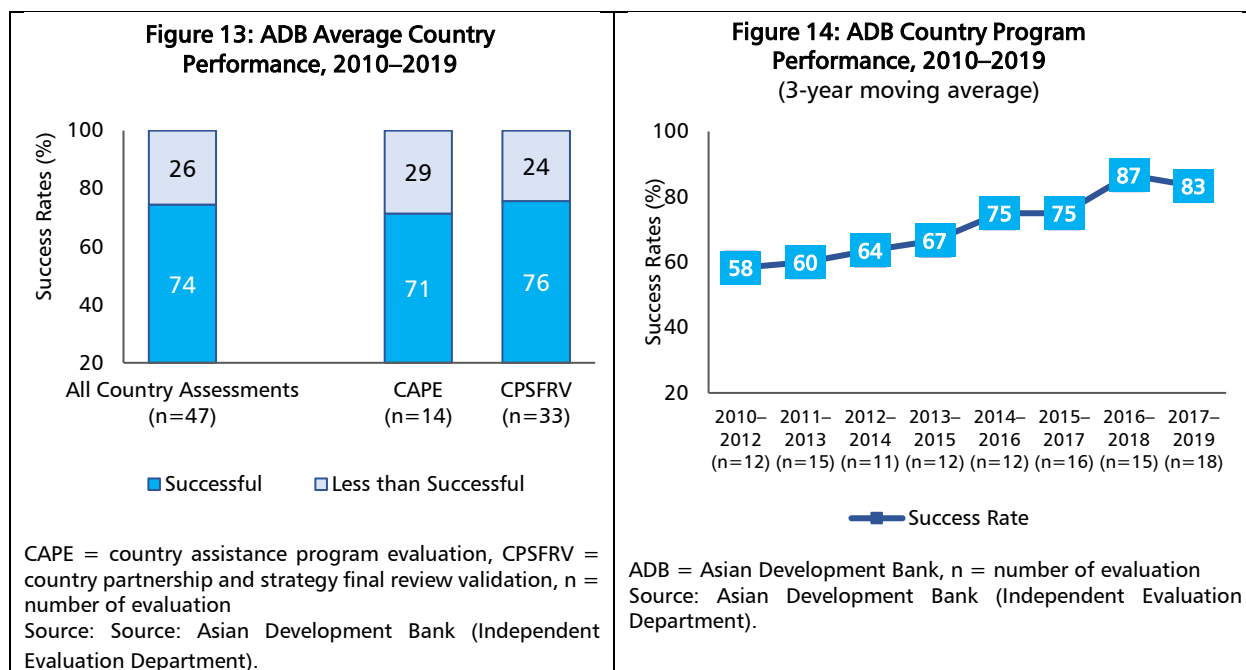


### 3. ADB Country Program Performance

#### a. Overall Performance

53. In 2019, IED completed eight country-level evaluations: CAPE Indonesia and validations of seven country partnership and strategy final reviews (CPSFRs) for Armenia, Bhutan, Cambodia, Fiji, Georgia, Nepal, and Thailand. In 2010–2019, IED conducted 47 country-level evaluations for 31 DMCs: 14 CAPEs and 33 CPSFRVs. Of the 47 country level evaluations in 2010–2019, 74% were assessed *successful* (Figure 13).

54. About 83% of country partnerships and strategies were assessed *successful* in 2017–2019 (Figure 14). Of the eight country-level evaluations in 2019, one was rated *less than successful* on the borderline, seven were rated *successful*, two of which were on borderline. Success rates for country programs were in the same range as project success rates until 2015–2017, but in recent years average ratings have climbed above 80%. However, the long-term country level performance was 74%, which was very much in line with the average long-term project performance (Figure 13). In general, project- and country-level success rates can be different for many reasons. The cohort of project-level assessments in any year can be very different from the projects considered in the country-level evaluations. The country program performance is based not only on completed projects but also on projects whose implementation is ongoing. Moreover, country program assessments have an additional criterion, development impact, which considers not only sector-level impacts but cross-cutting thematic impacts of ADB interventions.



55. **The CAPE for Indonesia covered operations approved during 2005–2018 and assessed the program *successful* on the borderline.**<sup>45</sup> The ADB program had helped Indonesia improve its macroeconomic stability to withstand economic shocks, strengthen institutions for financial stability, and improve government accountability by strengthening internal audits, and had positive results in the energy sector. The outcomes were considered likely to be sustainable since the policy reforms were implemented with a high degree of government ownership.

56. **The Armenia CPSFRV, 2014–2018 assessed the country program *successful* overall although it was affected by the weak project implementation capacity of implementing agencies.**<sup>46</sup> The country partnership strategy (CPS) was directed at improving transport links, upgrading secondary towns, and strengthening energy security. ADB-supported projects achieved many of their targets, supporting economic growth, increasing employment, reducing environmental risks, reducing poverty, improving business environments and national competitiveness, and strengthening public administration.

57. **The Bhutan CPSFRV, 2014–2018 assessed the country program *successful* on the borderline.**<sup>47</sup> The program helped diversify the economy, foster job creation, and promote greater inclusiveness. The program was effective as most investment projects achieved their targets, particularly in urban infrastructure and energy. However, frequent delays in the design, preparation, and implementation of operations affected the efficiency performance. The validation identified some risks to sustainability in organization and financing, including maintenance, tariffs, and some incomplete macrofinancial reforms.

58. **The Cambodia CPSFRV, 2014–2018 assessed the program *less than successful* on the borderline overall, with less than satisfactory development impact.**<sup>48</sup> Cambodia's competitiveness was affected by high electricity and logistics costs, and a shortage of skills. The CPS aimed to reduce poverty and vulnerability through investments in developing rural-urban-regional links, strengthening human and social development, and improving public sector management. The effectiveness of the program was reduced by the below par performance of projects in the three large investment sectors (agriculture,

<sup>45</sup> IED. 2019. *Country Assistance Program Evaluation: Indonesia, 2005–2018*. Manila: ADB.

<sup>46</sup> IED. 2019. *Armenia: Validation of Country Partnership Strategy Final Review, 2014–2018*. Manila: ADB.

<sup>47</sup> IED. 2019. *Bhutan: Validation of Country Partnership Strategy Final Review, 2014–2018*. Manila: ADB.

<sup>48</sup> IED. 2019. *Cambodia: Validation of Country Partnership Strategy Final Review, 2014–2018*. Manila: ADB.

transport, and water), although the implementation efficiency of the ADB portfolio improved during the CPS period. Inadequate financing for operation and maintenance affected the program's sustainability.

59. **The Fiji CPSFRV, 2014–2018 assessed the program *successful*.**<sup>49</sup> Fiji's economy has been negatively impacted by natural disasters and a volatile political history. The CPS was assessed relevant to supporting the reengagement of the government. Progress in key transport and water and urban operations was affected by staffing and capacity challenges, leading to considerable delays. The program was, however, considered likely sustainable, as the government continues to build on the investments in the portfolio and to provide maintenance budgets for infrastructure.

60. **The Georgia CPSFRV, 2014–2018 assessed the program *successful*.**<sup>50</sup> Georgia's challenges were an over-reliance on domestic demand, a declining population, constrained business growth and investment, income inequality, and urban–rural disparities. The CPS rightly sought to foster inclusive economic growth, enhance regional connectivity, and promote environmentally sustainable growth. Its expected outputs and outcomes were mostly achieved and likely contributed to prudent macroeconomic management and to reduced poverty, unemployment, and inequality. The program was considered *efficient and likely sustainable*.

61. **The Nepal CPSFRV, 2013–2018 assessed the program *successful on the borderline*.**<sup>51</sup> Nepal's economic growth is hampered by the country's rugged terrain, inadequate infrastructure, and policies that do not support private sector investments. The CPS aimed to support economic growth driven by infrastructure development, education and skills development, and social protection. The program achieved some outcomes in key areas, particularly urban infrastructure, school reconstruction after the earthquakes, energy, and agriculture and/or rural development. Little progress was made on private sector development. There were implementation delays in many projects, partly reflecting effects of the 2015 earthquakes and trade disruption during September 2015 to February 2016. The government struggled to achieve reforms and institutional arrangements affecting sustainability of outcomes.

62. **The Thailand CPSFRV, 2013–2016 assessed the program *successful with satisfactory development impact*.**<sup>52</sup> The key challenges for Thailand identified in the CPS included productivity and competitiveness, regional equity and growth, environmentally sustainable development, and regional cooperation and integration. The ADB program was designed to assist the country to achieve inclusive and sustainable growth, leading to lower income inequality and higher income status. Although rated *less than relevant* due to weaknesses in incorporating RCI work into the program and issues with the CPS framework, targeted interventions produced *effective, efficient, and likely sustainable* results.

## b. Performance by Country Classification

63. **The performance of DMCs eligible for OCR financing bounced back to 89%.** Operations that were undertaken in countries with OCR financing continued to perform better than those in countries eligible only for concessional assistance or countries eligible for OCR financing and concessional assistance in the country assessments in 2010–2019 (Figure 15).<sup>53</sup> For the assessments reported in 2019, performance was affected by the weak sustainability of operations in all three concessional assistance countries. Efficiency issues were also present in some of the OCR and concessional assistance countries.

<sup>49</sup> IED. 2019. *Fiji: Validation of Country Partnership Strategy Final Review, 2014–2018*. Manila: ADB.

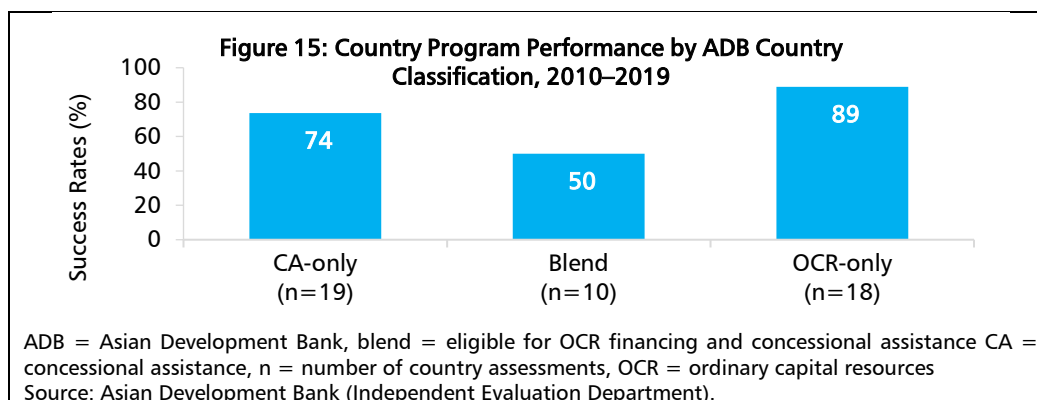
<sup>50</sup> IED. 2019. *Georgia: Validation of Country Partnership Strategy Final Review, 2014–2018*. Manila: ADB.

<sup>51</sup> IED. 2019. *Nepal: Validation of Country Partnership Strategy Final Review, 2013–2018*. Manila: ADB.

<sup>52</sup> IED. 2019. *Thailand: Validation of Country Partnership Strategy Final Review, 2013–2016*. Manila: ADB.

<sup>53</sup> No country assessments in Blend countries were reported in 2019.





## B. Findings from ADB Financing Modalities

64. During 2017–2019, IED has undertaken corporate evaluations of various financing modalities, including MFFs (2019), PBLs (2018), RBLs (2017), PSEI (2019), and CEPs (2017).<sup>54</sup> This section draws on these five evaluations and gauges how ADB’s suite of modalities can be positioned to support Strategy 2030.

### 1. ADB Suite of Financing Modalities

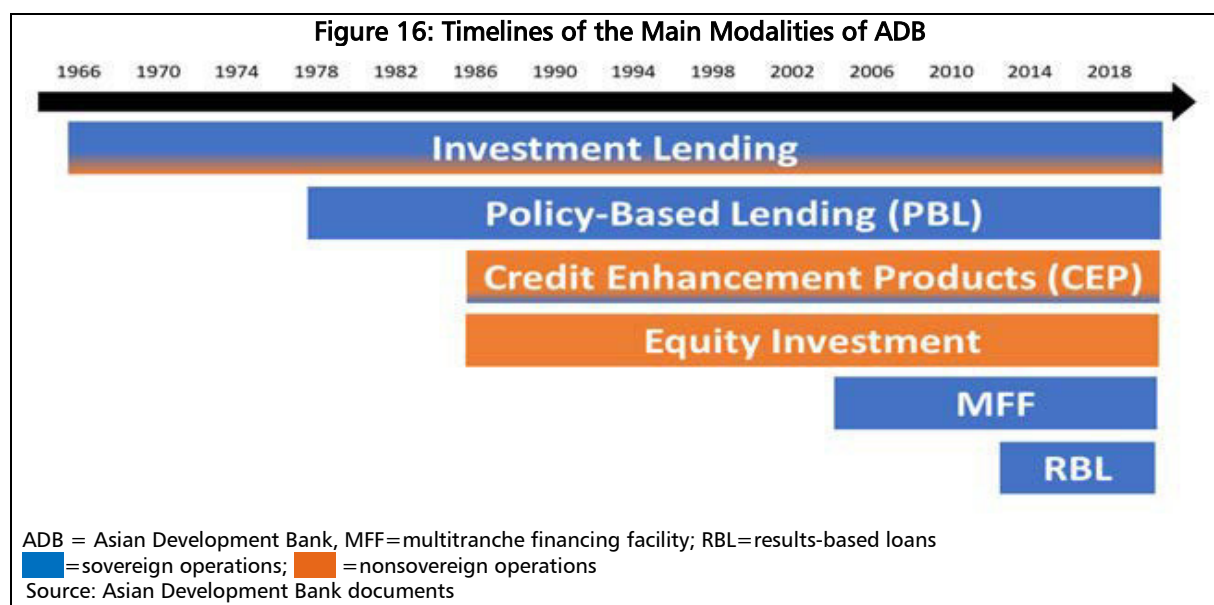
65. **ADB offers a set of instruments that are effectively bundled and tailored as financing modalities.** The main project finance products are debt, equity, and guarantees. From these, modalities are constructed within defined legal, policy, and operational structures.<sup>55</sup> Generally, modalities have corporate policy and operational manuals underpinning them.<sup>56</sup> The term “modality” is not entirely standardized within ADB, giving rise to some differences in usage. For instance, the sector development program, a combination of an investment component (project or sector) and a policy-based component, is often referred to as a modality but is strictly speaking not a separate modality.<sup>57</sup> Additional complexity comes with the possibility of combining modalities with products, such as approving additional financing for investment projects or MFF operations. The focus of this subsection is the main modalities that have been recently evaluated by IED, including long-standing and new modalities (Figure 16).

<sup>54</sup> IED. 2019. *Corporate Evaluation: ADB's Multitranchise Financing Facility, 2005–2018: Performance and Results Delivered*. Manila: ADB; IED. 2019. *Corporate Evaluation: Results-Based Lending at the Asian Development Bank - An Early Assessment*. Manila: ADB; IED. 2019. *Corporate Evaluation: ADB Private Sector Equity Investments*. Manila: ADB; IED. 2018. *Corporate Evaluation: Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila: ADB; IED. 2017. *Corporate Evaluation: Boosting ADB's Mobilization Capacity - The Role of Credit Enhancement Products*. Manila: ADB.

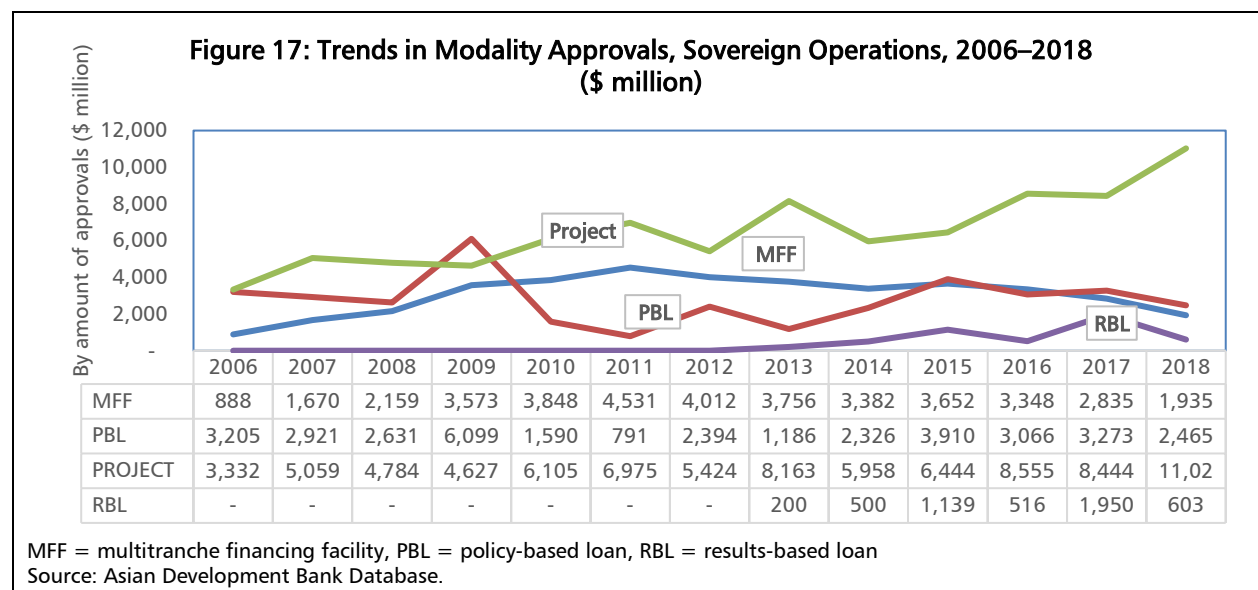
<sup>55</sup> Linked Document C has a description of the main financing modalities and their purpose.

<sup>56</sup> ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. August. Manila.

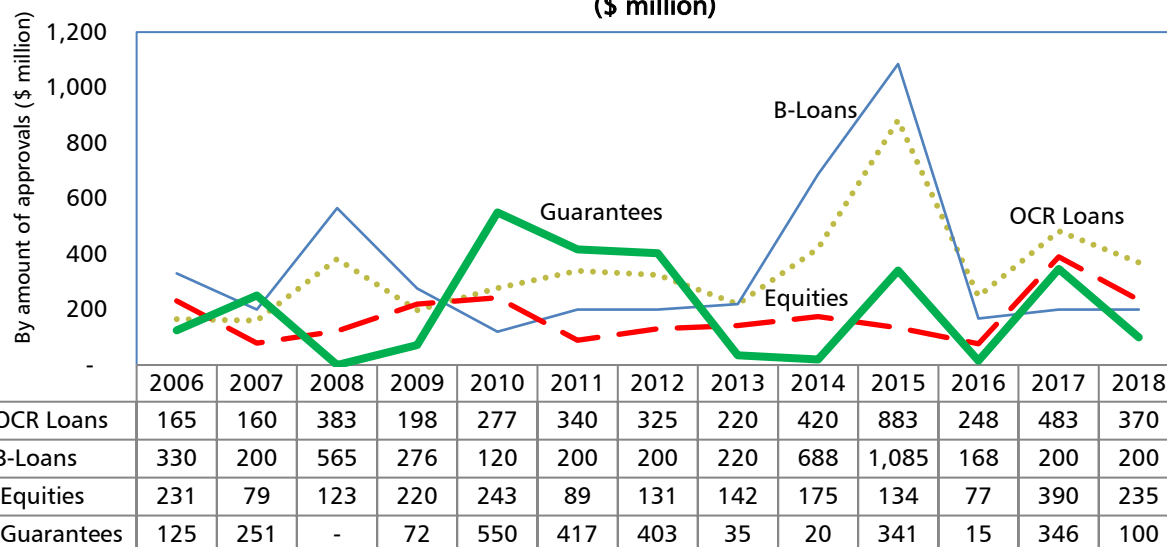
<sup>57</sup> ADB. 2003. *Sector Development Programs. Operations Manual*. OM Section D5/BP. Manila.



66. **Investment lending has remained the dominant modality, despite the growing range of other financing modalities.** PBLs have been used increasingly since the mid-1990s when they initially focused on agriculture subsidies. From early 2000s, they were applied to a range of sectors, including public sector management, reaching about 20% of total ADB lending. Since 2005, interest in MFFs has risen and fallen, and RBLs were introduced in 2013 with a ceiling of 5% of total lending. Private equity and credit enhancement products have been consistently used but in a very limited way. Figures 17 and 18 provide a visual depiction of trends in both sovereign and nonsovereign financing modalities since 2006.



**Figure 18: Trends in Modality Approvals, Nonsovereign Operations, 2006–2018 (\$ million)**



Note: B-loans reflect outstanding loans, not yet effective loans, undisbursed loans, and cancelled loans in the years the B-loans were approved.

Source: Asian Development Bank Database

67. **Most of the modalities other than the single investment loan have in practice been confined to a limited set of countries.** This implies that governments and/or ADB staff have been unfamiliar with newer and more specialized modalities.

68. **While 16 countries have used the MFF modality so far, four of them have accounted for almost two-thirds of the approved MFF financing of \$52 billion since 2005.** These were: India (30%), Pakistan (16%), Bangladesh (10%), and Viet Nam (9%). South Asia and Central and West Asia were the main regions to use MFFs, accounting for 80% of the MFF approvals and financing. There seems to have been nothing to prevent other countries from making greater use of the modality, which aims to provide greater security of funding to executing agencies and an opportunity to provide the necessary critical mass to achieve transformational effects.

69. **PBLs have been primarily directed at countries with higher incomes per capita, stronger policies, and greater institutional capacity.** ADB Management responded to the IED evaluation of the modality in 2018 by noting that even the more developed DMCs faced middle-income transition challenges that required policy and institutional reforms. The fact that PBLs have been concentrated in certain countries does not necessarily mean that that ADB has restricted their use in others. However, ADB's institutional cap (PBLs should not account for more than 20% of the ADB portfolio), coupled with ADB's commitment to support a smaller set of countries that have become used to the modality as a budget support mechanism, may restrict efforts to spread the use of the modality widely. Between 2008 and 2017, ADB provided \$27 billion in PBLs through 181 operations, approximately 21% of its overall sovereign operations. Indonesia, Pakistan, the Philippines, and Viet Nam accounted for about 65% of all PBL approvals by value in 2008–2017.

70. **RBLs require a favorable governance context and high government capacity to implement procurement and safeguards in line with ADB standards, which has limited use of the modality to a small set of countries.** RBLs are more suited to long-term engagement where reforms and system strengthening require an incremental approach. Of the 12 RBL programs considered for the IED evaluation (with a total loan amount of \$2.3 billion) nearly half were located in the South Asia region.

71. Overall, it appears that the rationale for the use of main modalities could be better elaborated and justified in country partnership strategies. This would enable a wider set of DMCs to reap the benefits offered by various modalities.

## 2. Evaluation Findings Relevant to Strategy 2030

72. What follows is a set of high level observations based on the evaluation findings, highlighting a number of areas that stand out in the context of Strategy 2030's approach: the delivery of more integrated solutions, ADB's shift toward more private sector operations and greater private sector development, ADB's increasing role in catalyzing and mobilizing finance, and the reliance on improved business processes.<sup>58</sup> What opportunities do the modalities evaluated offer, and what solutions have they provided?

### a. Modalities and the Delivery of More Integrated Solutions

73. IED's MFF evaluation found that ADB had made limited efforts so far to design and implement MFFs to provide integrated solutions involving multiple sectors and thematic areas except in the urban sector, which is unfortunate given that there is nothing to prevent this. The modalities have been mostly used to address specific development problems in specific sectors. The evaluation of the MFF in 2019 suggested that combining nonsovereign financing options with sovereign MFF tranche investments offered an opportunity to deliver more integrated solutions, despite the increased complexity. It recommended that the use of the MFF modality be reviewed and the ADB policy updated for better alignment with Strategy 2030. The objective should be for MFFs to deliver integrated solutions and realize the modality's transformational development potential. Management agreed with this recommendation and will explore how the MFF can be used to provide integrated solutions. It noted that the existing MFF policy already allowed for ADB to finance multiple projects in more than one sector and thematic area covered by ADB in a client country. However, to date such examples have not been widespread due to the inherent complexity of multisector operations or lack of demand. Seven multisector MFFs have been processed since 2005.

74. In recent years, the use of PBLs has been increasingly concentrated on a few areas, particularly public sector management and public finance management. The IED evaluation of the modality in 2018 noted there was not much PBL support for infrastructure sector reforms, despite ADB's heavy focus on investments in the energy, water, and transport sectors and its significant expertise and capacity to influence reform agendas. Indonesia was one of the exceptions where a PBL was used in the energy sector. This has limited the effective delivery of integrated solutions. While ADB tends to address specific sectoral reforms through other lending and nonlending instruments, such as TA, this may not be enough to remove binding constraints on growth in a systematic way. In some countries, ADB has limited the way it can assist when a crisis hits, e.g., Asian Development Fund (ADF) "Group A" countries have not been eligible for counter-cyclical crisis responses until very recently.<sup>59</sup> While ADB Management agreed that there was a need to ensure greater synergy between policy and project operations, it also noted that the choice of modality is context-specific and that it draws on country and sector analytical work. Decisions are made in close consultation with the relevant authorities. In response to IED's recommendation that more PBLs be used in sectors where investment loans are also undertaken, in order

<sup>58</sup> The conclusions and recommendations of the five IED evaluations completed over the past 3 years are summarized in Appendix 3.

<sup>59</sup> PBL was important in Pacific island economies, which are highly vulnerable to external shocks. ADB has recently used conventional PBL as contingent financing for countries vulnerable to disasters. In response, a new contingent disaster financing option was approved under the PBL policy in mid-2019. This has already been used for two operations focused on disaster resilience and preparedness.

to arrive at more integrated solutions, Management updated the CPS template to highlight the appropriateness of the mix of ADB financing modalities used, including policy-based loans.<sup>60</sup>

75. **Other modalities that have been evaluated, including RBL, private equity and CEPs,<sup>61</sup> are not intrinsically suited to delivering integrated solutions on their own, but may be used to complement larger sector- or area-wide interventions.** The RBL is more suited to a government program in a sector, and more inclined to disburse against results achieved from programs involving smaller very dispersed investments relating to upgrading infrastructure or involving straight operation and maintenance or non-civil works programs. Private equity investment and CEPs are more potent in situations and sectors where ADB is more active, to complement sovereign investments.

#### **b. Modalities and the Shift to More Private Sector Operations and Private Sector Development Work**

76. **Strategy 2030 envisages that ADB support to achieve its operational priorities will come increasingly from private sector operations.** It sets a target for the number of operations to reach one-third of ADB operations by 2024 (from one sixth at present). Private sector operations are expected to figure more prominently as most ADB DMCs acquire middle-income status. Such operations will be designed to use private equity to improve the development effectiveness of ADB operations and to crowd-in significant investment from commercial players and to address credit and political risk using guarantees.

77. **IED's evaluations of PBLs, private equity, and credit enhancement products all pointed to the missed opportunities to use these modalities to increase ADB's private sector operations, and the excellent potential in all three to do more.** The PBL evaluation emphasized that PBL conditions could be used to support reforms to improve business regulations and to the state-owned enterprise (SOE) context in which the private sector has to work and compete. ADB has not done enough so far, as most of its financing in this area has been to support public financial management and government decentralization efforts, including countercyclical financing.

78. **By taking equity in a company with developmental products or services, ADB can play an important role in difficult and fragile environments where debt capital is hard to raise.** However, ADB's use of equity investments has been very limited so far. Over 2015–2017, less than \$200 million, or 1% of ADB's financing, was invested through private equity, and historically the performance has not been good, especially for ADB's investments in private equity funds. To grow the private equity portfolio, and make it more successful, the evaluation recommended that ADB should improve the strategic focus of its equity investments. It suggested that ADB should produce a detailed business plan for equity investments, including its role as an equity investor in initial public offerings. It should also play a more active role in its direct equity investments, review its organization for the delivery of equity business, refine its approach to PEF investments, and improve its reporting of development outcomes. In response, Management set up a unit in 2019 and is in the process of hiring the team and setting up an equity committee, hopefully with the authority to decide on transactions.

<sup>60</sup> ADB completed a more diverse mix of policy-based loans in 2018 and 2019, including in the energy, health and education sectors. These operations were closely integrated with ongoing sector investments to generate synergies, which is in line with the Strategy 2030 objectives of providing integrated solutions.

<sup>61</sup> ADB's credit enhancement products (CEPs) are partial credit guarantees (PCGs), partial or political risk guarantees (PRGs), ADB guarantor-of-record structure (also referred to as A/B coinsurance), and A/B loans, which are a form of loan syndication. In addition, ADB uses two risk transfer or risk mitigation techniques: (i) insurance of or financial guarantees for ADB loan exposure, and (ii) reinsurance of or financial guarantees for ADB guarantee exposure. ADB's CEPs are designed to reduce, eliminate, and/or better allocate a range of risks facing ADB's commercial financing partners and to leverage ADB's own capital base. CEPs support ADB's developmental objectives by facilitating investment, trade, and capital flows into DMCs.

79. **Credit enhancement products have been underutilized.** The evaluation saw these products as a crucial way to unleash significant amounts of capital from the private sector in support of public investment.

### c. Modalities and the Mobilization of More Financing Resources

80. **MFFs were better than stand-alone projects at mobilizing cofinancing.** MFF operations raised twice as much cofinancing (28% of the ADB approved amount) as stand-alone projects (14%), mostly through collaborative cofinancing. In a few countries and for a few projects, loans were directly managed by partners. This was mainly because the bigger size and programmatic nature of these investments made them more visible and attractive to development partners.

81. **The cofinancing potential of PBLs is high, although to date such financing has tended to be in parallel rather than through formal cofinancing arrangements.** ADB's development partners have increasingly supported policy reforms in the same sector as ADB through parallel financing and joint working arrangements. While the total portfolio of ADB PBLs in 2008–2017 amounted to \$27.1 billion, the evaluation estimated that parallel financing ranged from \$7 billion to \$10 billion (25% to 37% of the ADB portfolio), with the most frequent partners being the World Bank, Japan, Australia, France (Agence Française de Développement, AFD), Germany (Kreditanstalt für Wiederaufbau, KfW), and the European Union.<sup>62</sup> Parallel financing has resulted in joint policy dialogues with government officials and opportunities for coordination in other areas of policy reform. Ultimately, however, the true resource mobilization potential of PBLs may not be as high, since many of the parallel operations by other development partners may have gone ahead even without ADB's PBL.

82. **The RBL modality fosters development partnerships since a number of partners can share a common government-owned results framework, use common systems, and finance a common expenditure framework.** This is not surprising as RBLs must support and anchor on broader government programs with potential for coordination. Seven of the 12 RBL programs were supported by cofinancing or parallel financing by development partners. Cofinancing from development partners totaled \$547.8 million, or 3% of aggregate funding for RBL programs, which constituted 24% of total ADB financing for the 12 RBL programs, making the RBL another useful medium for resource mobilization, better than the single project investment modality.

83. **Credit enhancement products are important tools of resource mobilization in principle.** However, in practice, less than 2% of ADB's capital has been invested in such guarantees so far. PSOD has been working to improve the share of CEPs in its business. In 2019, CEPs totaled about \$1.5 billion. Of this, the share of risk transfers still dominates, about \$900 million. In other multilateral development banks (MDB), the situation is similar. Mobilization means ADB has an implicit role in bringing additional capital to the transaction; by contrast cofinancing means ADB may not have any role in the participation of other investors. ADB was loose in its definition of cofinancing in the past and has, for example, regarded all parallel loans and equity as cofinancing. The evaluation of credit enhancement products made detailed recommendations for a revision of the definition of mobilized capital, a process that has already begun by ADB and other MDBs, who have harmonized definitions for mobilizing private finance which ADB has applied to reports on its mobilization activity.<sup>63</sup>

84. **Credit enhancement products (CEPs) have a role to play in both sovereign and nonsovereign operations, especially in more developed emerging markets such as the PRC, India, and Indonesia.** In

<sup>62</sup> The ADB Operations Manual Section D4/BP requires that PBLs closely coordinate with other major development agencies (<https://www.adb.org/sites/default/files/institutional-document/31483/om-d4.pdf>)

<sup>63</sup> ADB recently introduced a new definition of sovereign co-financing with tighter eligibility criteria that focuses on whether the reported co-financing contributes to the outcomes of ADB projects, or—especially in the case of PBLs—whether ADB indeed played a leading role in defining the program. Management reports that 2019 cofinancing data suggests that the new definition reduced reported cofinancing by approximately \$1.5 billion, mostly by eliminating parallel co-financing for PBLs. However, parallel cofinancing in the private sector would still be beneficial as it indicates true resource mobilization.



these countries, local liquidity is relatively high, but there is a need to mitigate certain risks that the market is unwilling to take. Partial credit guarantees that reduce, for example offtake risk (risk of not getting paid by the power utilities for the power output) and supply risks (risk of disruptions to supply of critical inputs to production) will go a long way toward enabling infrastructure investments that otherwise may not have happened.

85. **In countries with FCAS and in other high-risk countries, ADB should use political risk guarantees more extensively to crowd in capital.**<sup>64</sup> It needs to set higher mobilization targets for more developed emerging markets than for FCAS and high-risk countries. ADB staff and borrower capacity is a big issue in the underuse of CEPs, but capacity building and training can alleviate this. ADB will report on progress in its response to this recommendation of the IED evaluation of CEPs in 2017 by end of 2020. Institution building in SOEs, banks, and nonbank financial institutions is key to improving capital markets, and to crowding in institutional money for infrastructure growth. CEPs can be used to mitigate risk in corporate bond transactions to help attract capital. ADB needs to incorporate CEPs into CPSs. Countries need to be provided with solutions that best fit the purpose, which is not always just lending. Management has questioned the use of the incorporation of CEPs into the CPS, the results of CEP capacity building, and the issues raised by IED when pricing partial credit guarantees versus provision of loans. IED has argued that the CPS is an important instrument to help with mobilization and meeting DMCs' capital needs, especially at the CPS planning stage. Increased mobilization can be a win-win situation for ADB and DMCs, who will benefit from better terms and conditions in terms of their capital borrowing. For this to happen, ADB capacity in the DMCs needs to strengthen, as the CEP products are more complex than straight lending. The report furthermore argues that pricing needs to be differentiated for political risk guarantees, partial credit guarantees and loans, as the risks involved are different.

86. **Private equity support can be highly demonstrative and catalytic, guiding resources in the right direction.** Through its PSEI, ADB can be a seed investor and promote improvements in financial and corporate standards to support raising debt capital. However, equity investments require significant preliminary work and attention during implementation. ADB's financial interests need to be protected and risks kept under control, while at the same time the borrower needs to benefit from ADB additionality as a partner in the company.

87. **It is worth acknowledging that with Strategy 2030 ADB has moved away from a narrow focus on cofinancing volumes.** The strategy no longer has a volume target for cofinancing, as it did in the period of Strategy 2020, which resulted in an emphasis on reporting parallel cofinancing by other development partners. ADB recently introduced a new definition of sovereign co-financing with tighter eligibility criteria that focus on whether the reported co-financing contributes to the outcomes of ADB projects, or—especially in the case of PBLs—whether ADB indeed played a leading role in defining the program. Management reports that a comparative analysis of 2019 cofinancing data suggests that the new definition reduced reported cofinancing by approximately \$1.5 billion, mostly by eliminating parallel co-financing for PBLs. The indicator in the ADB results framework on commercial cofinancing is very appropriate, although IED would have liked the addition of another indicator, on sovereign non-parallel development partner cofinancing.

#### d. Modalities and Process Efficiency

88. **The MFF evaluation showed that, compared with stand-alone projects, MFF projects had slightly better processing efficiency, but lower implementation efficiency.** Efficiency gains in terms of savings in commitment fees and in operations time are not as important as they were when the MFF was first introduced. Changes in the internal and external operational context and additional regulatory requirements have gradually reduced some of the MFF's initial advantages. Cumbersome approval and

<sup>64</sup> The Pacific Department reports that it has been seeking to utilize CEPs in FCAS countries, particularly in PPPs, and that it provides for a guarantee of power SOE's meeting contractual payments to independent power providers in the Renewable Energy Investment Facility. The department also expects to be the first to use the policy based partial credit guarantee, in PNG.

reporting procedures have increased the processing duration for MFFs by over 50% since 2012 and reduced some of the modality's flexibility, slowing down the use of MFFs. The quality of MFF operations has not been significantly affected by the delegation of authority to approve subsequent tranches to Management since this has been combined with periodic monitoring and advance reporting.

89. **The MFF evaluation recommended reducing transaction costs and restoring the operational attractiveness of the modality.** It recommended (i) streamlining MFF documentation, including preconditions; (ii) allowing flexibility to adapt to changing project circumstances by relaxing the requirement to specify tranche scope and timing upfront; and (iii) using more efficient models for the tranche completion report. Management responded positively to this recommendation and has said it will consider streamlining and simplifying documentation requirements and will review MFF progress reporting. It will also consider more efficient models for tranche project completion reports. The MFF evaluation also recommended that the MFF implementation schedule be made more realistic so that all the operations intended to be financed under the MFF program can be completed on time.

90. **The PBL evaluation observed that the number of policy actions in PBL designs fell over the period, suggesting PBLs had become more efficient.** The evaluation recommended strengthening the PBL design by: (i) limiting the use of process-oriented actions and articulating policy actions as substantive outputs; (ii) tailoring the DMF so that policy actions, outputs, and outcomes are more clearly linked; and (iii) clearly referencing the analytical work that underpins PBL design. Management took the view that, while there is merit in minimizing the use of process-oriented policy actions, it should not assume that all process reforms are of low value. In cases where reforms are sequenced over several years, "process-oriented" reforms can, in the long run, lead to high-impact reforms. Process-oriented actions are often needed to kick start a politically sensitive reform and to ensure the reform process proceeds in a phased and properly sequenced manner. Planned actions in response to this recommendation include revisions to the Operations Manual and staff instructions and to the DMF guidelines.

91. **With respect to RBLs, several issues need attention, both within countries and in ADB.** These include internal quality assurance, on-the-ground assessment of fraud and corruption risks, independent and credible verification of results, exclusion of category A involuntary resettlement activities, and capacity development. In August 2019, ADB addressed these issues in a new policy and mainstreamed the RBL modality for programs, with a commitment to go to the Board in cases where the demand outstrips 10% of ADB's combined OCR and ADF financing.<sup>65</sup>

92. **One reason for the underuse of guarantee products is the incentive structure in ADB.** Following the merger of ADF and OCR, ADB needs to increase its lending to meet stiff targets. The evaluation recommended that the staff performance incentive structure should reward efforts to increase the use of guarantees. ADB's formalization of the guarantee and syndication unit and the drafting of new performance metrics have gone some way toward responding to this recommendation, although improvements are yet to fully accrue.

93. **The processing of guarantees was found to be too complex and time-consuming.** This is partly because both the guarantee and ADB's anchor intervention have to have the same developmental objective and relate to the same sector or project. The guarantee needs to be processed according to standards that are no less rigorous than those for direct investments by ADB.

94. **Processes for equity investments are not streamlined.** The average overall time from approval to first disbursement is about 27 months. Delegated approvals are limited, and there is little leveraging of co-investment opportunities. ADB processes equity investments in the same way as loans.

<sup>65</sup> ADB. 2019. Mainstreaming the Results-Based Lending for Programs. Policy Paper. (<https://www.adb.org/sites/default/files/institutional-document/526346/mainstreaming-rbl-programs.pdf>)

95. **The key message from the findings of IED's evaluations of ADB modalities is that they are well suited for the purposes of Strategy 2030.** However further improvements can be achieved through changes in design and organizational structures and better staff incentives.

## C. Summary

96. **Performance of ADB sovereign operations.** The success rate of projects in the public sector fell to 71% in 2017–2019 from 77% in 2016–2018.

- (i) Performance dropped against all evaluation criteria except for efficiency. Relevance was reduced by complex and ambitious designs, unrealistic timelines, and lack of flexibility to changing conditions. Effectiveness dropped because of the ambitious and unrealistic output and outcome target indicators and governments' inadequate readiness. Sustainability was affected by weak government commitment to reforms, insufficient toll revenues for operation and maintenance, and electricity tariff reforms that did not allow for full recovery of power purchase costs.
- (ii) Performance was down for both infrastructure and non-infrastructure projects. However, the trend improvement in performance over the years was higher for non-infrastructure projects, mainly because of good performances in the PSM sector.
- (iii) Performance declined in 2017–2019 in all regions except for East Asia. Most operations in East Asia were in the PRC where the performance remained high. The performance decline in South Asia was driven by the weak project performance in India and Bangladesh. The decline in the project performance of Central and West Asia was driven by weaker performances in Uzbekistan, while that in Southeast Asia was caused by lower ratings in Indonesia and the Philippines. Project performance in the Pacific remained low.

97. **Performance of ADB nonsovereign operations.** The success rate of nonsovereign operations decreased to 52% in 2017–2019 from 54% in 2016–2018, continuing a decline since 2014–2016.

- (i) Performance decreased against all criteria except for investment profitability, which remained almost the same. The additionality performance has been declining since 2010–2012. ADB work quality performance declined the most and this was attributed to poor performances in screening, appraisal and structuring.
- (ii) In the long term (2010–2019) infrastructure projects performed best (85% *successful*) in 2010–2019. The performance of financial institutions (56%) and PEFs (37%) was considerably lower.
- (iii) Southeast Asia had highest success rate for nonsovereign operations.

98. **Country-level performance expressed as the percentage of country programs and strategies rated *successful* declined by 4 percentage points to 83% in 2017–2019.**

- (i) Of the eight country evaluations in 2019, one was rated *less than successful* on the borderline, seven were rated *successful*, two of which were on borderline.
- (ii) Over the long term, country-level performance was 74% (2010–2019), similar to that of projects.

99. **Findings from IED evaluations of financing modalities:**

- (i) **The five financing modalities discussed in this chapter support the main thrusts of Strategy 2030.** The five-show considerable complementarity and address both sovereign and nonsovereign clients. They have mobilized more cofinancing than single investment projects. Over time, their processing efficiency has been improving. If ADB is to make better use of private equity and CEPs it needs to carry out organizational changes and training. If operated in unison, the various modalities have the potential to provide integrated solutions.
- (ii) **Further business process adjustments can help the five financing modalities deliver the Strategy 2030 agenda more effectively.** To realize this potential, the MFF evaluation

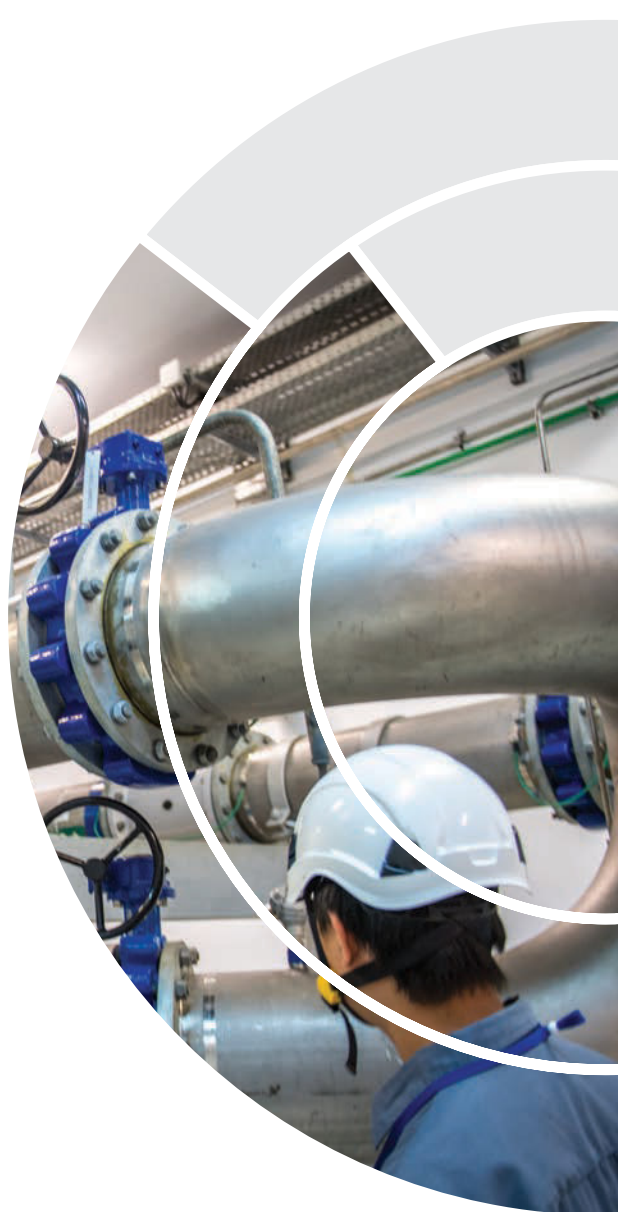
recommended that ADB conduct a review of the use of this modality, reduce transaction costs, and ensure implementation schedules are more realistic. ADB needs to maximize learning from earlier tranches. The RBL modality has significant potential to add value to ADB operations by strengthening program and country systems and developing a results culture. However, issues such as internal quality assurance and assessments of corruption risks need attention as required by the 2019 ADB policy paper on mainstreaming RBL. More quality assurance is also required for PBLs, particularly in assessing individual policy actions and the number of policy actions.

- (iii) **Tapping the potential of nonsovereign operation products such as private equity and CEP requires organizational strengthening and better staff incentives.** Because of its historic orientation as a debt provider, ADB's equity skills are limited and it needs to build them up. CEPs can mobilize resources, but their usage has been low. One reason for the underuse of this product is ADB's staff incentive structure.

# 3

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## Robustness and Credibility of ADB's Project Self-Evaluation System



## Highlights

- This chapter assesses the robustness and credibility of ADB's project self-evaluation system across the characteristics of reliability, timeliness, and usefulness.
- ADB's project self-evaluation system is generally aligned with comparable systems in other organizations.
- Overall, ADB's project self-evaluation system is robust and credible, and it is useful for accountability and learning; however, there are weaknesses in the project monitoring and evaluation (M&E) systems which are not fully supported by explicit targeted resources, well-functioning project and central-level databases, adequate country level technical and institutional capacities, nor steered by integrated and user-friendly guidelines. These factors affect the overall reliability of the system.
- In about 20% of reviewed project completion report (PCRs), the project M&E systems at the country level had not been implemented well. Within ADB, the current eOperations system has been classified as a high business risk by Office of Risk Management. A review of 149 PCRs revealed that in only 35%, the DMF data was consistent in eOperations and the PCR.
- For nonsovereign operations, a formal, separate and comprehensive monitoring for the systematic tracking of performance and results is not fully in place.
- The self-evaluation system is generally timely, however concerted efforts are needed to ensure the timeliness of financial closure and circulation of PCRs in the future.
- ADB's project self-evaluation system generates information that fosters usage, learning and knowledge. However, throughout project implementation, tacit knowledge is not effectively captured.
- Appropriate incentives in terms of staff time and financial resources to produce adequate documentation from missions, including interim reports such as back-to-office reports (BTORs) and midterm reviews (MTRs), are important ways to tap tacit knowledge and increase the usefulness of the project level self-evaluation system. The templates used for MTRs and BTORs can be revised to capture, synthesize and disseminate lessons.

## A. Introduction

100. **This chapter assesses the robustness and credibility of ADB's project self-evaluation system, which operates at the corporate, country and project levels.** The theme chapter of the 2019 AER discussed self-evaluation at the corporate level by assessing the corporate results framework and the Development Effectiveness Review. The 2019 AER highlighted several challenges faced by the project self-evaluation system that merited further attention because of their impact on development effectiveness. For example, it concluded that the "lack of timely delivery of PCRs and XARRs disrupts sharing of information at the right time with the Board members and other stakeholders."<sup>66</sup> The theme chapter of the 2020 AER builds on last year's chapter by examining the self-evaluation system at the project level with the aim of assessing its robustness and credibility, and proposing potential improvements where needed.

## B. The Model

101. **A project self-evaluation system is a combination of processes and products for the systematic, empirical, and transparent monitoring and evaluation of an ongoing or completed project, conducted by the operations department in charge of the activity.**<sup>67</sup> The Development Assistance Committee of the Organisation for Economic Co-operation and Development defines "monitoring" as a continuing function that uses the systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of progress toward objectives and the use of allocated funds. "Evaluation" is the systematic assessment of an ongoing or completed project, program or policy, its design, implementation, and results. The combined value of monitoring and evaluation (M&E) lies in the information it provides about the performance of a project or program: what works, what does not, and why. It is central both to effective management of the project and to wider governance.

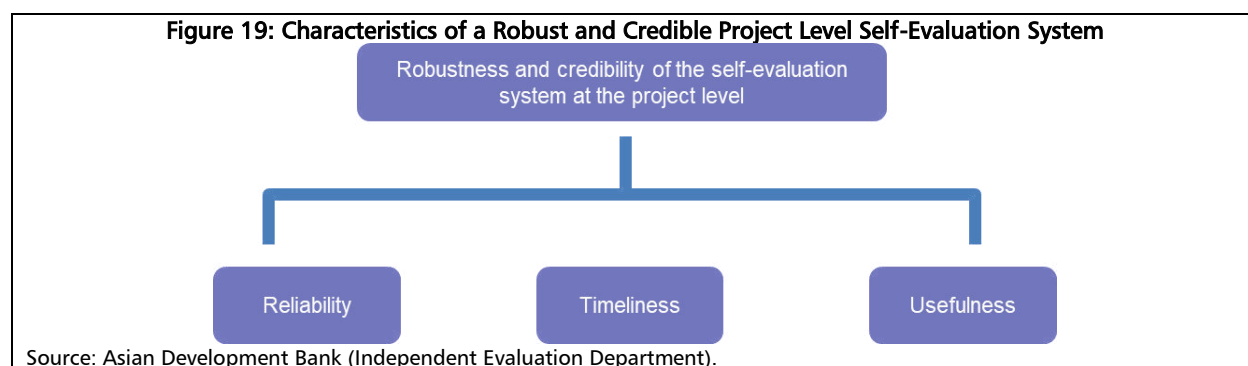
<sup>66</sup> IED. 2019. *2019 Annual Evaluation Review*. Manila: ADB.

<sup>67</sup> Adapted from IEG. 2016. *Behind the Mirror: A Report on the Self-Evaluation Systems of the World Bank Group*.



102. **The Evaluation Cooperation Group (ECG) Big Book on Evaluation Good Practice Standards<sup>68</sup> (GPS) contains guidelines for the conduct of project self-evaluation.** It was the reference document for this evaluation. The GPS highlights the importance of monitoring data, based on a design framework, to provide evidence for self-evaluation. It recommends that, at minimum, data on a project's output and outcome indicators be collected during project preparation and at completion and that output indicators be collected and monitored continuously throughout implementation to ensure that self-evaluations are evidence-based. As set out in the ECG Practice Note 3,<sup>69</sup> self-evaluation by responsible management and operational teams is an important feature of the evaluation systems of most of the institutions represented in the ECG. Management should ensure that self-evaluation systems have high internal circulation, visibility and accessibility across operational and management units for wider learning and awareness. The note recommends that self-evaluation methods should largely reflect ECG good practice standards for public and private sector evaluations and should incorporate an articulated theory of change even if none was explicitly presented for the project being self-evaluated.

103. **A robust and credible system generates high-quality and reliable information, in a timely manner, and transforms this information into knowledge that is used to inform decision making and improve performance.** Therefore, this evaluation considers three key characteristics of robustness and credibility: reliability, timeliness, and usefulness<sup>70</sup> (Figure 19).



104. **The three characteristics of a robust and credible project self-evaluation system are:**

- (i) **Reliability.** A project self-evaluation system is reliable if it generates data and information that are available and complete to ensure sound reporting on performance and results throughout the project cycle.
- (ii) **Timeliness.** A project self-evaluation system is timely if its products are delivered at the right time to inform operations and decision making.
- (iii) **Usefulness.** A project self-evaluation system is useful if it supports accountability while also generating knowledge that can be used to feed into new projects and inform wider institutional learning in order to improve decision making and results.

## C. Evaluation Questions

105. **The overarching evaluation question of this assessment was: is ADB's project self-evaluation system robust and credible?** This was underpinned by the following subsidiary questions:

- (i) To what extent does the ADB project self-evaluation system (including the M&E system) generate reliable data?
- (ii) Are self-evaluation data and products delivered in a timely manner?

<sup>68</sup> Evaluation Cooperation Group. 2012. ECG Big Book on Good Practice Standards. <https://www.ecgnet.org/document/ecg-big-book-good-practice-standards>

<sup>69</sup> Evaluation Cooperation Group. 2018. *Practice Note. Self-evaluation in ECG member Institutions*. November 2018.

<sup>70</sup> The approach paper presented four characteristics: reliability, timeliness, credibility and usefulness. In the final report, credibility was elevated and merged with robustness as all three characteristics contribute to both robustness and credibility.

- (iii) Does the self-evaluation system generate information that can be used in decision making and lesson learning?

## D. Evaluation Metrics and Instruments

106. The findings and issues related to the ADB project self-evaluation system were primarily based on the body of evaluative evidence of completed projects. In order to reflect the continual evolution of the system and recent reforms to project designs, a sample of 59 projects approved in 2018 and 2019 were also reviewed.

107. **Indicators for the assessment of reliability.** In assessing reliability, the evaluation looked at the following indicators: baseline and end-of-project data on outcomes and outputs; beneficiary and other surveys; staff perceptions on the reliability of M&E and outcome and output data; the government project M&E system; and the government PCR.

108. **Indicators for the assessment of timeliness.** The timeliness of the system was primarily evaluated by looking at the gap between the loan closing and financial closure of projects as well as between financial closure and circulation of completion reports. The purpose of this analysis was not to check compliance but rather to understand the consequences of existing time lags in the system and how to address them.

109. **Indicators for the assessment of usefulness.** The usefulness of the system was assessed by conducting an in-depth analysis of projects implemented through multiple phases and by analyzing the perceptions of ADB staff through a survey. In particular, the evaluation looked at: (i) the extent to which lessons derived from a project are incorporated into follow-on phases of the same project; and (ii) the perception of ADB staff on the importance of completion reports for accountability and learning as well as for informing the design of new investments. Staff were asked to compare the information in completion reports with that from other sources, including advice from colleagues and peers, external documents, and technical papers.

110. **Description of instruments and data set.** The evaluation used various instruments to gather data on the three characteristics of a robust and credible self-evaluation system and to triangulate evidence across sources: a document review of ADB projects, a staff perception survey, focus group discussions, a review of literature on self-evaluation, and interviews of staff of ADB and other MDBs. The document review of ADB projects included an analysis of 666 validated PCRs and XARRs during the evaluation period, including 559 sovereign PCRs and 107 nonsovereign XARRs.

111. **From the total of 666 PCRs and XARRs, a subset of 94 projects with follow-on phases was identified for in-depth analysis.** This subset comprised 149 PCRs and 27 XARRs. The primary purpose of the analysis of the subset was to trace pathways where learning from self-evaluation was most likely to occur. The analysis drew on information and data in completion reports, progress reports, back-to-office reports (BTORs), and midterm reviews (MTRs). While this subset was initially selected to track learning under the usefulness characteristic, the rich collection of documents and data from this exercise was used for more in-depth analysis of the indicators covering the three characteristics. This subset is a reasonable representation of the universe of validated 559 PCRs available for this AER (Appendix 5, Figures A5.1 and A5.2) in the sense that the PCRs are evenly spread across approval years and across regional departments.

112. **IED administered a perception survey to ADB staff on ADB's self-evaluation system.** The profile of the respondents gives much credence to the results of the survey. The survey had a representative sample of 234 respondents,<sup>71</sup> including 126 international staff and 89 staff based in resident missions

<sup>71</sup> Based on an estimated total population of 1,668 ADB international and national staff from the targeted departments, the total response of 234 is a representative sample of the population at 95% confidence interval and 6% margin of error (Appendix 6).

(Appendix 6, Table A6.4). Of the total respondents, 218 had previous experience in either writing, reviewing, validating, contributing data to, or using information from, PCRs and XARRs (Appendix 6, Table A6.5). Almost half of respondents (44%) had actually written PCRs or XARRs. All graphs from this survey presented in this report are based on the 218 respondents that had experience working with PCRs or XARRs. In some graphs, there are relatively large numbers of staff responded that they did not agree or disagree with the question posed. Given the experience declared by the respondents, we interpret these as valid responses indicating their hesitance to agree or disagree with the statement or question posed.

**113. In addition, six focus group discussions were conducted with strong participation of ADB staff with sound experience in preparing completion reports.** Focus group discussions were undertaken with each of the five regional departments and with the Private Sector Operations Department (PSOD) using a structured guideline (Linked Document G). In total, 42 staff across all regional departments and PSOD participated in the focus group discussions. The focus group discussion participants were designated by the relevant departments as staff familiar with completion reports, including portfolio administration unit heads, national staff and staff based in resident missions.

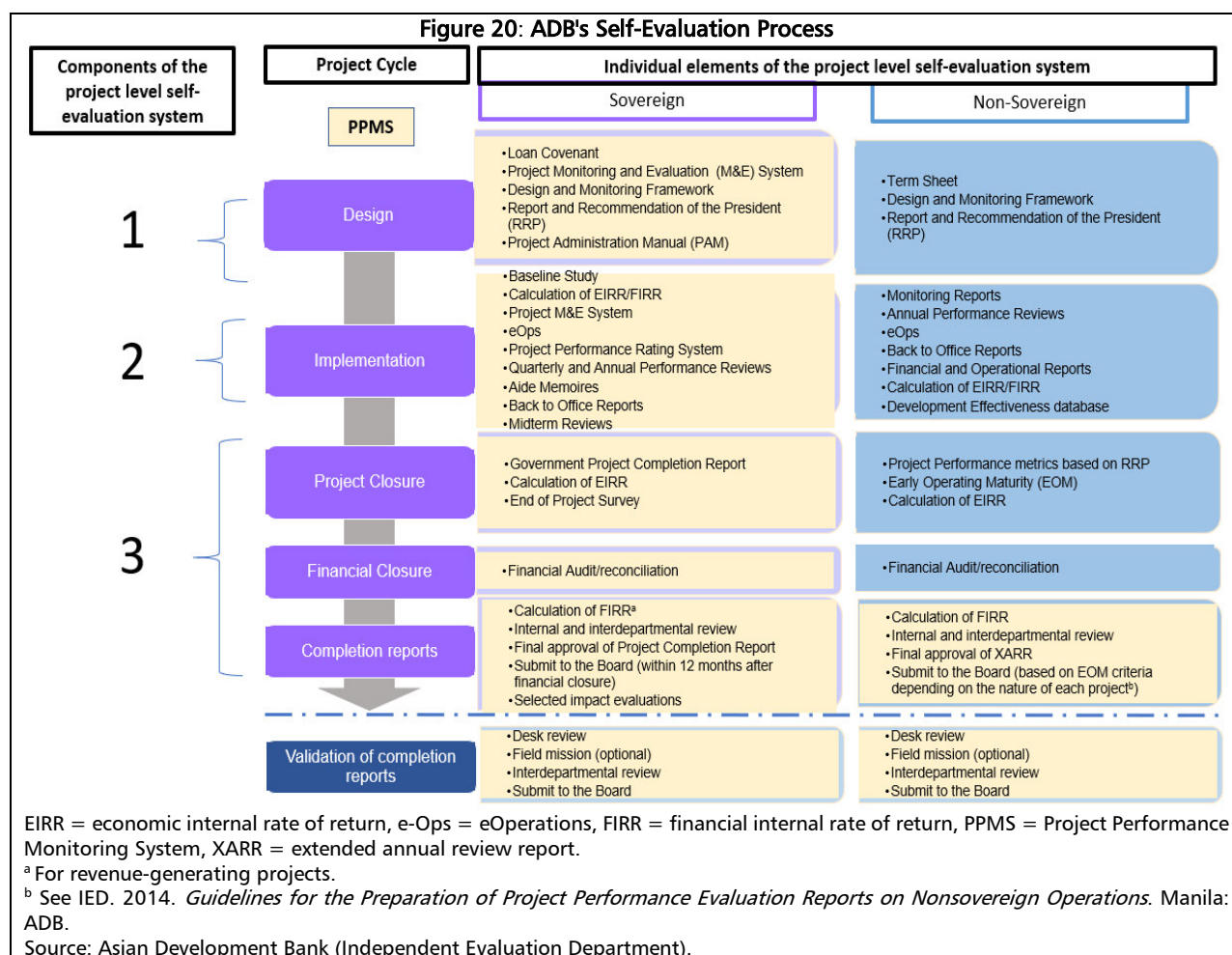
**114. A literature review and interviews with other MDBs were conducted to extract lessons from the self-evaluation practices in comparable organizations.** These organizations included the World Bank Group, the Inter-American Development Bank (IDB and IDB Invest), the International Fund for Agricultural Development (IFAD), the European Bank for Reconstruction and Development (EBRD), and the African Development Bank (AfDB). The literature review also included previous evaluations conducted by IED. The full methodology for the evaluation is contained in Appendix 4.

## E. Architecture of the Project Self-Evaluation System in ADB

**115. For both public and private sector financing, the architecture of the project self-evaluation system includes three components and is similar to those in comparable MDBs.** The components were: (i) design of the monitoring framework; (ii) monitoring and evaluation for operations under implementation; and (iii) self-evaluations upon completion (public sector) or at early operating maturity (private sector), including impact evaluations.<sup>72</sup> Typically, there follows the validation of self-evaluation reports by the relevant independent evaluation office, but this is not part of the self-evaluation system. This system is similar to those in comparable MDBs (described in more detail in Linked Document D). Figure 20 outlines the architecture (including components and individual elements throughout the project cycle) of the self-evaluation system for ADB's sovereign and nonsovereign operations.

<sup>72</sup> Impact evaluations form an important part of the self-evaluation system but not in the scope of this chapter.

Figure 20: ADB's Self-Evaluation Process



116. **ADB's project self-evaluation system for sovereign operations is part of a corporate level Project Performance Management System (PPMS).** The corporate PPMS is the cornerstone of the self-evaluation system for sovereign operations.<sup>73</sup> It is a results-based approach to project planning, performance monitoring, and evaluation of results, which is implemented throughout the project cycle.<sup>74</sup> The following paragraphs describe the individual elements of the three components of ADB project self-evaluation system. It should be noted that this corporate definition of PPMS operates at a higher level than individual project M&E systems.

117. **The first component relates to project design.** The DMF is developed during the design stage and it forms the basis for the project M&E system. It summarizes the project's logic and results chain and identifies outcome and output level indicators to monitor and measure performance against baseline values and targets. A project administration manual (PAM) is required for each investment projects. The PAM describes how the executing agencies will implement and deliver the project outputs and outcomes and provides, among other things, concise and accurate detail on project performance monitoring, evaluation, reporting and communication.

<sup>73</sup> The PPMS as defined in the *Operation Manual* fully applies to public sector operations. Currently, only the XARR and PPER components of the PPMS are applicable to private sector operations. See ADB. Private Sector Operations. *Operations Manual*. on the current performance monitoring arrangements for private sector investment projects.

<sup>74</sup> ADB. 2011. Project Performance Management System. *Operations Manual*. OM J1/BP. Manila

118. **The second component focuses on implementation.** During implementation, the borrower is required to maintain a project M&E system. At ADB, performance is monitored and rated through the project performance rating (PPR)<sup>75</sup> system and captured using the eOperations (eOps) project implementation module, an integrated information technology solution that records country and project information from concept to ex-post evaluation. The PPR system focuses mainly on financial issues such as contract awards and disbursements, although recently it has been revised, among other things, to allow tracking of DMF output indicators.<sup>76</sup> The eOps aims to produce uniform project-related documentation and customized reports based on data that automatically moves through the system along a project cycle. MTRs and BTORs during project implementation are instrumental for learning, decision making, and course corrections. The eOps includes the DMF outcome and output targets for each project and tracks progress on the achievement of these targets.

119. **The third component focuses on completion, including project closure, financial closure and preparation of completion reports by the borrower and ADB.** The borrower prepares its own completion report, which is often undertaken by the project consultant team. At this stage, end-of-project data are collected from secondary sources and/or through focus group discussions, interviews and, at times, beneficiary surveys. This report from the borrower is the basis for ADB's assessment, which culminates in a final PCR which closes the project cycle. The main purpose of the completion reports is to learn from experience, and to use the lessons learned to improve the performance of ongoing and future ADB-financed projects. The PCR can be used as a measure of ADB's development effectiveness for accountability and as an input to country strategy formulation. The completion reports are expected to be prepared within 12 months from project financial closure, as instructed by the revised project administration instruction (PAI) in June 2019.<sup>77</sup> The economic research and regional cooperation department of ADB also conducts rigorous impact evaluations of selected projects.

120. **Project completion report validations conducted by the Independent Evaluation Department are separate from the self-evaluation system.** Therefore, validation is not discussed in detail in the assessment. However, for completeness, Figure 20 includes the validation, separating it from the rest of the system by a dashed line.

121. **ADB's project self-evaluation system for nonsovereign operations has unique features given the dual mandate of development effectiveness and ADB's financial sustainability.** It includes the same components as for sovereign operations, although there are distinct differences in the composition of individual elements. In the first instance, the corporate PPMS described above fully applies only to public sector operations; for nonsovereign operations, it applies only to the final component, the XARR, which is the equivalent of a PCR for sovereign operations but prepared at early operating maturity, and the validations. At the project level, the nonsovereign operations self-evaluation system includes the DMF that is prepared at the design stage. During implementation, unlike sovereign operations, an M&E system at the project level is not guided by the equivalent of a PAM. Moreover, nonsovereign projects are not required to conduct a midterm review. Results are reported by the borrower at least once a year using PSOD Transaction Division's Development Effectiveness Monitoring Reports which are prepared in addition to PSOD Portfolio Management Division's Annual Monitoring Reports. The data provided by the client are consolidated in a Development Effectiveness Database, a data repository intended to track results throughout the implementation of projects.

122. The data stored in the Development Effectiveness Database are reported in PSOD's annual publication on Development Effectiveness and used in the preparation of XARRs' development results

<sup>75</sup> The PPR methodology was revised by PAI 5.08 in July 2019. Changes included replacement of the technical indicator with the output indicator, which will track progress based on the achievement of output indicators defined in the project's DMF. In this way, the project teams will enter the quantitative achievement value of each DMF output indicator against the target into the eOps system.

<sup>76</sup> ADB. 2018. Project Performance Monitoring. *Project Administration Instructions*. PAI 5.08. Manila.

<sup>77</sup> ADB. 2019. Project Completion Reports for Sovereign Operations. *Project Administration Instructions*. PAI 6.07A 5.08. Manila.

section. PSOD submits monitoring reports to the Office of Risk Management for all nonsovereign transactions at least once a year with the first submission due no later than 12 months after approval, provided the legal documents have been signed. Submission is done via the eOps system and the report is accompanied by a credit risk rating sheet of the loan or guarantee transaction and a valuation for equity transactions. The ORM conducts an independent review, provides the final rating, and determines the frequency of the next review submission. The ratings are based on the credit profile of the borrower or the transaction. PSOD's monitoring reports include a small section on development impact assessment although this does not generally influence the ratings. Finally, PSOD, in collaboration with the Strategy, Policy, and Partnerships Department (SPD) is currently developing an ex-ante development impact framework following a stock-taking review of peer MDBs' practice in 2019. This will track the development impact of nonsovereign operations from design stage.

## F. Findings

123. This section is organized according to the three characteristics of a robust self-evaluation system at the project level.

### 1. Reliability

124. **The ADB self-evaluation system is designed to generate reliable data and information, and overall completion report quality has been improving, but the staff perception of the system's reliability is mixed.** The components and individual elements of the project self-evaluation system are in line with international standard practices. Over the evaluation period, the quality of PCRs and XARRs has improved and in the most recent 3-year moving average (2016–2018), 80% of PCRs and 89% of XARRs were assessed *satisfactory* for quality by IED validations (Appendix 4, Figure A4.2). This rating includes quality of presentation, quality of evidence and analysis and the quality of issues, lessons and recommendations. However, the rating does not include the quality of the M&E systems. In a staff survey, some 50% of respondents agreed with the statement that overall, data in the PCR/XARRs are reliable; only 3% disagreed with this statement, 32% were undecided and 15% did not respond (Appendix 6, Figure A6.9).

125. **In recent years, M&E has received more consistent attention starting from the design stage. However, preparation and monitoring of the DMF is not yet fully supported by an adequate and targeted allocation of resources nor steered by integrated and user-friendly guidelines.** New guidelines for the design of the DMF have been implemented since 2016. The establishment and maintenance of an M&E system has been mainstreamed with a specific requirement in the PAM template. PSOD introduced a "Development Effectiveness Flag" indicator in 2019, which is expected to identify whether a project is at risk of achieving its development results as set out in the DMF and to track the performance status of projects in the development effectiveness monitoring report and follow up with course-correction actions. Moreover, it is developing an ex-ante development impact framework, yet nonsovereign operations do not currently have a document similar to PAM. IED reviewed a sample of 59 projects approved between 2018 and 2019 and found that almost all required the establishment of a project M&E system through the loan covenant concerning the PAM. The same review highlighted that the DMFs of four projects had a specific M&E output and 19 had a specific activity on M&E (Appendix 5, Table A5.9). However, specific budget allocations for M&E were not included in the PAM or in the DMF. Moreover, although a series of comprehensive PAIs are available to guide staff on the M&E function, integrated and user-friendly guidelines for both sovereign and nonsovereign operations are not available.

126. **Attention to project monitoring and evaluation systems has at times been deficient during the implementation stages.** The focus group discussions indicated that data on project performance are not collected or stored regularly during implementation, particularly in nonsovereign operations for which monitoring data are provided by the client or borrower through the development effectiveness monitoring report annually or every two years. Data related to contracts, disbursement and safeguards are more likely to be collected regularly. A loan covenant on the project's monitoring and evaluation



(M&E) system was included for 100 of the 149 PCRs assessed (Appendix 5, Table A5.6). Of these 100 PCRs, 80 reported that the covenant had been complied with, while 20 reported that it had either not been complied or had been partially complied with. For nonsovereign operations, of the 27 XARRs examined, three reported that a project monitoring and evaluation system had been established (Appendix 5, Table A5.7).

**127. There is a perception among staff that more needs to be done to establish and maintain sound M&E systems and databases at both the project and corporate level.** In the staff survey, 27% of respondents perceived that the data generated by the project monitoring and evaluation systems is reliable, 15% disagreed; 39% were undecided and 20% did not respond (Appendix 6, Figure A6.1). The focus group discussions pointed to the limited capacity of partner agencies and governments to collect data as well as to their low demand for and interest in M&E, which undermines the reliability of their completion reports. This was reinforced by the perception survey, which revealed that 26% of respondents regarded data from the government PCR as reliable, 18% disagreed; 41% were undecided and 16% did not respond (Appendix 6, Figure A6.3). At the corporate level, the centralized database eOps, which is designed to capture M&E reporting of the active portfolio, has been identified by ORM, along with other operations support systems, as a high business system risk due to a range of issues including non-integration with applications, lack of flexibility and unreliable data. A review of the 149 PCRs revealed that only 35% have consistent DMF data between eOps and the PCRs (Appendix 5, Table A5.13). It is not currently possible to tell if a project M&E system is functioning well by using eOps.

**128. Staff perceived outcome data to be less reliable than output data.** The staff survey showed that 38% of respondents perceived data on outcomes to be reliable, while 53% perceived output data to be reliable (Appendix 6, Figure A6.2). Focus group discussions supported this finding. Physical output data are more easily collected and reported than resource-intensive outcome data. Staff noted that eOps is used mainly to capture changes in the DMF and to store financial data rather than to assess outcomes. One of the conclusions of an early evaluation of ADB's PPMS noted a particular challenge with regard to the specification and measurement of development objectives.<sup>78</sup> The currently available evidence indicates that this issue persists. The focus group discussions identified weaknesses in the reliability of outcome and output indicators and a low availability of baselines coupled with overambitious designs. These constraints ADB's capacity to measure development results at completion.

**129. In the subset of 149 PCRs, end-of-project data were present more often than baseline data, with steady improvements noted over time.** The PCRs were analyzed to identify the extent to which outcome or output indicators included baseline and end-of-project data. Baseline data were included in most outcome indicators in 42% of the PCRs. At the output level, 52% of the 149 PCRs had more than 90% of output indicators with baseline data and 70% had more than 90% of output indicators with end-of-project data (Appendix 5, Table A5.3). For nonsovereign operations, 19% of the 27 XARRs had more than 90% of both outcome and output indicators with baseline data. 44% had more than 90% of the outcome indicators with end-of-project data and 33% had data at the output level (Appendix 5, Table A5.4). Over the evaluation period, reporting of baseline and end-of-project data at completion has improved significantly over the years, at both outcome and output level, for sovereign operations (Appendix 5, Figure A5.3). For nonsovereign operations, though there have been improvements over time, the level of progress has not been as significant (Appendix 5, Figure A5.4).

**130. Surveys are an important source of reliable data on development outcomes; however, while many are stipulated at approval they are not always implemented at completion.** Out of the 149 PCRs, 141 planned to have a beneficiary survey conducted at completion. However, of these 141 PCRs, only 88 conducted the survey at completion. For nonsovereign operations, of the 27 reviewed XARRs, 12 planned for a beneficiary survey at completion, but in only two was a survey actually conducted. The remaining 15 XARRs had no envisaged beneficiary survey (Appendix 5, Table A5.12a). In addition to beneficiary

<sup>78</sup> OED. 2003. *Special Evaluation Study: Project Performance Management in the ADB and its Projects in Developing Member Countries*. Manila: ADB.

surveys, 55% of the PCRs conducted other surveys, including traffic count surveys and property tax surveys (Appendix 5, Table A5.12b).

131. **The reliability of data and information generated by the ADB project self-evaluation system is affected by the lack of strong incentives to produce realistic self-evaluations.** There are biases and conflicts of interest that are intrinsic to self-evaluations and those are not mitigated by ADB's system which tends to penalize failure rather than recognize causes and encourage learning. Moreover, completion reports are often prepared by junior staff or external consultants. While preparing a completion report is an important and valued learning experience for junior staff, they are often not adequately mentored by more senior staff.

132. **In summary, the ADB self-evaluation system is designed to generate reliable data and information; however, its reliability is affected by weaknesses in the project M&E system during implementation.** Significant progress was made during the evaluation period on reporting of baseline and end-of-project data, and new DMF guidelines and improvements to the PPR system will also improve the performance tracking potential. However, shortcoming in the reliability of the data generated by the system compromises its ability to measure development outcomes at completion. Sub optimal project and central level databases, low country level technical and institutional capacities, absence of integrated and user-friendly guidelines and insufficient targeted resources are also impacting on the reliability of the system.

## 2. Timeliness

133. **On average the system has allowed the timely delivery of PCRs and XARRs.** The desk review examined the time gaps between the loan closing date and financial closure of a project as well as between financial closure and the circulation of completion reports. The purpose of this analysis was not to check compliance but rather understand the consequences of existing time lags in the system and how to address them. According to the ADB Loan Disbursement Handbook 2017,<sup>79</sup> the last part of the life cycle of a loan includes the project completion date, the loan closing date and the financial closing. Projects are expected to be physically completed by the project completion date, which is normally 6 months before the loan closing date. The loan closing date is the date on which ADB may terminate the right of the borrower to make withdrawals from the loan account as specified in the loan agreement. The financial closing date is the date on which all project-related financial transactions financed from the loan account are finalized and the respective loan account is closed in ADB's books. As illustrated in Figure A4.3 (Appendix 4), for all validated PCRs of projects (a total of 467 projects<sup>80</sup>), 26% of PCRs had a gap of 7 to 12 months between loan closing and financial closure of a project. For the entire subset, the average gap was 6.4 months. According to the June 2019 updated PAI,<sup>81</sup> the financial closing date is expected 6 months after loan closure; however, this date is not specified in the loan agreement but decided by ADB. Moreover, it is currently not possible to track the gap between physical completion and financial closing, because data on physical closing in ADB's self-evaluation system is not reported in a systematic and easily accessible manner. Hence, it is not possible to characterize this timing gap.

134. The updated PAI also specifies that PCRs are to be circulated to the Board within 12 months after the financial closing date of the project. The IED analysis of the time gaps between project financial closure and circulation of completion reports shows that, for XARRs, there is an average gap of 15 months between the end of the maturity date and XARR circulation (Appendix 4, Table A4.7). For PCRs, the average time gap from financial closure to circulation of PCRs was 14.7 months for the projects reviewed over the evaluation period<sup>82</sup>. However, 12.9% of the PCRs were circulated more than 24 months after

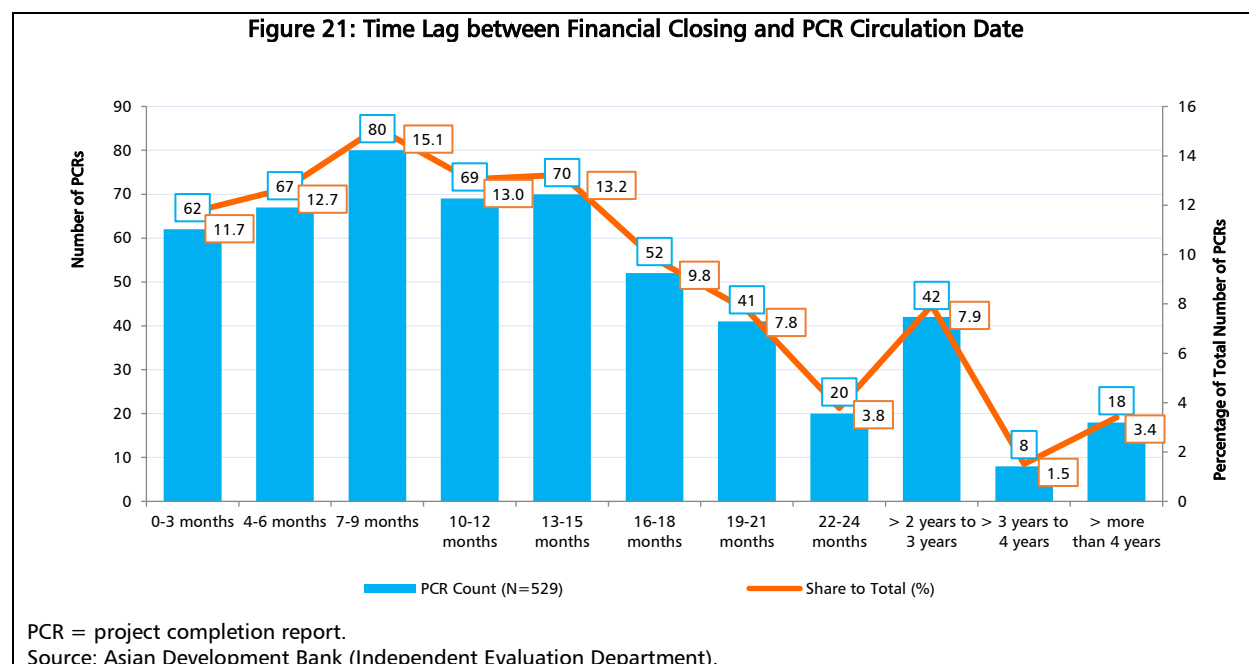
<sup>79</sup> <https://www.adb.org/sites/default/files/adb-loan-disbursement-handbook-2017.pdf>

<sup>80</sup> Includes grant projects. Ninety-two PCRs for programs and MFFs were dropped.

<sup>81</sup> ADB. 2019. Project Completion Reports for Sovereign Operations. *Project Administration Instructions*. PAI 6.07. Manila.

<sup>82</sup> This refers to all PCRs included in the study minus 25 projects which were dropped because PCRs were prepared before financial closure.

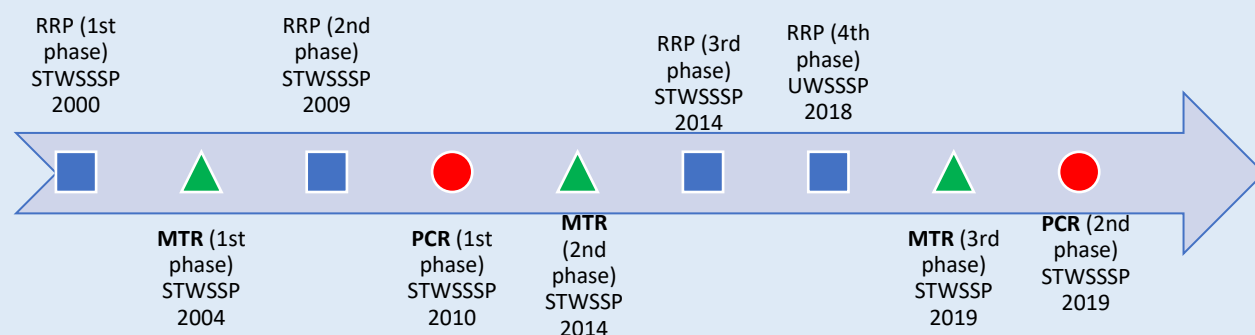
financial closure (Figure 21). These outliers and the fact that the financial closure after six months from loan is not specified in the loan agreement, highlight the need for continued vigilance on timeliness to ensure the early availability of completion reports. For example, ADB can ensure that the government PCR is prepared on time, PCR missions are not delayed, and staff incentives are in place.



135. **Interim self-evaluation products such as MTRs and BTORs are generally timely and offer potential for synthesis of lessons.** This is relevant for all projects and especially for those implemented through multiple phases. ADB's natural business cycle is for the design of a new phase of a project to start before the current phase is completed. On average, the approval of a follow-on phase happens 3 years before the PCR of the earlier phase is circulated (Linked Document E, Table 1). While the end products of the self-evaluation system may not feed directly into follow-on phases, they are important sources of wider organizational learning as staff internalize lessons for cross-project, cross-sectoral and cross-regional learning. Interim reports such as MTRs and BTORs can provide a more immediate source of learning and synthesis of lessons. Box 1 provides an example of a group of phased projects to illustrate the time lags for the preparation of PCRs and MTRs for each project phases relative to the loan approval timings for each loan.

**Box 1. Timeliness of Self-Evaluation Products in a Project with Multiple Phases.**

IED explored the issue of timeliness by examining a series of phased ADB investments to support the provision of water supply and sanitation services in small towns in Nepal, the Small Towns Water Supply and Sanitation Sector Project. The figure below shows the timing of the delivery of project approval documents (the report and recommendation of the president [RRP]) and the self-evaluation products (midterm review [MTR] and project completion report [PCR]). The completion reports were produced too late to feed directly into follow-on project phases. However, interim self-evaluation products, such as the MTR, are more likely to be available to feed into follow-on phases of projects. MTRs for the first and second phase of this project were circulated before loan approval for subsequent phases.

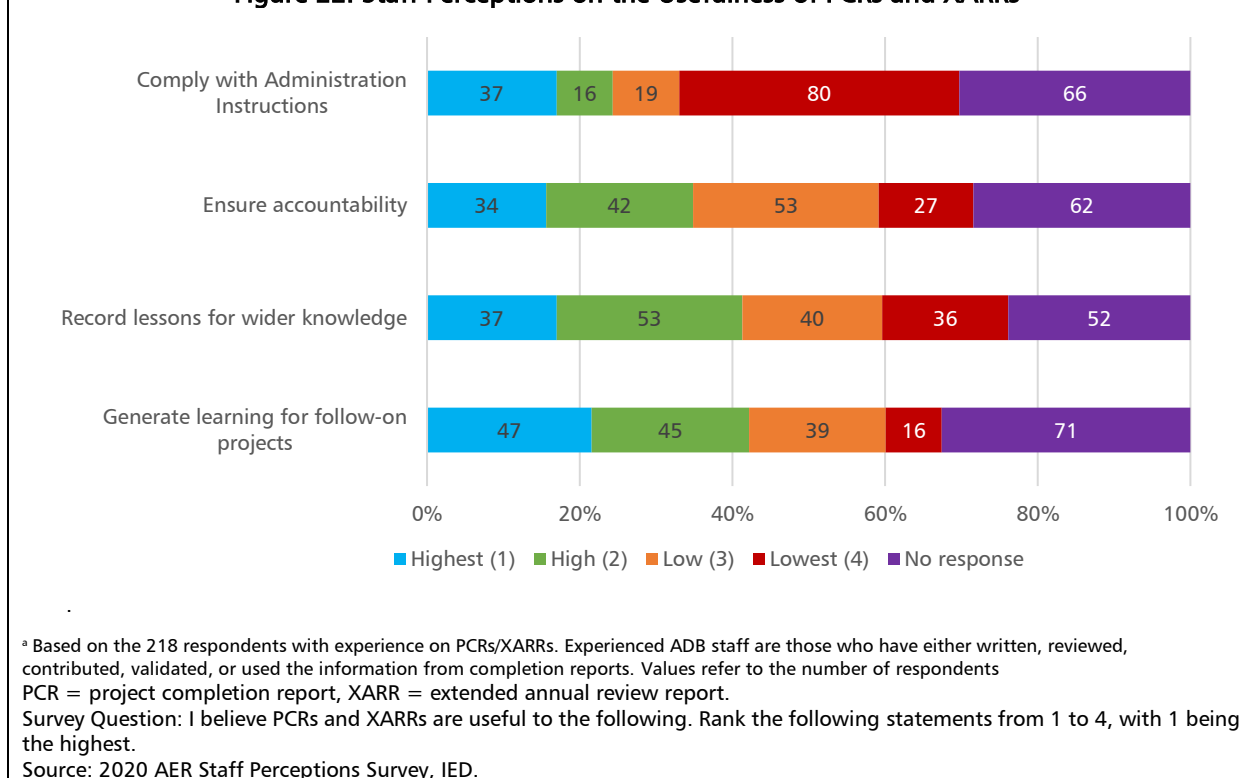


MTR= midterm review, PCR = project completion report, RRP= report and recommendation of the President, STWSSSP= Small Towns Water Supply and Sanitation Sector Project, UWSSSP = Urban Water Supply and Sanitation Sector Project  
Source: Asian Development Bank (Independent Evaluation Department).

136. **In summary, on average the project self-evaluation system is timely.** However, ensuring that financial closing and circulation of completion reports happen in a timely manner requires further concerted efforts. Interim self-evaluation products such as BTORs and MTRs offer an opportunity to capture and synthesize lessons during implementation and make them available before project physical or financial closure.

### 3. Usefulness

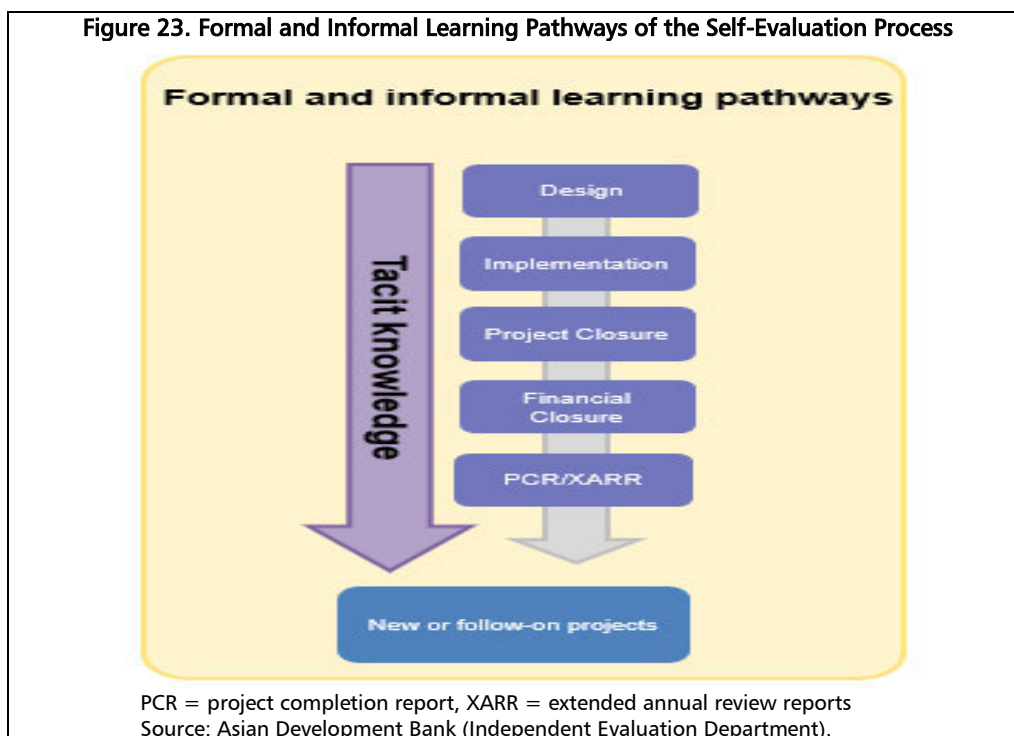
137. **Regional departments considered the project self-evaluation system to be equally useful for both accountability and learning purposes, while PSOD considered self-evaluation to be more useful for accountability than for learning.** Generally, staff perceived the self-evaluation system to be equally useful for accountability and learning purposes (Figure 22). The focus group discussion with PSOD found that staff felt self-evaluation to be more useful for accountability than for learning because nonsovereign projects are dictated by market conditions and financial demand rather than by a corporate learning cycle. 28% of PSOD respondents indicated that lessons learned in XARRs were useful for the design of new projects (Appendix 6, Figure A6.6).

**Figure 22. Staff Perceptions on the Usefulness of PCRs and XARRs<sup>a</sup>**

138. **The self-evaluation system at the project level in its current form is useful as a way of capturing lessons and therefore as a source of knowledge.** A useful M&E system should not only be able to collect and store reliable data in a timely way, it should also be able to transform these data into knowledge that is used to inform decision making and improve performance. The M&E system is the cornerstone of knowledge and this is why it matters at all levels and must be improved if there are deficiencies. Completion reports are useful for wider organizational learning; ADB staff internalize lessons as part of cross-sectoral, cross-project and cross-regional learning, especially in the case of projects implemented in the same country. This was confirmed by the 54% of staff involved in sovereign operations who considered the lessons that were derived from completion reports as useful for new projects (Appendix 6, Figure A6.6).

139. **Tacit knowledge provides an alternative pathway for learning which complements the role played by completion reports.** When compared with other sources, PCRs and XARRs were ranked as only the fifth most important information source (Appendix 6, Figure A6.5). This indicates that part of the knowledge that feeds into the project learning loop is tacit, which means it is generally not documented, but passed on person to person, mostly through informal interactions, mentoring, and training. Tacit undocumented knowledge complements the formal system as shown in Figure 23.

Figure 23. Formal and Informal Learning Pathways of the Self-Evaluation Process



140. **Advice from colleagues and peers is the most important source of information for the design of new projects.** Both the survey and the focus group discussions highlighted that the knowledge a project team accumulates during implementation is an important source of learning that can be incorporated into new or follow-on project designs without being formally captured. This was confirmed by 68% of the survey respondents who regarded advice from colleagues and peers as fairly to very important source of information (Appendix 6, Figure A6.5).

141. **Such tacit knowledge is not effectively captured during the implementation period.** This is most evident in projects with follow-on phases. As emerged from the document review, 74% of sovereign and 18% of nonsovereign projects with follow-on phases incorporated lessons from earlier phases (Appendix 5, Table A5.11), even though the completion reports came later because of the natural ADB business cycle. Lessons related specifically to project design and implementation are most likely to be formally learned in follow-on phases. The staff survey indicated that the various stages of the preparation process of completion reports are an avenue for generating effective learning (Appendix 6, Figure A6.7). This was supported by the focus group discussions, which identified data collection missions for the preparation of completion reports as an important contribution to the lessons and recommendations of a project that are then incorporated into the design of new projects.

142. **Appropriate incentives and the use of interim reports are ways for ADB to synthesize lessons and promote learning, tap the potential of tacit knowledge, and increase the usefulness of the project self-evaluation system.** Some sovereign operations have included a member of a project's implementation team in the processing team of the subsequent phase, which has proved to be a useful way of sharing lessons and capturing knowledge. However, more can be done. Mission documentation starting from the inception mission and including MTRs and BTORs is an important source of learning and could be used more effectively to build up a knowledge base for the preparation of the PCR. In this regard, incentives in terms of staff resources and time to prepare adequate documentation from missions are lacking for both sovereign and nonsovereign operations. Moreover, the templates used for these interim



reports have not been fully exploited to capture, synthesize, and disseminate lessons before the preparation of completion reports.

143. **In summary, ADB's project self-evaluation system does generate information that can be used for accountability, learning, and knowledge, but it is not fully optimized.** While the project self-evaluation system uses explicit knowledge and allows for learning, tacit knowledge represents a key opportunity for greater learning beyond the formal documented pathway. The current system is useful for both accountability and learning purposes, but the potential is not optimized, especially in the case of nonsovereign operations. In particular, the potential of tacit knowledge remains largely untapped and represents a missed opportunity for greater learning through the formal documented pathway. Appropriate incentives and the interim reports may provide an important opportunity not only to enhance the timeliness of the project self-evaluation system, but also to synthesize lessons to tap the potential of tacit knowledge and increase the usefulness of the project self-evaluation system. So far, staff resources and time have not been sufficient.

144. **Overall assessment.** ADB's project self-evaluation system is robust and credible, and the system is useful for accountability and learning; however, sustained attention to project M&E systems during implementation is needed to improve the reliability of the data they generate for measuring development outcomes at completion. Suboptimal project and central-level databases, the absence of integrated and user-friendly guidelines for ADB on M&E principles and practices, low country level technical and institutional capacities, and insufficient targeted resources are affecting the reliability of M&E systems. For nonsovereign operations, a formal, separate and comprehensive monitoring system for the systematic tracking of performance, results and lessons is not fully in place. ADB's project self-evaluation system is timely on average and generates information that fosters usage, learning and knowledge, but it is not fully optimized because tacit knowledge is largely untapped. Interim self-evaluation products such as BTORs and MTRs offer an opportunity to capture and synthesize lessons during implementation and make them available before a project's physical or financial closure and to contribute to both better timeliness and usefulness.

## G. Lessons from Comparable Multilateral Development Banks

145. **This section extracts lessons from the self-evaluation practices at comparable MDBs.** The organizations covered were: the World Bank Group (including the International Finance Corporation [IFC] and the Multilateral Investment Guarantee Agency [MIGA]), IDB Group (including IDB Invest), IFAD, EBRD, and the AfDB. The findings are based on a review of available documents and interviews with staff in independent evaluation offices and operations departments.

146. **The MDBs have broadly similar project self-evaluation systems.** Their evaluation policies regulate independent and self-evaluation systems for country programs, lending and investment operations, and sometimes advisory services. The MDBs' self-evaluation systems generally treat public and private sector operations differently, although the Inter-American Development Bank Group applies the same methodology to both sovereign and nonsovereign projects. The self-evaluation systems of other MDBs are described in Linked Document D.

147. **Attention to the quality of project design at entry, tools and templates for both self- and independent evaluations, and the capacity of staff determine the reliability of the project self-evaluation system across all the MDBs.** IFAD has streamlined the templates for its project concept notes and project design reports to provide a greater focus on implementation readiness, theory of change, and results. In 2017, it produced new guidelines for project completion reports (PCRs) and it is using a development effectiveness matrix to assess the quality of project design throughout the review process.

148. **The theory of change approach now guides the design of all World Bank operations.** If a theory of change was not developed before the project, it is constructed afterwards for self-evaluation purposes.

The World Bank Operations Policy and Country Services has developed an M&E toolkit which is applied to the design of projects and their M&E systems, so data collection can support implementation progress and reporting from the outset. The data derived from regular monitoring will be used to assess results following completion. The indicators and data collection will also be useful for regular implementation and for specific midterm reviews and applicable impact evaluations.

149. **In the World Bank, training on evaluation and on the preparation of Implementation Completion and Results Reports (ICRs) is regularly organized by the Independent Evaluation Group (IEG) and operations departments.** In the case of the IDB, training is aimed at improving the quality of the conclusions and lessons of the self-evaluation products. In 2017, IFAD launched “The Program in Rural Monitoring and Evaluation (PRiME),”<sup>83</sup> a global training framework in project M&E that seeks to achieve better results in rural development projects by building in-country capacity for M&E. It sets high M&E standards in the rural development sector and is designed to improve results measurement and data collection for informed decision making.

150. Interviews with World Bank staff indicated that the involvement of task team leaders in the preparation of completion reports allowed a better sense of ownership of the product by the task team leaders, and that this is expected to improve completion reports at the World Bank.

151. **Notwithstanding the improvements that have been made by almost all institutions, the MDBs share similar weaknesses.** Data quality and availability vary (as at ADB), particularly between sovereign and nonsovereign operations. Not all projects include baseline data and, when they do, their reliability and completeness are sometimes questionable. At the end of the project, data may not be collected systematically through beneficiary surveys and, even when surveys are conducted, they may not collect data that are comparable with the baseline data. Complex project designs are often characterized by overly ambitious objectives and a lack of resources (both human and financial) to collect high-quality primary data. This makes it difficult to monitor results against objectives and to measure progress against indicators.

152. **Governments are expected to provide inputs to the self-evaluation reports, but the extent of their involvement differs among the MDBs.** In IFAD, the implementing agency used to be responsible for preparing the report (with some IFAD assistance) but IFAD has recently assumed greater responsibility for the report.<sup>84</sup> In the World Bank, the government PCR is normally received, but not always, and it is provided as an annex to the World Bank’s own self-evaluation report. In IDB the government provides information and material, but not a separate report. The quality of the PCRs prepared by governments and the availability and reliability of data can vary considerably according to the country and relevant executing agencies, as at ADB.

153. **Staff levels, staff mobility, and the lack of incentives are also constraining factors.** Long project implementation periods and staff mobility mean that the officers responsible for project design and implementation are often not there at completion. Completion reports are often prepared by junior staff or external consultants without proper mentoring, which affects the quality and overall credibility of the system. Incentives for self-evaluations (and other aspects of M&E) are often weak. In general, there are no institutional self-evaluation and results measurement champions to advocate for and instill an evaluation and results measurement culture within the organizations. These factors were also broadly identified as an influence on the preparation of high-quality self-evaluations for ADB staff.

154. **The self-evaluation systems for private sector operations face specific challenges.** Confidentiality issues curtail dissemination of reports and the focus on profitability can easily reduce the attention that staff pay to broader issues of economic development, which can in turn reduce their attention to the

<sup>83</sup> Program in Rural M&E. [https://www.primetraining.global/about\\_us](https://www.primetraining.global/about_us)

<sup>84</sup> After recent modifications, it is now recognized that IFAD will take more responsibility for preparing the self-evaluation project reports (PCRs), but IFAD and the government have joint responsibility for the report.

formal self-evaluations. The EBRD, IDB Invest, and recently IFC have adopted ambitious ex-ante development impact frameworks which may over time provide useful inputs for self-evaluations, however they are also more complex and likely to be more expensive to operate (Box 2).

**Box 2. Highlights of Ex-Ante Development Impact Frameworks for Private Sector Operations at EBRD, IDB Invest, and IFC**

The three main private sector multilateral development banks (MDBs)—European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB) Invest, International Finance Corporation (IFC)—have different focus areas. For EBRD the transition process is key; both EBRD and IDB Invest have a regional focus; while IFC works across the developing world and with many potential clients in the World Bank’s International Development Association (IDA) countries.

These differences flavor their operational emphasis and their monitoring systems; IFC’s monitoring system has a new focus on creating markets, while EBRD concentrates on countries in transition. All three entities have in recent years introduced new monitoring systems with significant similarities, but also some differences.

In 2016, EBRD introduced a new transition concept with six key qualities: competitive, well governed, green, inclusive, resilient, and integrated. At the project level, the key components of the system are the Transition Objectives Monitoring System (TOMS) and the Transition Impact Monitoring System (TIMS). TOMS determines the indicators to measure the achievement of the transition objectives over time, assess sources of risks, and take mitigating actions. These are used to calculate the “expected transition impact” (ETI). TIMS reviews the performance against the indicators that were set and adjusts risk and impact potential ratings accordingly.

The IDB Invest tool for Development Effectiveness, Learning, Tracking and Assessment (DELTA), was reintroduced in 2016. It aims to track each project at every step of the project cycle, with standardized scoring and analysis. Key aspects include how well projects align with the IDB Group’s development priorities, the potential economic returns for IDB Invest and for the clients, and the degree to which the projects will produce social benefits.

In 2017, IFC replaced the Development Outcome Tracking System (DOTS) with the Anticipated Impact Measurement and Monitoring System (AIMM). DOTS was a system for tracking results for investment operations 3 years from project start. It measured the development effectiveness of investments without regard to project risk. By contrast, AIMM is an ex ante monitoring system which will (i) cover both investments and advisory services, (ii) be a major tool for taking investment decisions, and (iii) be a more comprehensive monitoring tool throughout the life of a project. AIMM assesses a project’s development impact along two dimensions: project outcomes and market outcomes. Project outcomes include a project’s direct effect on stakeholders, the direct, indirect and induced effect on the economy and society overall, and the effects on the environment. Market outcomes relate to the project’s ability to catalyze systemic changes and to influence market creation; it involves estimates of risks. Key dimensions of DOTS have been maintained in the system, with the exception of financial return. To work as intended, AIMM will incorporate the contributions and judgements of different IFC departments, and it is important in this regard that the system will apply and adjust accurate estimates of potential benefits and of risks. The system is designed to create direct feedback loops between project evaluation findings and the way projects are designed. Lessons learned and information gathered through “downstream” project monitoring and evaluation will feed into the upstream decision-making process.

Source: Asian Development Bank (Independent Evaluation Department).

155. **The times between project completion, circulation of PCRs, and validations by the independent evaluation office have been reduced in most MDBs and this has improved the timeliness of the self-evaluation system.** The World Bank group expects a period of 6 months between project completion and the completion of the self-evaluation reports. Validations by IEG are done within 6 months from receiving the ICR. World Bank operational units have dedicated quality personnel that liaise closely with IEG and work internally to prepare the ICRs. Training activities and encouragement to organize data collection and compilation well before project closing has led in some instances to staff starting to prepare an ICR as early as 1 year before the expected closing date of the project. IFAD seeks to have its PCRs ready at project closing, but with a delay at times of about 2 months, with validations to appear about six months

thereafter. IDB also works under tight deadlines for both self-evaluations and their validations. These timeframes are generally shorter than those in the ADB system, as explored in the previous section.

156. The harmonization of evaluation methodologies between self- and independent evaluation systems across the MDBs has facilitated the preparation of completion reports and reduced the scope for misunderstandings and disagreements which were in the past an important cause of delay. However, the overall timeliness of the system is affected by delays in conducting baseline surveys and midterm reviews. Midterm reviews tend to be done later than the implementation mid-point, which affects projects that need restructuring.

157. **As at ADB, project self-evaluations foster learning at the other MDBs.** IFAD recently launched an operations academy, which provides a useful platform for staff to generate and use evidence in project design and implementation and to share experiences, lessons and results. The inclusion of an explicit theory of change in project design may also support learning throughout the implementation process and at the time of final self-evaluations and their validations. As mentioned above, if a theory of change was not included in the project design, the World Bank now constructs such a theory as part of the ICR process. The theory of change is considered to be not only a tool to ensure understanding of the project, but also an encouragement to staff, including task team leaders, to engage in critical thinking and learning. The overall usefulness of self-evaluation products is assisted by the public disclosure of the completion reports for public sector operations. Databases of evaluation lessons are available within the World Bank and are available for use by IFC and MIGA.

158. **However, accountability remains the main driver of self-evaluation.** Differences between the ratings of self-evaluations and independent evaluations have been narrowing for some MDBs, indicating that the quality of self-evaluations has improved. However, at times self-evaluation ratings may be influenced in part by an expectation of a lower rating by the independent evaluation office. Both the World Bank and IFAD have paid attention to the causes of the differences between self-evaluations and independent evaluations, including whether these are greater in particular regions or sectors. This has pushed operational managers to pay more attention to the quality of their completion reports and may have encouraged a better understanding of the rating criteria.

## 1. Validation Practices in the MDBs

159. **Validation is now a well-established and accepted practice across MDBs.** The purpose of the validations conducted by the independent evaluation office is to ensure consistency, credibility and to encourage candid and critical self-evaluation by the operations departments. The ECG GPS establishes that, for the purposes of corporate reporting (accountability), the independent evaluation office should select a sample of projects for a combination of completion report validations and PPERs. The sample should be representative of projects ready for evaluation. The sample size should be sufficiently large to ensure that sampling errors in reported success rates at the institutional level are within commonly accepted statistical ranges, taking into account the size of the population of operations ready for evaluation. If the sample is less than 100% of the population of completion reports and projects ready for evaluation, a statistically representative sample should be selected.

160. **The World Bank, ADB and IFAD validate 100% of available PCRs for public sector operations,** IDB is moving toward full validation, and already validates completion reports for all newer projects. AfDB validates a representative sample of project completion reports (up to a maximum of 65 sovereign validations per year).

161. **ADB and AfDB validate 100% of the completion reports prepared at maturity for nonsovereign operations.** IEG validates a random sample of self-evaluations: 40% of IFC's mature investments (XPSRs) and 51% of IFC advisory services PCRs. For MIGA, 100% of mature guarantees receive self-evaluations

followed by IEG validations and independent evaluations by IEG. EBRD validates a purposeful sample of projects.

162. **The validation of 100% of the self-evaluation reports, or of a representative random sample, allows for rigorous corporate reporting, although this does not happen consistently across MDBs.** The World Bank, ADB and IADB provide independently validated ratings for corporate reporting. In particular, IED ratings have been used for corporate reporting since the 2014 Development Effectiveness Report.

## H. Summary

163. **The ADB self-evaluation system is designed to generate reliable data and information; however, its reliability is affected by weaknesses in the project M&E systems during implementation.** Significant progress was made over the evaluation period on reporting of baseline and end-of-project data. New DMF guidelines and improvements to the PPR system will also improve the performance tracking potential. However, shortcomings in the reliability of the data the system generates affects its ability to measure development outcomes at completion. Suboptimal project and central-level databases, lack of integrated and user-friendly guidelines, low country level technical and institutional capacities, and insufficient targeted resources are also impacting the reliability of M&E systems. For nonsovereign operations, the existing monitoring systems are not fully tracking development objectives or capturing learning; they need greater attention during implementation. Stronger incentives, such as staff time and resources, are needed to mitigate the biases that are intrinsic to self-evaluation.

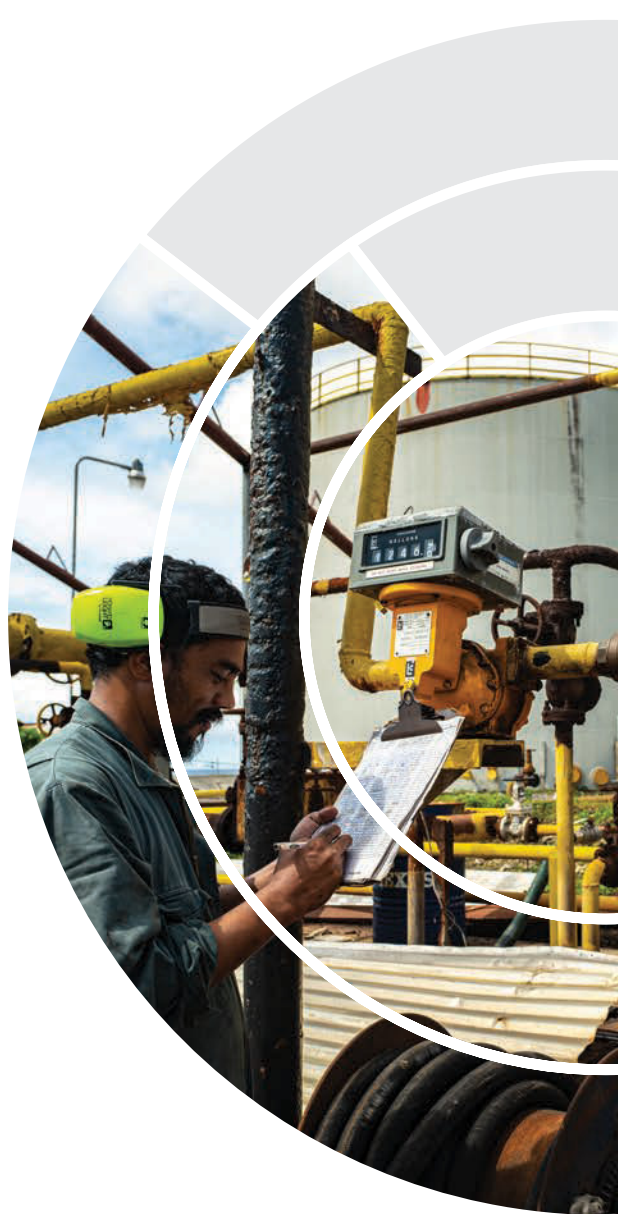
164. **The project self-evaluation system is generally timely. However, ensuring that financial closing and circulation of completion reports happen in a timely manner requires further concerted efforts.** Interim self-evaluation products, such as BTORs and MTRs, offer an opportunity to capture and synthesize lessons during implementation and make them available before project's physical or financial closure.

165. **ADB's project self-evaluation system generates information that fosters usage, learning and knowledge; however, it is not fully optimized, especially for nonsovereign operations where the M&E system is not fully developed to capture this information.** Although the project self-evaluation system incorporates explicit knowledge and allows for learning, the potential of tacit knowledge remains largely untapped. Incentives to ensure adequate preparation of the documentation from missions, including BTORs and MTRs, are important ways to tap tacit knowledge and increase the usefulness of the project self-evaluation system. The templates used for BTORs and MTRs have not been fully exploited to capture, synthesize, and disseminate lessons.

# 4

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## ADB Response to IED Recommendations





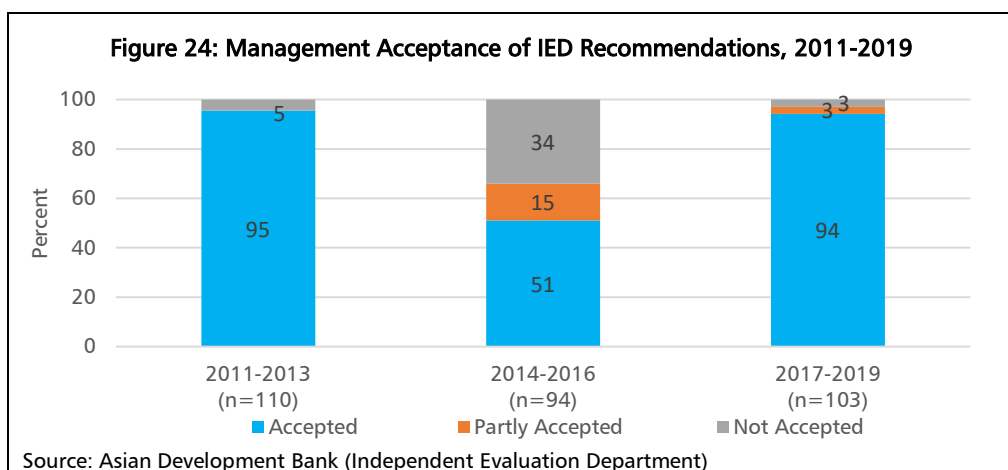
## Highlights

- IED considers 75% of the actions taken by ADB Management in response to IED recommendations to have been fully or largely implemented.
- At other multilateral development banks, implementation of recommendations by Management increased in 2016–2018, although slowly.
- In 2017–2018, 88% of ADB action plans were better aligned with recommendations and 78% were more specific, a positive effect of the greater engagement between Management and IED since 2017.
- Completed actions on the recommendations of four evaluations informed and guided staff in the management and implementation of projects.

166. This chapter is designed to inform the ADB Board of Directors and its DEC of the extent of adoption and implementation of recommendations made by IED evaluation reports discussed by the DEC, as well as the extent of organizational learning that occurred as a consequence.<sup>85</sup>

## A. Acceptance of IED Recommendations in 2019

167. Management acceptance of IED recommendations has improved markedly since reforms to the Management Action Record System (MARS) began in 2017 (Figure 24). The acceptance rate of 94%<sup>86</sup> in 2017–2019 surpassed IED’s expectations.<sup>87</sup> Eighteen high-level reports have gone through technical discussions on draft recommendations since 2017. IED has developed protocols to strengthen the substantiation, clarity, and actionability of its recommendations. Recommendations are drafted following dialogue with operations staff, including technical meetings with relevant specialists, before IED finalizes an evaluation report for approval by the DEC. Yearly acceptance rates since 2011 are in Appendix 7, Tables A7.1 and A7.2.<sup>88</sup>



<sup>85</sup> For 2020 AER, the discussions on acceptance of IED recommendations and quality of action plans cover the period in calendar years, while the discussion on the assessment of implementation of actions on recommendations are in reporting years (i.e., 2019 covers the period from 1 October 2018 to 30 September 2019).

<sup>86</sup> The acceptance rate of 94% is the percentage of recommendations that Management accepted and said it would implement fully from reports issued in 2017–2019.

<sup>87</sup> IED expects an acceptance rate of 80% for 2018–2022.

<sup>88</sup> In 2019, Management fully accepted 42 out of 43 recommendations. One recommendation was partially accepted (Appendix 7, Table A7.1).<sup>88</sup> This came to a full acceptance rate of 98%, the highest since 2012. (Appendix 7, Table A7.2)

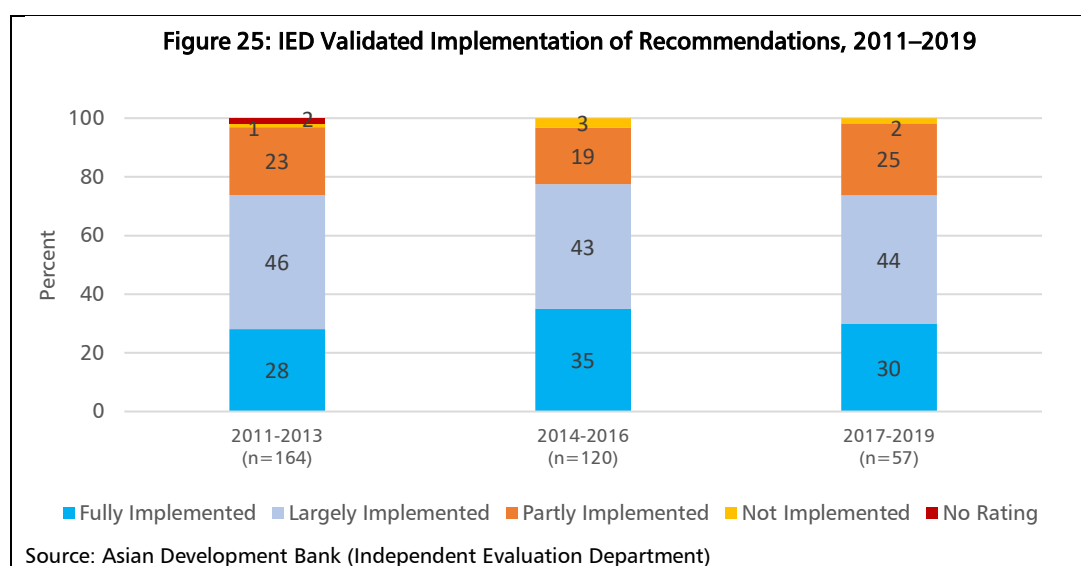
168. **Management is more receptive to recommendations that are timely and that address ADB's ongoing strategic and operational priorities.** Management acknowledged the timely contribution of the 2019 AER in preparing the 2019–2024 corporate results framework, the operational priorities of Strategy 2030, and the guidelines for the CPS results framework. IED's evaluation of ADF XI and 12 operations provided timely feedback to the replenishment negotiations taking place for ADF 13. The recommendations from the sector and country assistance program evaluations for Indonesia were broadly in line with the strategic focus of the next CPS Indonesia and the government's medium-term development priorities. Energy, the second largest operational sector under Strategy 2030, was the focus of the sector assistance program evaluation for Pakistan.

169. **The analytical rigor used in evaluations also affects the extent to which Management agrees with the recommendations.** For the 2019, AER Management also appreciated the coordination between IED and operational departments in ensuring data integrity particularly in the analysis of the timeliness of project completion reports.<sup>89</sup> IED has placed greater emphasis on making evaluations deeper and richer in evidence in recent years.

170. **The effect of systematic engagement between Management and IED is less clear on the degree of implementation success relative to acceptance.** Comparing the periods before and after the introduction of the engagement process with Management, a significant increase in the full acceptance rate can be seen from 75% in 2011–2016 to 94% in 2017–2019. In contrast, the degree of fully or largely implemented actions has stayed at around 75% in 2011–2016. The impact of this engagement on implementation success is yet to be seen from actions formulated during the engagement period (2017–2019).<sup>90</sup> This is further discussed in the next section.

## B. Implementation of IED Recommendations Due in 2019

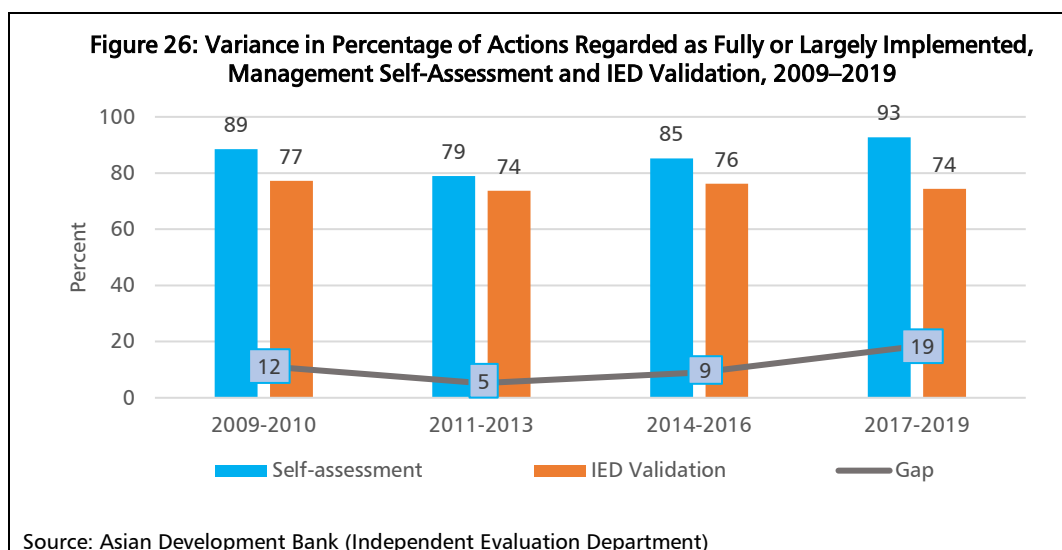
171. **ADB Management fully or largely implemented 74% of actions due in 2017–2019, consistent with its expectations for the longer period 2018–2022.** The implementation performance has been around this level since 2011 (74% in 2011–2013 and 78% in 2014–2016). Yearly implementation rates since 2011 are in Appendix 7 (Table A7.3).



<sup>89</sup> IED. 2019. *Annual Evaluation Review – Performance and Scorecards*. Manila: ADB.

<sup>90</sup> 9 out of 48 actions in 2017–2018 have been implemented. In 2019, there are 38 actions for implementation.

172. **IED's assessment of the extent of implementation of recommendations is consistently below that of Management.** The gap between what Management and what IED considered to be fully or largely implemented increased from 8% in 2009–2016, to 18% in 2017–2019. This was largely because of the results in 2019 (Appendix 7, Table A7.5).<sup>91</sup> The gap in the two assessments of implementation rates of actions on recommendations since 2009 when MARS was initiated is in Figure 26. Most of the downgrades in 2009–2019 by IED were due to inadequate implementation of action plans, insufficient evidence to assess implementation, poor relevance of actions formulated to recommendations made and accepted. The gaps in assessments reflect the differences in perceptions between IED and Management on the adequacy of actions taken.<sup>92</sup> The actions downgraded in 2019 are in Appendix 8.



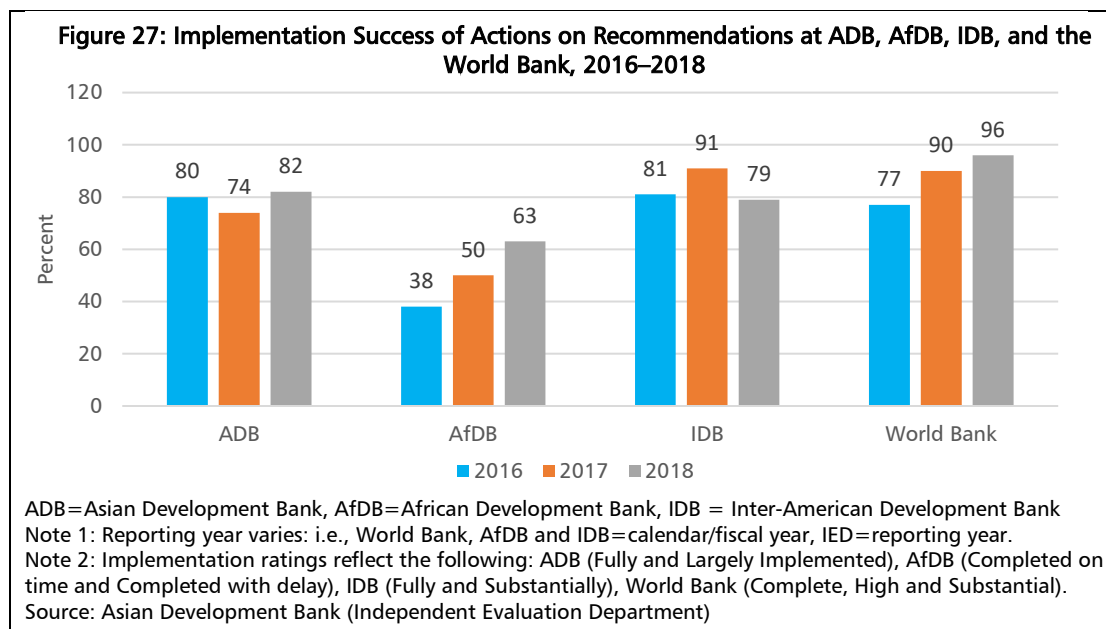
173. **The degree of implementation of evaluation recommendations at MDBs is rising, although the increase is slow.** As of 2018, 41% of the World Bank's action plans had not been fully implemented 4 years since they were made<sup>93</sup> (Linked Document H). ADB's implementation rate averaged 79% in 2016–2018, with around 40% fully implemented within the 3-year period. This rate is quite good and comparable with the rates at the World Bank and the IDB. For AfDB, the share of completed actions increased from 50% in 2017 to 63% in 2018, of which 22% were completed on time with 41% delayed. IDB's implementation rate declined from 91% in 2017 to 79% in 2018, partly because of new action plans that lacked information for validation. Commonly cited reasons for the delay were the longer than expected time taken for results to materialize.

174. **Overall, IED expects more relevant and specific actions, and better implementation.** The patterns that have been seen are not very different from those in some other MDBs, but other MDBs are significantly stepping up their assessments of actions to improve the implementation of agreed recommendations, and ADB and IED can learn from these, as will be discussed in the next section (Figure 27).

<sup>91</sup> Ten out of 15 actions assessed in 2019 were validated by IED as having been either fully or largely implemented (Appendix 7, Table A7.3).

<sup>92</sup> For example, the Management Response in the 2019 AER pointed out that "Management did not agree with the downgrades of action plans of the Corporate Evaluation of ADF X and XI operations as IED's sub-actions were not included in the MARS action plans (only included in IED's suggestive sub-recommendations) and could not be implemented at Management's discretion (requiring donors' consents).

<sup>93</sup> 41% refers to actions rated as substantial and below (rating scale in Linked Document H, footnote 2). The Independent Evaluation Group of the World Bank uses the percentage of Management Action Record recommendations with implementation of the action plan rated "high" or "complete" as a performance indicator in its IEG Results Framework. World Bank has a four-year tracking cycle.



175. **The implementation of actions by the World Bank and ADB suggest that the two organizations face common challenges and opportunities.** In both, agreed actions concerned with defining strategies and approaches were implemented most quickly in 2017–2018. For ADB, such actions were developing sector strategies and assessments to strengthen country plans and programs. The slowest actions to be implemented at the World Bank were those related to internal capacity and collaboration (2018) and implementing programs and projects followed by knowledge and measurement (2017). Similarly, half of the partly implemented actions at ADB in 2016–2018 were related to project management, monitoring and evaluation and knowledge management.

### C. Results of Evaluations with All Recommendations Completed in 2019

176. **IED has committed to the Development Effectiveness Committee that it will report on actions completed over the past year in more detail.** There were four evaluation reports in 2019 for which all actions were completed: (i) CAPE Kyrgyz Republic (1994–2010),<sup>94</sup> (ii) CAPE Papua New Guinea (2001–2014),<sup>95</sup> (iii) the Effectiveness of Asian Development Bank Partnerships,<sup>96</sup> and (iv) ADB’s Safeguard Implementation Experience Based on Selected Case Studies.<sup>97</sup> The actions as recorded in MARS for these four evaluations were implemented between 2015 and 2019. Management has not agreed to provide IED and the Board with notes in MARS on the overall outcome of completed evaluations, but IED feels it is important to look back on these reports in this AER, as follows.<sup>98</sup>

177. IED concludes the actions were appropriate and were well followed up, especially those responding to recommendations in the two CAPEs. The recommendations and lessons of the CAPEs for Papua New Guinea and the Kyrgyz Republic were adequately considered in developing the next CPS.

178. Findings and recommendations from the evaluation of the Effectiveness of ADB’s Partnerships indicated ways for ADB to get the most out of its partnerships. IED concludes that two out of the four

<sup>94</sup> IED. 2012. *Country Assistance Program Evaluation for Kyrgyz Republic: Evolving Transition to Market Economy*. Manila: ADB.

<sup>95</sup> IED. 2015. *Country Assistance Program Evaluation for Papua New Guinea*. Manila: ADB.

<sup>96</sup> IED. 2016. *The Effectiveness of Asian Development Bank Partnerships*. Manila: ADB.

<sup>97</sup> IED. 2016. *ADB’s Safeguard Implementation Experience Based on Selected Case Studies*. Manila: ADB.

<sup>98</sup> Management disagreed because (i) an “outcome” statement is not included in Action Plans; (ii) there is often a significant time lag between actions, outputs, and outcomes; and, (iii) many factors contribute to the achievement of outcomes.

recommendations were fully implemented. In support of knowledge partnerships, changes to business processes were made in 2016 and 2017: (i) issuance of staff instructions and revisions to the Operations Manual on processing and developing knowledge partnerships,<sup>99</sup> (ii) issuance of a note by the Sustainable Development and Climate Change Department defining modes of engagement with nongovernment organizations;<sup>100</sup> and (iii) revisions to the secondment program guidelines to attract more knowledge experts. Regarding improved financing partnerships, new trust fund guidelines were released in 2018 to enhance alignment between trust funds and financing partnership facilities. ADB's participation in the Global Partnership for Education Fund (GPEF) is seen as a positive step toward the increased use of global funds as a growing source of cofinancing.

179. **The follow-up on actions formulated in MARS on improving the internal management of partnerships within ADB was mixed.** The following measures were implemented: (i) an assessment of partner performance was included in the PCR template; and (ii) a continuous review of the increase in ADB's target for long-term cofinancing by 2030 is taking place. Efficiency gains from the implementation of the Partner Fund Management System (PFMS), an IT solution to improve funds management, remain to be seen. IED's argument for significant restructuring of partnership and cofinancing functions, which the Management Response said needed more detailed assessment than presented in the evaluation, proved instrumental in the restructuring of these functions. IED's recommendation was cited as a rationale for the realignment of the Office of Cofinancing Operations, and the transfer of its roles to new divisions in the SPD and the Sustainable Development and Climate Change Department in April 2019. Management subsequently reported this action in MARS to be largely implemented in 5 February 2020.

180. The 2016 real-time evaluation of ADB's Safeguard Implementation Case Studies highlighted challenges in project preparation and the use of country safeguard systems (CSSs).<sup>101</sup> The central safeguards division in the Sustainable Development and Climate Change Department has paid more attention to reviewing category B cases; previously, these cases had been entirely left to safeguards management in regional departments. A review of current staff deployment and institutional arrangements on safeguards was initiated, additional specialized training programs were conducted, and pilot testing of safeguard monitoring indicators in eOps was begun. The evaluation also called for ADB to exercise strong caution in the use of CSSs in its projects, an option allowed by the 2009 policy. Toward this end, Management (i) completed preliminary equivalence mapping for DMCs to measure the acceptability of their country safeguard standards, and (ii) pursued a capacity development program that included a training program on the environment and social safeguards and orientation training on CSS provisions. Few cases of the use of CSSs in ADB-supported projects have been pursued to date.

## D. Reports with All Recommendations Completed during 2011–2019

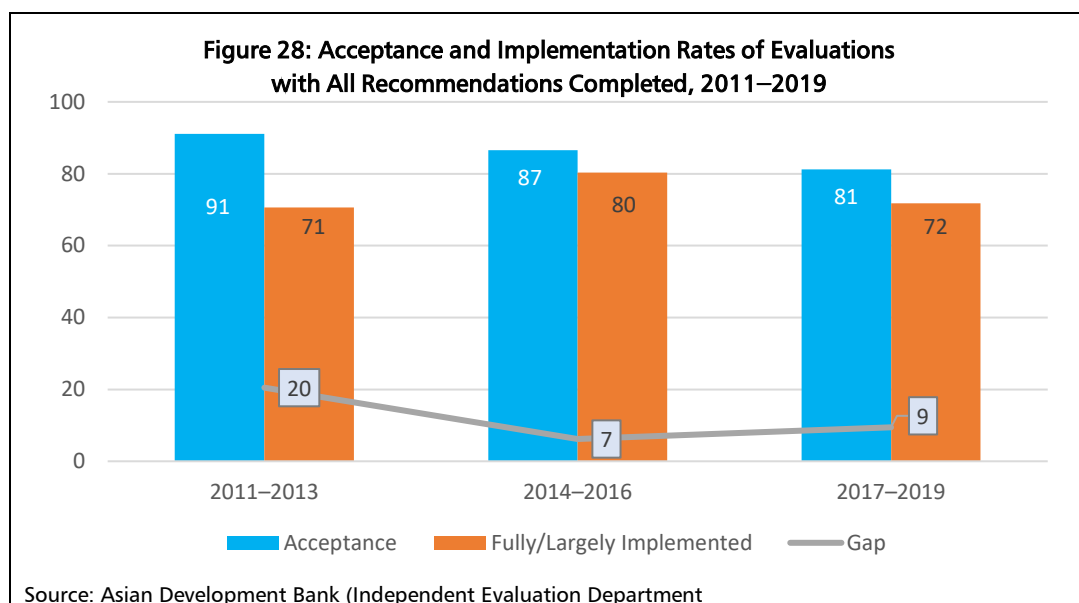
181. **The long-term trend increase in acceptance of recommendations does not guarantee an equivalent degree of implementation of actions but the gap between both has narrowed.** Since 2011, ADB Management completed all 353 accepted recommendations from 84 IED evaluations. During 2011–2016, the Management acceptance rate was 89%, but the implementation rate was 75%. During 2017–

<sup>99</sup> Refers to staff instruction (SI) on knowledge partnerships under Technical Assistance issued 2 March 2017. SPD also revised OM Section E3 on Development Partnerships and developed (i) SI on Business Processes for Cooperation Arrangements for Development Partnerships, without the Transfer of Funds, and (ii) SI on Business Processes for ADB Gaining Membership in Development Organizations or Initiatives.

<sup>100</sup> Sustainable Development and Climate Change Department issued a note defining modes of engagement, engagement issues, and making proposals for updating business process to SPD and Procurement, Portfolio and Financial Management Department (formerly the Operations Services and Financial Management Department) on 17 November 2016 and held discussions with both. Also, NGOC revised OM 4: Promotion of Cooperation with NGOs, and business processes related to operational partnership and granting mechanisms.

<sup>101</sup> IED's evaluation of the effectiveness of ADB's Safeguard Policy Statement (SPS) will be finalized in 2020. This is IED's third evaluation on safeguards compliance since 2014.

2019, the acceptance rate was 81%<sup>102</sup> while the implementation rate was 72% (Figure 28). The gap between acceptance and implementation rates has decreased over time (from 20% in 2011–2013 to 7% in 2014–2016 and 9% in 2017–2019). This positive development can be further explored as the effects of reforms from collaboration between IED and Management take shape. The expectation is that more actions written up in MARS will subsequently be followed up.



## E. Quality of Action Plans during 2017–2018

182. **Early evidence of the impact of changes made in 2017 to the process for the design of recommendations and formulation of action plans can be found in the improved quality of recent action plans.** The increased dialogue and engagement between Management and IED helped address the issue of relevance through these changes. Management and IED introduced the technical discussions on recommendations in 2017 to improve the clarity, substantiation and actionability of recommendations. Action plans are also reviewed for its actionability and measurability before finalization. To measure the degree of relevance and specificity of action plans, AER has piloted a rating system (Appendix 9).<sup>103</sup>

183. **The assessed ratings of 48 actions in 2017–2018 that benefited from greater engagement offer an early indication of the impact of the technical meetings between IED and Management.** At these meetings, draft recommendations were discussed with specialists for their clarity, substantiation, and actionability. Management sends an email to IED to ask for its views on draft actions. For the current AER, a score was assigned for each action based on: (i) relevance (extent to which an action addressed the evaluation recommendations and Management’s response to the evaluation),<sup>104</sup> and (ii) specificity (whether the action showed clear and sufficient targets, outputs and indicators). Table 5 shows the score of action plans by type of evaluation product. The score of action plans by individual evaluation or report is in Appendix 9, Tables A9.1 and A9.2.

<sup>102</sup> The lower acceptance level for this period is mainly due to the corporate evaluations of ADB’s Trade Finance Program (2014) and the Role of Technical Assistance in ADB Operations (2014).

<sup>103</sup> Other MDBs, i.e., AfDB and IDB, also rate relevance (alignment) and specificity (measurability or evaluability) of actions.

<sup>104</sup> The rating for relevance reflects alignment before implementation except for nine actions completed in 2018 and 2019. These actions pertain to CAPE India (2017), Boosting ADB’s Mobilization Capacity (2017), Results-Based Lending of ADB (2018) and Policy-Based Lending of ADB (2018).



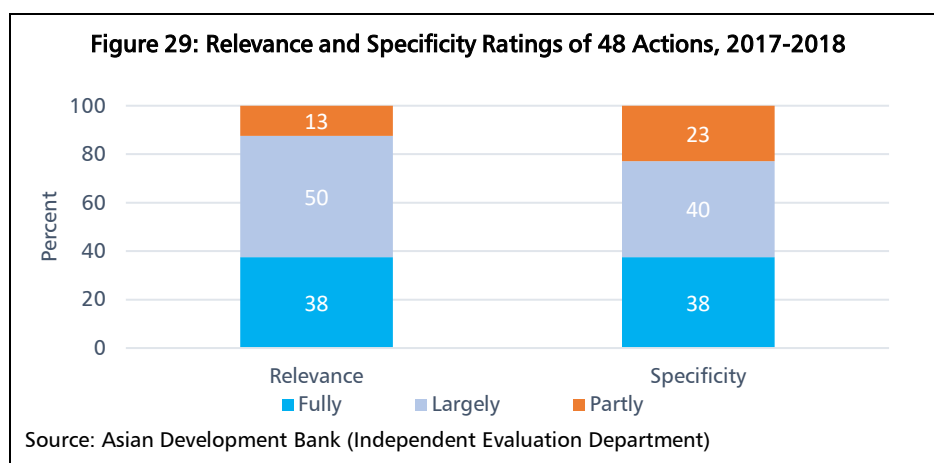
**Table 5. Ratings of Action Plans of Evaluations Produced, 2017–2018**

Evaluation Product	Number of Reports	Number of Actions	Criteria Scores (Period Average)		Overall Score (Average)
			Relevance	Specificity	
Annual Evaluation Review	2	6	3.0	2.7	2.8
Country Assistance Program Evaluation	2	8	3.8	3.6	3.7
Corporate, Thematic, Sector Evaluation	6	26	3.1	3.2	3.2
Sector Assistance Program Evaluation	1	8	3.5	3.3	3.4
<b>Total</b>	<b>11</b>	<b>48</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>

Note: Criteria scores and the overall score are based on the following rating scale: 4 for fully, 3 for largely, 2 for partly, and 1 for negligible or not.

Source: Independent Evaluation Department assessment made for AER 2020

184. **Scores were slightly better for relevance than for the specificity of outputs.** Of the actions, 88% (42 of 48) were either fully or largely relevant to the recommendation and the Management response, compared with 78% with fully or largely adequate targets and outputs (Figure 29). Some action plans lacked specificity, making actions vague and unsuitable for monitoring (23%). Action plans discussed during technical meetings tended to receive higher scores for relevance and specificity. Specifically, the thematic evaluation on gender scored 3.8 and the CAPE for India scored 3.7 (Appendix 9, Table A9.2). Systematic engagement in action plan formulation has been a positive factor in increasing the quality of action plans.<sup>105</sup>



185. **Actions with shortcomings in relevance highlight the desirability of Management and IED to be able to reframe action plans during implementation, to ensure their continued relevance.** Some action plans had outputs that appeared less than the intent of both recommendation and management response (Linked Document I). This highlights the importance of Management being able to adjust action plans based on the changing development context. Action plans may be changed; the current protocol gives Management flexibility for mid-course adjustments. In some cases, Management has updated the action description, status of progress and ratings, and the timeline during implementation. IED will monitor the nature and extent of these changes (e.g., adjusted targets, increased outputs, and modified timelines) as the basis for a renewed protocol on revisiting the relevance of action plans during implementation.<sup>106</sup>

<sup>105</sup> The review of action plans is done through e-mail exchanges or by face to face meetings as considered necessary. The technical working group meeting on action plans for the Thematic Evaluation Study of ADB Support for Gender and Development was on 31 August 2017, and the working group for CAPE India was on 14 November 2017.

<sup>106</sup> There may be a need to expand the functionalities of the current IT system for efficient monitoring and facilitate learning.

186. **Nineteen recommendations with actions due in 2020 will be validated during the fourth quarter of 2020.** For 2020 and beyond, the MARS contains 103 recommendations with actions due for completion from 25 evaluation reports (Table 6). For three reports, the last action is to be completed in 2020.

**Table 6. Timeline for Completing MARS Recommendations, 2020–2023**

Year	Number of Recommendations Due
2020	25
2021	39
2022	15
2023	11
2025	2
Recommendations with no action plan completion target date as of 19 March 2020 <sup>a</sup>	11
<b>Total</b>	<b>103</b>

<sup>a</sup> Five out of seven expected action plans from evaluations approved in 2019 had been finalized as of 19 March 2020: (i) Country Assistance Program Evaluation: Indonesia, (ii) Sector Assistance Program Evaluation (SAPE): Indonesia Finance Sector, (iii) Sector Assistance Program Evaluation (SAPE): ADB's Support to Pakistan Energy Sector (2005–2017), (iv) Corporate Evaluation on ADB's MFF, 2005–2018: Performance and Results Delivered, and (v) 2019 Annual Evaluation Review: Performance and Scorecards. There are two pending action plans: (i) Corporate Evaluation on ADB Private Sector Equity Investments, and (ii) Corporate Evaluation on ADF XI and 12 Operations (to be submitted after completion of ADF 13 replenishment in May 2020 per Management Response). Source: Asian Development Bank (Independent Evaluation Department).

187. **There have been delays in the formulation of action plans.** In 2017–2019, Management prepared 67% of action plans within 2–5 months (60–150 days) of the date of discussion of the evaluation report by the DEC. Only one action plan met the 60-day requirement from the date of discussion by the DEC.<sup>107</sup> The average time taken by Management for the submission of action plans over the past 3 years has been about 100 days more than the stipulated 60 days.<sup>108</sup>

188. **The review and finalization of recent action plans has improved.** Five out of seven action plans were discussed face to face by SPD, implementing department, and IED.<sup>109</sup> This is a key improvement that should be institutionalized in the MARS process. Management and IED should continue to discuss how to enhance the quality of action plans optimizing use of staff time resources available.

189. **The business process for preparing and finalizing action plan needs to be strengthened.** There is a need to revisit the process, starting with extending the 60-day window to 90 days inclusive of finalization (taking account of the fact that 67% of actions plans have been completed within 60–150 days). Other MDBs have set timeframes for the development of action plans: IDB (90 days), World Bank (90 days excluding additional 4 weeks of review and finalization<sup>110</sup>), and EIB (8 weeks). A delay in the submission of an action plans is a missed opportunity to ensure institutional accountability and learning. At the request of the DEC members, IED will report more frequently to the DEC on pending action plans.

190. **Some MDBs have already started to improve their action plans.** The World Bank launched two pilots for adaptable action plans in 2016 and 2017, allowing Management flexibility to adjust the plans

<sup>107</sup> The draft action plan should be provided within 60 days including drafting of action plans, review and comments by IED. Management does not have to take on board or seek approval of the final action plan.

<sup>108</sup> Also, of the 15 high-level reports approved from 2017–2019, seven had action plans submitted during the first quarter of the following year.

<sup>109</sup> Face to face meetings were held for the following actions plans: Country Assistance Program Evaluation: Indonesia (18 March 2020); Sector Assistance Program Evaluation (SAPE): Indonesia Finance Sector (11 March 2020); Sector Assistance Program Evaluation (SAPE): ADB's Support to Pakistan Energy Sector (2005–2017) (10 March 2020); Corporate Evaluation on ADB's MFF, 2005–2018: Performance and Results Delivered (10 March 2020); and, 2019 Annual Evaluation Review: Performance and Scorecards (11 March 2020).

<sup>110</sup> World Bank. 2019. *Results and Performance of the World Bank Group 2018: An Independent Evaluation. Results and performance evaluation*. Washington, D.C.

depending on development needs. IDB revisited action plans that were rated low in relevance in 2016 and this led to an increase in the relevance and quality of action plans in 2017. AfDB undertook a full validation in 2019 to consider relevance issues, the results of which have not yet been published.

191. **Lately, ADB Management has organized and discussed with IED its draft action plans, rather than limiting the process to requests for comments through email.** It would be very helpful if Management continue regular involvement of IED in the drafting of MARS action plans following accepted recommendations. Some amendments to the current process are suggested. First, the 60-day window for the posting of action plans in MARS should be extended to 90 days from DEC discussions of evaluation reports. Second, a meeting with IED staff before posting in MARS should become a standard feature, in order to improve actions (such meetings are being organized at present). Third, for IED and Management should have an option to note in MARS any agreement to disagree about the relevance or quality of the action. A note in MARS could also explain why changes to action plans were felt to be needed midterm. During the implementation phase, ADB Management can take a more flexible approach for action plan revisions to strengthen their implementation.

## F. Summary

192. **The percentage of fully or largely implemented actions in response to recommendations stayed around 75% in 2011–2019.** The implementation performance reflects issues related to the action plans' alignment with recommendations and their implementation. The divergence between Management's self-assessment and IED's validation of action plan implementation can be addressed by making action plans more relevant and more specific.

193. **The implementation of action plans completed in 2019 came from four high-level evaluations.** The evaluations influenced the formulation of country program strategies, proved instrumental in the internal restructuring of the cofinancing and partnership functions, and succeeded in bringing further attention to challenges in safeguard implementation. This shows that the outcomes of IED evaluations can be significant.

194. **The patterns observed in the implementation of recommendations in other MDBs are no different from those observed at ADB.** The trend in the implementation of actions in these institutions has been slow and incomplete. However, other MDBs are significantly stepping up the assessment of implementation of recommendations of their evaluation departments, and there is room for ADB to learn from these experiences.

195. Early evidence of the impact of the MARS process reforms, e.g., the addition of technical discussions on recommendations and action plans, can be seen in the ratings of action plans for their relevance and specificity.

# 5

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## Conclusions, Issues, and Recommendations



## A. Conclusions

196. **Despite periodic ups and downs the longer-term trend in the performance of public sector operations has been positive.** Design deficiencies not only affected project performance in terms of relevance but also project effectiveness in achieving planned outputs and outcomes. Efficiency performance was steady. The improvements that have been seen so far are likely due to the introduction of advanced project design facilities and project preparation facilities. The issue of the sustainability of project outcomes has been the toughest to tackle, since performance has often depended on government commitment to tariff reforms and budget provisions for operation and maintenance. The good performance in the PRC is attributable to the key role played by capacity building initiatives and greater government commitment, especially in providing stable funding for operations and maintenance. Performance remained low in the Pacific, partly due to weak government capacity and inadequate government support to implementing agencies. Greater attention to achieving development results is the key to improving the performance of nonsovereign operations.

197. **The findings of IED's evaluations suggest that the five modalities that were examined are in principle well suited for the purposes of Strategy 2030. Over time, the modalities have helped improve processing efficiency and have helped mobilize additional financing for developing member countries.** Nevertheless, design improvements to public sector modalities would strengthen the implementation of Strategy 2030. In MFFs, lower transaction costs and more realistic implementation schedules would make the instrument more attractive. PBLs need a greater focus on those policy actions that are critical to realizing outcomes. RBLs need to focus on internal quality assurance and reducing corruption risks as the August 2019 policy requires. The private equity and credit enhancement products require organizational strengthening and improved staff incentives if their catalytic potential is to be fully realized. ADB needs to be better organized and to have a clear strategic focus on growing the private equity portfolio. PBLs can support private sector operations by focusing on policy support for improvements to business regulations and the private sector enabling environment.

198. **The architecture of ADB's project self-evaluation system is robust and credible, and the system is useful for accountability and learning; however, sustained attention to project M&E systems during implementation is needed to improve the reliability of the data they generate for measuring development outcomes at completion.** ADB's project self-evaluation system (including its processes and products) is very similar to those used in comparable institutions. It is useful for accountability and supports wider institutional learning, but it is not fully optimized. While acknowledging recent improvement, IED found weaknesses in M&E systems and data reliability. Surveys are an important source of reliable data on development outcomes; however, while many are stipulated at approval they are often not implemented at completion. Suboptimal project and central-level databases, low country level technical and institutional capacities, and insufficient targeted resources are affecting the reliability of M&E systems. Moreover, integrated and user-friendly guidelines on M&E are not available to guide ADB staff and executing agencies engaged in sovereign and nonsovereign operations. Continuous attention will be required to ensure and further improve the timeliness of completion reports. Tacit knowledge is an important source of learning through the self-evaluation system but is not sufficiently harnessed. Incentives to ensure adequate preparation of the documentation from missions, including BTORs and MTRs, can tap tacit knowledge and increase the usefulness of the project self-evaluation system. Stronger incentives, such as increasing staff time and resources, are needed to mitigate the biases that are intrinsic to self-evaluation.

199. **ADB and the World Bank shared common challenges and opportunities in the implementation of actions in response to recommendations.** In both organizations, actions to define strategies and approaches were the quickest to be implemented during 2017–2018.

200. **There is early evidence that greater engagement between ADB Management and IED on the quality of action plans has had a beneficial impact.** However, there is scope for greater collaboration

between Management, IED, and SPD in developing and reviewing action plans, and in ensuring their continued relevance and adaptability during implementation.

## B. Issues

**201. Sustainability is still the weakest element of ADB performance in public sector operations and was an issue in 82% of the projects assessed *less than successful*.** Poor sustainability limits not only project performance but also ADB's long-term development effectiveness. The causes include low government commitment to reforms, weak institutional capacity and insufficient budget or tariffs to maintain built assets. Factors responsible for low sustainability varied across sectors and included: uncertainty about the adequacy of toll revenues to maintain road projects; diversion of funds meant for road maintenance to the rehabilitation of pilot roads; lack of road maintenance capacity; and electricity tariffs not set high enough to cover the cost of purchasing power from producers.

**202. Attention to project M&E systems during implementation is at times deficient and this affects ADB's ability to track development outcomes.** ADB's project self-evaluation system incorporates processes and products that should ensure adequate performance monitoring. However, in practice, the perception is that there are reliability issues with the system. A review of a subset of completed projects indicated that in about 20% of cases the project M&E systems at the country level had not been implemented well. In ADB, the current eOps has been classified as a high business risk by Office of Risk Management office. These issues impact on the quality of the data and information that the self-evaluation system depends upon. M&E has received more consistent attention in design documents in recent years, but resources are not often specifically targeted for it. Unlike for the DMF, specific and integrated ADB has not provided guidelines on M&E principles and practices. For nonsovereign operations, the existing monitoring systems place a low priority on tracking development objectives. A formal, separate and comprehensive monitoring system is not yet fully in place for nonsovereign operations to capture knowledge and measure development outcomes, reflecting ADB's dual mandate of promoting development effectiveness and financial sustainability in its private sector operations.

**203. Tacit knowledge is not systematically captured by the current formal self-evaluation processes and products.** The formal self-evaluation system does not incorporate alternative, interim and informal learning pathways. Tacit knowledge acquired during implementation is transferred mostly informally within the organization because of the scarce incentives in terms of staff time and resources to prepare adequate documentation from missions. Moreover, the templates for the preparation of interim project reports do not sufficiently encourage the synthesis and documentation of lessons during implementation.

**204. ADB does not provide strong incentives to mitigate the biases that are intrinsic to self-evaluation.** There are no strong incentives in place, such as the adequate involvement of the staff that designed the project in the preparation of the PCR. Signals from management on the importance of learning from failures have not been clear enough to ensure the preparation of high-quality and credible completion reports and to counteract some of the challenges to assessing one's own work. If ADB were to provide such incentives this would demonstrate the importance it places on the self-evaluation system for both ADB and borrowers.

**205. Weak borrower technical capacity and borrowers' low interest in M&E are key barriers to a more robust project self-evaluation system.** Often data sources are inadequate because of poor in-country statistics, the low capacity of executing and implementing agencies, and challenges in data storage and analysis. Countries often assign a low priority to effective project M&E systems. As a result, the data sources used to prepare self-evaluations are insufficient to enable ADB to generate reliable completion reports.



## C. Recommendations

206. The 2020 AER recommends that ADB should:

### Recommendation 1:

207. **Ramp up efforts to address the issues causing weak sustainability of project outcomes.** ADB should focus on factors specific to the transport and WUS sectors, where sustainability of outcomes has been the weakest and on DMCs and regions, including the Pacific and Central and West Asia, where the sustainability performance is low. It should continue to assess the issues that reduce the likely sustainability of outcomes and ensure that projects have design elements supporting operation and maintenance expenses, including steps to institutionalize asset management systems. Loan covenants should be in place to ensure dedicated operation and maintenance funds are available from the government's budget. More generally, ADB should support system wide and project-level efforts to improve sustainability with instruments such as technical assistance or policy-based loans to improve public financial management and support needed governance reforms.

### Recommendation 2:

208. **Prioritize further efforts and resources to ensure a rigorous project M&E system throughout the project cycle, including allocation of appropriate budget resources for M&E, enhanced capacity training for ADB staff and DMC counterparts, as well as effective integration of tacit knowledge.** Building upon recent improvements to the project self-evaluation system such as the revision of the PPR system to include output tracking and the forthcoming guidelines for preparing and using a DMF, ADB should ensure that data collection requirements in the DMF are feasible and that the DMF includes a separate activity with a budget line for M&E to ensure adequate monitoring throughout implementation. Moreover, ADB should ensure that an M&E system is established and maintained for each project, including an effective central data repository which should be used consistently and effectively, and which should contain reliable and complete data for the self-evaluation process. This central data repository could be an improved version of the eOps system, but it must be updated diligently and systematically, and complemented by robust inter-operable project-level M&E systems. Training should be provided to enhance the capacity of staff in ADB and in executing agencies to deliver effective M&E systems. Specific user-friendly guidance on M&E principles and good practices should be developed and implemented, building on the existing project administration instructions. Stronger incentives, including more staff time and resources, should be allocated to the preparation of the documentation from missions; this includes the enhancement of the templates for interim assessments so they capture tacit knowledge that can be used for future project designs, increasing the usefulness of the system.

### Recommendation 3:

209. **Enhance the current monitoring and evaluation system for nonsovereign operations, including both development and financial indicators.** As part of the Operational Plan for Private Sector Operations 2019–2024, PSOD is undertaking a program to improve the measurement of the private sector contribution to development effectiveness. This includes the introduction of a tracking system to identify projects that are at risk of not achieving development effectiveness as well as an ex-ante development effectiveness tool to objectively evaluate the additionality and anticipated development results of each project. Building on these efforts, the system should be further enhanced to properly capture the dual mandate of development effectiveness and ADB's financial sustainability. It should be market sensitive in terms of the cost of implementation, the information required and the obligations of market sponsors. It should incorporate the specificities of private sector investments and in particular their learning requirements. Greater priority should be given to effective tracking of development objectives and to

improving the extent to which baseline and end-of-project data for outcome indicators are collected and tracked.

**Recommendation 4:**

210. **Revise the business processes for action plans.** The processes should consider: (i) effective dialogue with IED at the formulation and finalization stage, (ii) a flexible approach to action plan revisions during implementation, and (iii) an extension of window for the formulation of action plans from 60 days after DEC discussion of evaluation reports to 90 days.

# 6

## Appendixes



## APPENDIX 1: INDEPENDENT EVALUATION REPORTS COMPLETED IN 2019

**Table A1.1: Completed Evaluation Reports in 2019**

<b>PPERs (sovereign operations)</b>
Fiji: Third Road Upgrading (Sector) Project
People's Republic of China: Risk Mitigation and Strengthening of Endangered Reservoirs in Shandong Province Project
People's Republic of China: Xinjiang Urban Transport and Environmental Improvement Project
Nepal: School Sector Program
Uzbekistan: Housing for Integrated Rural Development Investment Program–Tranche 1, 2, and 3 <sup>a</sup>
<b>PPERs (nonsovereign operations)</b>
Indonesia: Eximbank
Bangladesh: PRAN Agribusiness Project
Sri Lanka: DFCC Vardhana Bank
India: YES Bank Limited
<b>Technical Assistance Performance Evaluation Reports</b>
Strengthening Safeguard Capacity in the Pacific
Core Environment Program and Biodiversity Conservation Corridors Initiative in the Greater Mekong Subregion
<b>CAPE and CPS Final Review Validations</b>
Cambodia: Validation of Country Partnership Strategy, 2014–2018
Nepal: Validation of Country Partnership Strategy, 2013–2018
Thailand: Validation of Country Partnership Strategy, 2013–2016
Armenia: Validation of Country Partnership Strategy, 2014–2018
Bhutan: Validation of Country Partnership Strategy, 2014–2018
Fiji: Validation of Country Partnership Strategy, 2014–2018
Georgia: Validation of Country Partnership Strategy, 2014–2018
Country Assistance Program Evaluation for Indonesia, 2005–2018
<b>Corporate Evaluation Studies</b>
ADB's Multitranchise Financing Facility, 2005–2018: Performance and Results Delivered
ADB Private Sector Equity Evaluation <sup>b</sup>
Relevance and Results of Concessional Finance: Asian Development Fund XI and 12
<b>Sector Assistance Program Evaluations</b>
ADB Support to the Indonesia Finance Sector (2005–2018)
ADB's Support to Pakistan Energy Sector (2005–2017) <sup>b</sup>
<b>Synthesis Notes</b>
Safeguard Assessment of Nonsovereign Projects
Energy Sector Project Evaluations, 2015–2019
<b>Other Completed Reports</b>
Annual Evaluation Review 2019

<sup>a</sup> = published in 2018

<sup>b</sup> Substantially completed in 2018 and discussed with the DEC in early 2019.

ADB = Asian Development Bank, CAPE = country assistance program evaluation, CE = corporate evaluation, CPS = country partnership strategy, DEC = Development Effectiveness Committee, PPER = project performance evaluation report.

Source: Asian Development Bank (Independent Evaluation Department).

Table A1.2: Project Completion Report Validation Reports Completed in 2019

Loan or Grant Number	Country	Project or Program Name	PCR Circulation Date
2718/0470/ 0527	KIR	Road Rehabilitation Project	11 Jul 2018
2513	VIE	Quality and Safety Enhancement of Agricultural Products and Biogas Development Project	13 Jul 2018
2826	VIE	Comprehensive Socioeconomic Urban Development Project in Viet Tri, Hung Yen, and Dong Dang	17 Jul 2018
MFF-0013/2353/ 2610	VIE	Mong Duong 1 Thermal Power Plant	17 Jul 2018
0478	SOL	Economic Growth and Fiscal Reform Program	18 Jul 2018
2737	TKM	North–South Railway Project	31 Jul 2018
0180	TIM	Road Network Development Sector Project	1 Aug 2018
2226	IND	Kerala Sustainable Urban Development Project	2 Aug 2018
3258/0431	BHU	Strengthening Economic Management Program II	2 Aug 2018
2685/0225	NEP	Subregional Transport Enhancement Project	6 Aug 2018
2295	PRC	Southern Gansu Roads Development Project	7 Aug 2018
2474	PRC	Dryland Sustainable Agriculture Project	8 Aug 2018
3453	ARM	Infrastructure Sustainability Support Program (Phase 2)	10 Aug 2018
MFF-0044/2660	IND	National Capital Region Urban Infrastructure Financing Facility	10 Aug 2018
MFF-0001/2651	IND	Rural Roads Sector II Investment Program (Project 5 and MFF)	14 Aug 2018
2916	KAZ	CAREC Corridor 3 (Shymkent-Tashkent Section) Road Improvement Project	14 Aug 2018
2425/0140	BAN	Bangladesh: Skills Development Project	16 Aug 2018
2436/0113	PRC	Ningxia Integrated Ecosystem and Agricultural Development Project	16 Aug 2018
2217/2767/ 8252	SRI	National Highways Sector Project	16 Aug 2018
2443	IND	Bihar State Highways Project	28 Aug 2018
2269/0060/ TA- 4859	VIE	Forests for Livelihood Improvement in the Central Highlands Sector Project	30 Aug 2018
2587/0182/ 0183	NEP	Energy Access and Efficiency Improvement Project	31 Aug 2018
2609	VIE	Central Regional Rural Water Supply and Sanitation Sector Project	3 Sep 2018
0097	SAM	SchoolNet and Community Access Project	6 Sep 2018
3043	UZB	Small Business and Entrepreneurship Development Project	13 Sep 2018
2841	PAK	Punjab Irrigated Agriculture Investment Program (Tranche 2)	13 Sep 2018
2670	CAM	Rural Roads Improvement Project	17 Sep 2018
2311/0071	PHI	Integrated Coastal Resources Management Project	17 Sep 2018
0100	TIM	Dili Urban Water Supply Sector Project	20 Sep 2018
3093	KAZ	Small and Medium Enterprise Investment Program (Tranche 2)	21 Sep 2018
2500/2501/ 0216	INO	Integrated Citarum Water Resources Management Investment Program	24 Sep 2018
2733/2734	SRI	Sustainable Power Sector Support Project	24 Sep 2018
8259/0301	TAJ	CAREC Corridor 6 (Ayni-Uzbekistan Border Road) Improvement Project	24 Sep 2018
2480/2675/ 2904/0136/ 0223/0224	CAM	Promoting Economic Diversification Program	25 Sep 2018

Loan or Grant Number	Country	Project or Program Name	PCR Circulation Date
2674/0132/ 0133/0221/ 0222	CAM	Public Financial Management for Rural Development Program	25 Sep 2018
2400/2401	PAK	National Trade Corridor Highway Investment Program (Tranche 1)	25 Sep 2018
2870/3128	REG	Higher Education in the Pacific Investment Program (Tranche 1)	25 Sep 2018
0116/0302	CAM	Emergency Food Assistance Project	26 Sep 2018
2617	IND	Micro, Small, and Medium Enterprise Development Project	26 Sep 2018
2453/2454/ 0253/0254	BAN	Public-Private Infrastructure Development Facility	27 Sep 2018
MFF-0009/2971	PAK	Punjab Irrigated Agriculture Investment Program (Tranche 3 and MFF)	27 Sep 2018
0166	LAO	Strengthening Higher Education Project	1 Oct 2018
2299/2300/ 3351	PAK	Punjab Irrigated Agriculture Investment Program (Tranches 1 and 4)	1 Oct 2018
2959	VIE	Power Transmission Investment Program (Tranche 2)	1 Oct 2018
MFF-0011/2732	IND	Madhya Pradesh Power Sector Investment Program (Tranche 6 and MFF)	4 Oct 2018
3356	PRC	Beijing-Tianjin-Hebei Air Quality Improvement – Hebei Policy Reforms Program	12 Oct 2018
2922/2923	ARM	Women's Entrepreneurship Support Sector Development Program	16 Oct 2018
2825	UZB	Water Supply and Sanitation Services Investment Program (Tranche 3)	16 Oct 2018
1881/3899	BAN	Post-Literacy and Continuing Education Project	29 Oct 2018
2755	KGZ	CAREC Corridor 1 (Bishkek-Torugart Road) Project 3	29 May 2019
2682/2683	VIE	Sustainable Rural Infrastructure Development Project in Northern Mountain Provinces	10 May 2019
2636	VIE	Strengthening Water Management and Irrigation Systems Rehabilitation Project	30 May 2019
2496/2497	PNG	Highlands Region Road Improvement Investment Program (Project 1)	19 Jun 2019
2642/2643/ 0209	VIE	Health Human Resources Sector Development Program	28 Jun 2019
2736	IND	Madhya Pradesh State Roads Project III	28 Jun 2019

ARM = Armenia, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, CAREC = Central Asia Regional Economic Cooperation, IND = India, INO = Indonesia, KAZ = Kazakhstan, KIR = Kiribati, LAO = Lao People's Democratic Republic, MFF = multitranches finance facility, NEP = Nepal, PAK = Pakistan, PCR = project completion report, PHI = Philippines, PNG = Papua New Guinea, PRC = People's Republic of China, REG = regional, SAM = Samoa, SOL = Solomon Islands, SRI = Sri Lanka, TA = technical assistance, TAJ = Tajikistan, TIM = Timor-Leste, TKM = Turkmenistan, UZB = Uzbekistan, VIE = Viet Nam.

Source: Asian Development Bank (Independent Evaluation Department).



**Table A1.3: Extended Annual Review Report Validation Reports Completed in 2019**

Investment Number	Country	Project or Program Name	XARR Approval Date
7360	IND	Credit Enhancement of Project Bonds	8 Aug 2018
7428	IND	Axis Bank Limited	21 Aug 2018
7458	SRI	LOLC Micro Credit	3 Sep 2018
7457	SRI	LOLC Finance	4 Sep 2018
7233	REG	Aureos South Asia Fund	4 Oct 2018
7234	IND	Blue River Capital I	4 Oct 2018
7228	IND	IDFC Private Equity Fund II	5 Oct 2018
7205	IND	Baring India Private Equity Fund	8 Oct 2018
7427	IND	Dewan Housing Finance Corporation	9 Oct 2018
7382	SRI	Nations Trust Bank	10 Oct 2018
7434	SRI	Hatton National Bank	10 Oct 2018

IND = India, REG = Regional, SRI = Sri Lanka, XARR = extended annual review report.

Source: Asian Development Bank (Independent Evaluation Department).

## APPENDIX 2: EVALUATIONS DISCUSSED BY THE BOARD OF DIRECTORS AND THE DEVELOPMENT EFFECTIVENESS COMMITTEE IN 2019

Title	Date of Management Response	DEC Discussion
Country Assistance Program Evaluation for Azerbaijan, 2011–2017	14 Jan 2019	24 Jan 2019
ADB's Support to Pakistan Energy Sector (2005–2017)	31 Jan 2019	8 Feb 2019
ADB's Use of Private Sector Equity Investment	18 Feb 2019	25 Feb 2019
Technical Assistance Project Completion Report Validation	NA	28 Mar 2019
2019 Annual Evaluation Review (Special and Recommendations Chapters)	1 Apr 2019	8 Apr 2019
Update on IED Evaluation Knowledge Management	NA	24 May 2019
Relevance and Results of Concessional Finance: Asian Development Fund XI and 12	31 Jan 2019	30 Sep 2019
Review of Disaster Response Facility and Regional Health Grants	NA	30 Sep 2019
IED 2020–2022 Work Program and 2020 Budget	NA	30 Sep 2019
Country Assistance Program Evaluation for Indonesia, 2005–2018	23 Oct 2019	30 Oct 2019
ADB Support to the Indonesia Finance Sector (2005–2018)	23 Oct 2019	30 Oct 2019
ADB's Multitranchise Financing Facility, 2005–2018: Performance and Results Delivered	14 Nov 2019	21 Nov 2019

ADB = Asian Development Bank, DEC = Development Effectiveness Review, IED = Independent Evaluation Department, NA = not applicable

Source: Asian Development Bank (Independent Evaluation Department).

## APPENDIX 3: CONCLUSIONS AND RECOMMENDATIONS OF EVALUATIONS OF FINANCING MODALITIES

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### A. Conclusions and Recommendations of Evaluations

#### i. Multitranche Financing Facility

1. **The evaluation documented the rise and fall of the multitranche financing facility (MFF), following its introduction in 2005.** At its peak (around 2012), about a third of ADB's lending was channeled through MFFs. By 2017, the proportion had come down to less than 20% and in 2019 only one MFF was approved. The evaluation attributed this declining trend in part to the rising popularity of other modalities and increased capital, but also to the strict application of the 10-year duration limit, combined with the gradual introduction of additional procedural requirements that reduced the attractiveness of the modality to both Asian Development Bank (ADB) staff and executing agencies. The evaluation found the decline in the use of MFFs to be problematic, since MFFs can facilitate large-scale financing efficiently, while applying a programmatic approach. They also offer critical mass, with potentially transformational results.

2. **The evaluation recommended that ADB should reduce the modality's transaction costs by revising the requirements for MFF operations.** MFFs should be reviewed and the policy updated to align with Strategy 2030 and to ensure MFFs deliver integrated solutions and realize the modality's transformational development potential. The evaluation also recommended that ADB should introduce measures to ensure that MFF implementation schedules are more realistic and that all MFF operations are completed. The evaluation recommended that ADB should maximize learning from prior tranches by ensuring lessons are captured, applied and documented when approval of subsequent tranches is requested.

#### ii. Policy-Based Lending

3. **Over the decades since their introduction in 1978, policy-based loans (PBLs) have become one of ADB's mainstays.** Approvals using this modality have hovered around the limit ADB set for PBLs, 20% of ADB financing. Independent Evaluation Department (IED), like ADB, views policy-based loans (PBLs) as an important way ADB can support countries in need of policy reforms and budget support. PBLs' performance has improved over the period, in line with performance trends at other multilateral development banks. The policy reforms supported by PBLs have increasingly centered on public sector management (PSM)—mainly in public financial management and decentralization. These operations produced better results in countries that initially had low country performance assessment ratings for quality of governance and PSM; in other countries the results were less conspicuous. The evaluation also found that ADB had contributed to positive results in capital market development in several countries. In other areas, for instance infrastructure, the results of PBLs were more variable.

4. **While many program completion reports identified policy reforms and positive outcomes, it was less clear whether the increasing number of single-tranche operations had played a critical role in achieving these outcomes.** It was hard to prove whether these results were achieved only because of ADB loans and TA support or whether governments could have achieved these outcomes on their own. Furthermore, in both PSM and capital markets, it was difficult to assess what difference the reforms had on longer-term development outcomes, such as improved service delivery, economic growth, and poverty reduction. As a result, the ADB Board of Directors sought to examine whether PBLs were setting policy goals that were too easy for ministries of finance to achieve. The evaluation recommended that ADB needed to be clearer on why particular policy reforms had been selected for support, especially in PSM. ADB had to be sure that the reforms addressed the most urgent policy priorities that countries faced, and that the most effective way for ADB to contribute to longer-term development outcomes was through PBLs. Thus, while the evaluation saw PBLs as a critical tool, it was cautious about recommending

that PBL approvals should continue at the levels of recent years without some changes in the design and implementation of individual PBLs.

5. **The recommendations of the evaluation aimed to help enhance ADB's role in shaping the region's policy agenda.** More attention to policy reforms in sectors where ADB makes significant investments (particularly in energy, transport and water) could play to ADB's strengths. ADB should provide more guidance on what types of PSM should be supported and what approach should be taken. Close coordination with the International Monetary Fund would remain essential. The evaluation recommended that, in cases where ADB's view of the macroeconomic situation diverged from that of the International Monetary Fund, the risks should be assessed independently of the regional department. A focus on a few major policy actions would be effective and would reduce complexity. Operations departments should avoid a proliferation of process-related prior actions in policy matrixes and should specify the results chain that linked ADB-supported policy actions to reform outcomes more clearly. The evaluation said that, by investing additional resources in PBL design, capitalizing on ADB's role as a knowledge bank, and improving monitoring and evaluation, ADB would be able enhance its contributions to growth and poverty reduction in the Asia and Pacific region. Recent changes to staff instructions indicate that ADB is responding to these recommendations, at least in part. However, it is not yet clear whether the quality of PSM and recent crisis related PBLs has improved.

### iii. Results-Based Lending for Programs

6. **ADB introduced results-based lending in 2013, with a 6-year pilot phase, in response to increasing demands from governments and development partners for support for their key expenditure and development programs.** Results-based loans (RBL) programs have three features that distinguish them from other lending modalities: (i) they finance a defined share of the government's national or subnational programs at sector or subsector levels; (ii) they rely on government systems and institutions for implementation and risk management; and (iii) they disburse when intermediate or final results have been achieved (these results were previously agreed with the borrower and are measured by disbursement-linked indicators). IED conducted an early assessment of the pilot phase to the end of 2017, by which time RBLs accounted for less than 4% of the overall lending portfolio. The evaluation found the preliminary results promising.

7. **RBLs have significant potential to add value to ADB operations.** However, IED found that the context in which the loans were implemented (in particular, sector knowledge, institutional capacity, and government commitment) was particularly important for the use of this instrument. It identified certain circumstances as being favorable for RBL programs, while others magnified risks. ADB needed to strengthen its internal quality assurance, improve on-the-ground assessments of fraud and corruption, conduct independent and credible verification of results, exclude category-A involuntary resettlement activities, and carry out capacity development, both within countries and in ADB. In August 2019, ADB addressed these issues when it issued a new policy. This mainstreamed the RBL modality for programs and set a ceiling of 10% of ADB's combined ordinary capital resources and Asian Development Fund financing for RBLs. ADB said it would consult the Board on the best way to address the future demand for RBLs, if it seemed likely that future shares would exceed 10%. It seems the road is clear for RBLs to occupy a greater share of ADB's portfolio.

### iv. Private Equity

8. **If ADB takes equity in a company with developmental products or services, this can be an excellent means of support in difficult and fragile environments where debt capital is hard to raise.** However, ADB's use of this instrument has been very limited so far. Over 2015–2017, less than \$200 million, or 1% of ADB's financing, was invested through private equity, and historically the performance of private equity funds, in particular, has not been very good.

9. **To grow the private equity portfolio, and make it more successful, the evaluation recommended that ADB should improve the strategic focus of its equity investments.** It suggested that ADB should make revise its organization and equity investment processes to make them more appropriate for the development of the equity business. ADB's support for equity investments can contribute to achieving the Sustainable Development Goals, but if ADB is to have a more significant impact in this area it should produce a detailed business plan for equity investments, including its role as an initial public offering equity investor, as a key part of its overall private sector operational action plan. ADB should also play a more active role in its direct equity investments, review its organization for the delivery of equity business, refine its approach to PEF investments, and improve its reporting of development outcomes.

#### v. Credit Enhancement Products<sup>1</sup>

10. **Credit enhancement (CEPs) can be a good means of mobilizing more resources, which is an important part of the Strategy 2030 agenda.** Less than 2% of ADB's capital is invested in such guarantees. Mobilization is when ADB plays an implicit or explicit role in bringing additional capital to the transaction; this distinguishes it from cofinancing, where ADB may not have any role in the participation of other investors. ADB has been loose in its definition of cofinancing (e.g., it has included all parallel loans and equity in cofinancing). One of the recommendations of the CEP evaluation was that definitions of mobilized capital need to be revisited, and the evaluation provided detail on how this could be done. For its part, ADB has developed definitions for mobilizing private finance that are harmonized with those of other MDBs.

11. **The evaluation regarded the incentive structure in ADB as a major factor in the underuse of guarantee products.** Following the merger of the Asian Development Fund and ordinary capital resources, ADB will be under pressure to increase its lending. The staff performance incentive structure should promote true mobilization. ADB's formalization of the guarantee and syndication unit and the drafting of a new performance metrics was a partial response to this recommendation. However, other improvements have been slow. CEPs have a role to play in both sovereign and nonsovereign operations. The use of partial credit guarantees is particularly relevant in more developed emerging markets such as the PRC, India, and Indonesia, where local liquidity is relatively high, but there is a need to mitigate certain risks that the market is unwilling to take. Appropriate use of partial credit guarantees to offset offtake and supply risks will go a long way to enabling infrastructure investments that otherwise would not be made.

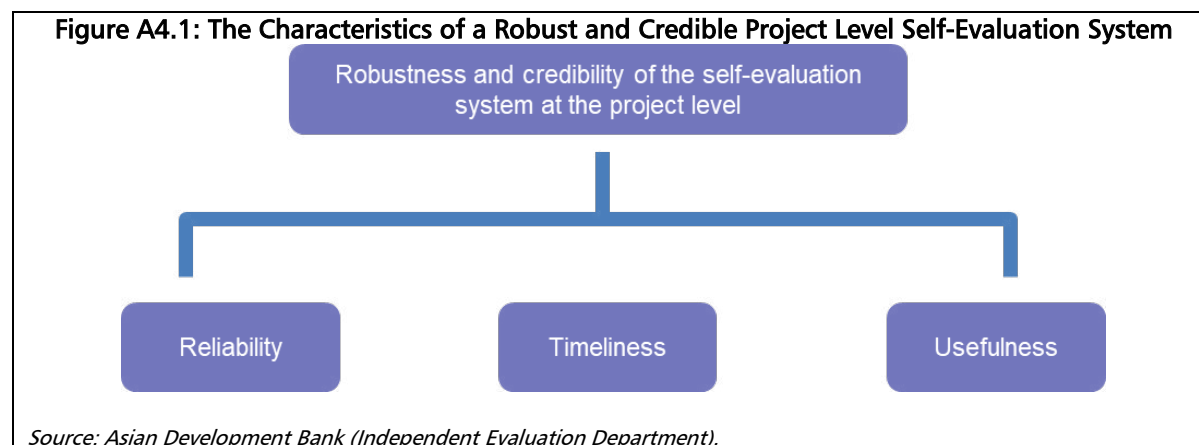
12. **In fragile and conflict-affected situations and other high-risk countries, ADB should use political risk guarantees more extensively to crowd in capital.** It should set higher mobilization targets in more developed emerging markets than in fragile and conflict-affected situations and high-risk countries. ADB staff and borrower capacity is a big issue in the underuse of CEPs. Capacity building and training will help to alleviate this. Institution building in state-owned enterprises, banks, and nonbank financial institutions is key to improving capital markets, and to crowding in institutional money for infrastructure growth. CEPs can be used to mitigate risks of corporate bond transactions to help attract capital. If ADB is serious about "One ADB" and increasing the use of CEPs, it needs to incorporate them into country partnership strategies since CEPs are such an important way of raising new capital for development from the private sector. IED's message here is that countries need to be provided with solutions that best fit the purpose, and lending should not be the default option.

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<sup>1</sup> ADB's credit enhancement products (CEPs) are partial credit guarantees, partial or political risk guarantees, ADB guarantor-of-record structure (also referred to as A/B coinsurance), and A/B loans, which are a form of loan syndication. In addition, ADB uses two risk transfer or risk mitigation techniques: (i) insurance of or financial guarantees for ADB loan exposure, and (ii) reinsurance of or financial guarantees for ADB guarantee exposure. ADB's CEPs are designed to reduce, eliminate, and/or better allocate a range of risks facing ADB's commercial financing partners and to leverage ADB's own capital base. CEPs support ADB's developmental objectives by facilitating investment, trade, and capital flows into DMCs.

## APPENDIX 4: EVALUATION METHODS AND INSTRUMENTS FOR ASSESSING ADB'S PROJECT SELF-EVALUATION SYSTEM

1. **Objective and approach.** The evaluation objective was to assess the robustness and credibility of ADB's project self-evaluation system and to propose corrective measures where appropriate. The approach included development of a conceptual framework to guide steps in data gathering and analysis.
2. A robust and credible project self-evaluation system provides reliable, timely and useful data and information.<sup>1</sup> In order to be robust, a self-evaluation system also needs to be credible. In the context of this assessment, credibility was considered to be intrinsically linked to overall robustness. The system should be able to track progress on outcomes, assess performance, and identify what works, what does not, and why.
3. **Conceptual framework.** Independent Evaluation Department (IED) developed a conceptual framework to guide this evaluation based on the three main characteristics of a robust and credible project self-evaluation system: reliability, timeliness, and usefulness (Figure A4.1).



4. **Overarching evaluation question.** The overarching evaluation question was: is ADB's project self-evaluation system robust and credible?
5. Three subsidiary questions were developed:
  - (i) To what extent does the ADB project self-evaluation system (including the monitoring and evaluation [M&E] system) generate reliable data and information?
  - (ii) Are self-evaluation data and products delivered in a timely manner?
  - (iii) Does the project self-evaluation system generate information that can be used in decision making and lesson learning?
6. **Scope.** The evaluation covered a total of 666 project completion reports (PCRs) and extended annual review reports (XARRs) prepared and validated during the evaluation period (PCR July 2008–June 2018). The total broke down as follows: 559 PCRs and 107 XARRs. Tables A4.1–A4.5 provide a summary of the PCRs and XARRs by region and sector together with the quality ratings assigned by IED in its validations.

<sup>1</sup> The approach paper presented 4 characteristics: reliability, timeliness, credibility and usefulness. In the final report, credibility was elevated to the overarching question as all three characteristics contribute to both robustness and credibility.



**Table A4.1: Total Number of PCRs and XARRs by Region (%)**

Subregion	PCR	XARR
Central and West Asia	24.9	29.0
East Asia	14.0	16.8
Pacific	7.7	0.9
South Asia	25.0	16.8
Southeast Asia	26.8	22.4
Regional	1.6	14.0
<b>Total Number</b>	<b>559</b>	<b>107</b>

PCR = project completion report, XARR = extended annual review report  
Source: Asian Development Bank, Independent Evaluation Department's Annual Evaluation Review Database 2020.

**Table A4.2: Total Number of PCRs and XARRs by Sector (%)**

Sector	PCR	XARR
Agriculture, Natural Resources and Rural Development	16.1	...
Education	9.5	0.9
Energy	9.5	25.2
Finance	9.1	65.4
Health	4.3	...
Information and Communication Technology	0.4	1.9
Industry and Trade	3.6	...
Multisector	0.9	...
Public Sector Management	12.9	...
Transport	23.1	3.7
Water and Other Urban Infrastructure Services	10.7	2.8
<b>Total Number</b>	<b>559</b>	<b>107</b>

... not applicable, PCR = project completion report, XARR = extended annual review report  
Source: Asian Development Bank, Independent Evaluation Department's Annual Evaluation Review Database 2020.

**Table A4.3: IED Quality Ratings of PCRs by Region (%)**

Subregion	LS	S	HS	No Rating	Total
Central Asia	16.5	81.3	...	2.2	24.9
East Asia	16.7	80.8	...	2.6	14.0
Pacific Islands	25.6	65.1	2.3	7.0	7.7
South Asia	27.9	69.3	1.4	1.4	25.0
Southeast Asia	19.3	76.0	0.7	4.0	26.8
Regional	22.2	55.6	...	22.2	1.6
<b>Total</b>	<b>20.9</b>	<b>75.1</b>	<b>0.7</b>	<b>3.2</b>	<b>100.0</b>

... not applicable, LS = less than satisfactory, S = satisfactory, HS = highly satisfactory  
Source: Asian Development Bank, Independent Evaluation Department's Annual Evaluation Review Database 2020.

**Table A4.4: IED Quality Ratings of PCRs by Sector (%)**

Sector	LS	S	HS	No Rating	Total
Agriculture, Natural Resources and Rural Development	12.2	85.6	...	2.2	16.1
Education	13.2	77.4	...	9.4	9.5
Energy	39.6	60.4	...	...	9.5
Finance	15.7	82.4	...	2.0	9.1
Health	12.5	79.2	...	8.3	4.3
Information and Communication Technology	50.0	50.0	...	...	0.4
Industry and Trade	5.0	95.0	...	...	3.6
Multisector	20.0	60.0	...	20.0	0.9
Public Sector Management	18.1	77.8	2.8	1.4	12.9
Transport	27.1	69.8	...	3.1	23.1
Water and Other Urban Infrastructure Services	26.7	66.7	3.3	3.3	10.7
<b>Total</b>	<b>20.9</b>	<b>75.1</b>	<b>0.7</b>	<b>3.2</b>	<b>100</b>

... not applicable, LS = less than satisfactory, S = satisfactory, HS = highly satisfactory

Source: Asian Development Bank, Independent Evaluation Department's Annual Evaluation Review Database 2020.

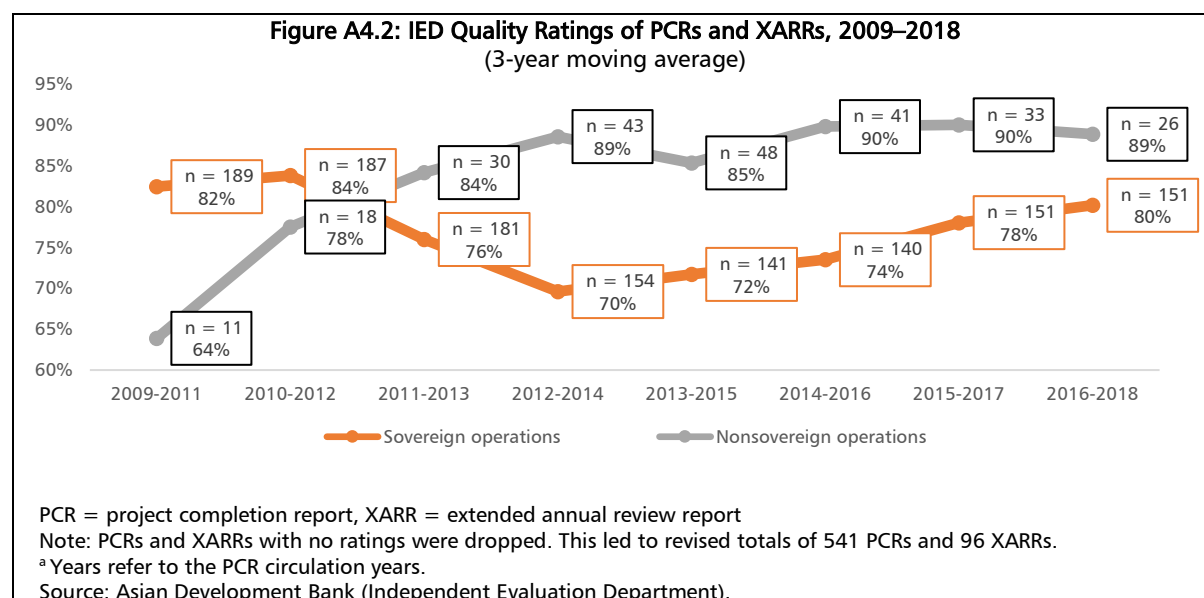
**Table A4.5: IED Quality Ratings of XARRs by Sector (%)**

Sector	LS	S	No rating	Total
Education	...	100.0	...	0.9
Energy	14.8	66.7	18.5	25.2
Finance	15.7	77.1	7.1	65.4
ICT	...	100.0	...	1.9
Transport	...	75.0	25.0	3.7
Water	...	100.0	...	2.8
<b>Total</b>	<b>14.0</b>	<b>75.7</b>	<b>10.3</b>	<b>100.0</b>

... not applicable, LS = less than satisfactory, S = satisfactory, HS = highly satisfactory

Source: Asian Development Bank, Independent Evaluation Department's Annual Evaluation Review Database 2020.

7. **Over time, the quality of completion reports has improved.** The PCR and XARR validation reports show that 78% of validated PCRs and 84% of validated XARRs were rated satisfactory. Figure A4.2 shows that the overall quality of completion reports has been improving.



8. **Evaluation methods and instruments.** The findings of the assessment were triangulated. Data were derived from a desk review, an ADB staff survey, and FGDs. The evaluation also conducted a review of project self-evaluation practices at comparable MDBs.

9. **Literature review and key informant interviews.** IED reviewed ADB documentation on the project self-evaluation system as well as those at comparable MDBs: the World Bank Group (including the International Finance Corporation [IFC] and the Multilateral Investment Guarantee Agency [MIGA]), the Inter-American Development Bank (including IDB Invest), the International Fund for Agricultural Development (IFAD), and the African Development Bank (AfDB). The findings were based on a review of available documents and interviews with staff in independent evaluation offices as well as in operations departments. The evaluation found that the self-evaluation systems of comparable MDBs were broadly similar to ADB's. Linked Document D presents a more detailed overview of the self-evaluation system in other MDBs.

10. **Desk review.** From the 666 PCRs and XARRs, the evaluation conducted an in-depth analysis of a subset of projects implemented through multiple phases. This subset comprised 94 projects (these are listed in Linked Document E, Table 1 and 2), with a total of 231 phases (Table A4.6).<sup>2</sup> The assumption underpinning this analysis was that learning could be traced more easily in the subsequent phases of the same project, especially the lessons deriving from PCRs and XARRs.

**Table A4.6: Summary Statistics of Reviewed Documents**

Type of Operation	Projects with Follow-on or Multiple Phases	Phases	Completion Reports	Validation or Evaluation Reports
Sovereign	77	194	149	122
Nonsovereign	17	37	27	21
<b>Total</b>	<b>94</b>	<b>231</b>	<b>176</b>	<b>143</b>

Source: Asian Development Bank (Independent Evaluation Department).

11. A project assessment sheet (PAS) was developed for each project. The PAS was populated with data from available reports and recommendations of the President (RRPs), PCRs, XARRs, validation reports, PPERs, back-to-office reports, midterm review reports, eOperations, and annual monitoring reports (for nonsovereign operations), whenever available. Appendix 5 provides the summary results of the assessment.

12. **Internal survey.** IED sent a perception survey to relevant staff, with the aim of collecting views and perceptions on the use of ADB's self-evaluation system. The survey had a total of 234 respondents. Details of the survey results and statistics are in Appendix 6.

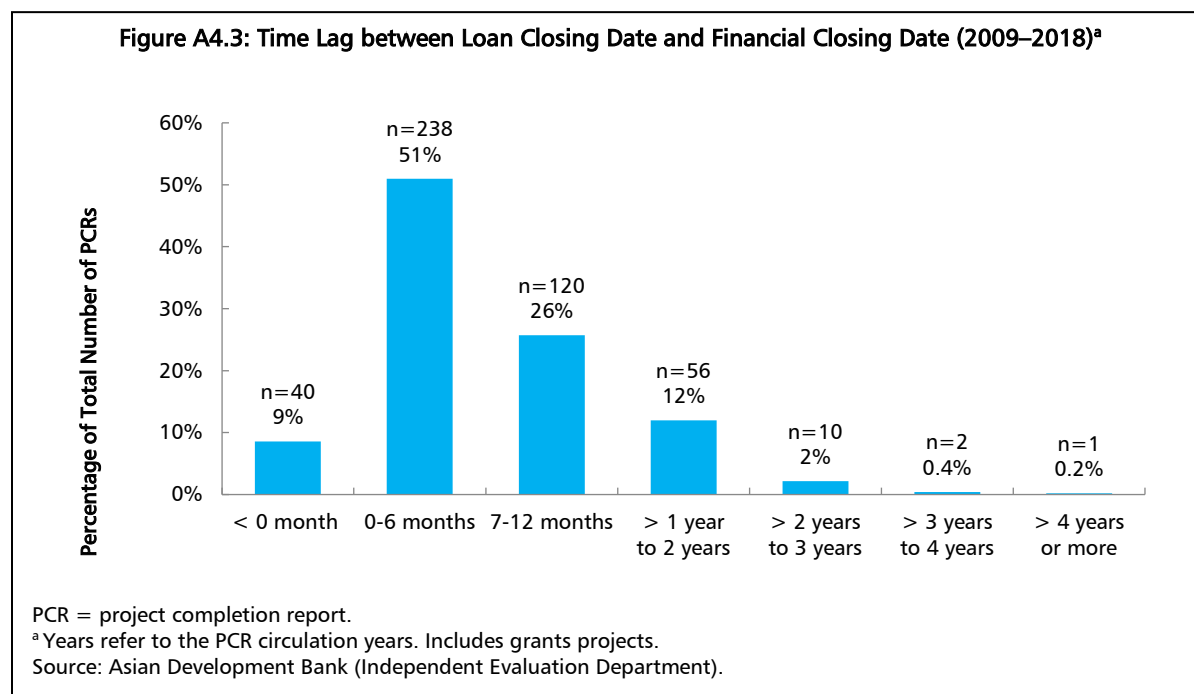
13. **Focus group discussions.** The evaluation conducted a series of focus group discussions to identify the strengths and weaknesses of ADB's self-evaluation system at the project level and to triangulate the findings. A total of 42 ADB staff from ADB headquarters and resident missions across the regional departments and the Private Sector Operations Department participated in the focus group discussions, which were conducted in 9-16 December 2019. Linked Document G summarizes the findings of the focus group discussions by department.

14. **Specific analyses.** The evaluation conducted an analysis of the timeliness of the completion reports focusing on: (i) the time between loan closing date and financial closing date (Figure A4.3), and

<sup>2</sup> In the case of nonsovereign operations, a number of XARRs circulated after the evaluation period were also included in order to increase the number of nonsovereign operations projects to be reviewed.

(ii) the time between financial closure and PCR circulation. In Figure A4.3, the subset of PCRs used for these analyses was 467 (92 PCRs for programs, multitranche financing facility were dropped).

15. For nonsovereign operations, the analysis of the time between the circulation of the XARR and the early operating maturity (EOM) date was conducted only for projects with multiple phases (Table A4.7).<sup>3</sup>



<sup>3</sup> More details on multiple phases can be found in Linked Document E.

Table A4.7: Time Lag between End of Maturity Date and XARR Circulation Date

Investment No.	Country	Project Title	Time Lag between EOM Date and XARR Circulation Date (in months)
7170	REGSE	Mekong Enterprise Fund	0.30
7237	REGP	Kula Fund II	0.46
7458	SRI	LOLC Micro Credit (Senior Loan)	1.08
7457	SRI	LOLC Finance (Senior Loan)	1.12
7379	GEO	TBC Bank	1.38
7189	IND	Dewan Housing Finance Corporation	2.93
7346	ARM	Inecobank	4.24
7410	MON	Supporting MSMEs (Khan Bank)	4.37
7136	REG	Kula Fund	5.26
7230	REG	AIF Capital Asia III, LP	5.82
7229	AZE	Bank Respublika	6.54
7469	GEO	Credo Microfinance Organization (Financial Inclusion for Micro and Small Business Growth)	10.36
7344	ARM	SME Finance Project (Ameriabank)	11.77
7359	SRI	DFCC Vardhana Bank	12.23
7427	IND	Dewan Housing Finance Corporation	13.25
7259	MON	Khan Bank	15.12
7101	REG	Asian Infrastructure Fund	16.01
7231	REGSE	Mekong Enterprise Fund II	19.63
7471	GEO	TBC Bank (Financial Inclusion for Micro and Small Business Growth)	22.39
7245	IND	Dahej Liquefied Natural Gas Terminal	23.47
7138	IND	Infrastructure Development Finance Co.	25.68
7264	ARM	Inecobank MSME Financing Facility	30.35
7229	AZE	Accessbank	32.71
7195	REG	ADM Maculus Fund	39.55
7296	PRC	China Everbright Environmental Energy Limited [Municipal Waste to Energy Project]	40.54
7251	SRI	Lanka ORIX Leasing Company	44.28
		<b>Average</b>	<b>15.03</b>

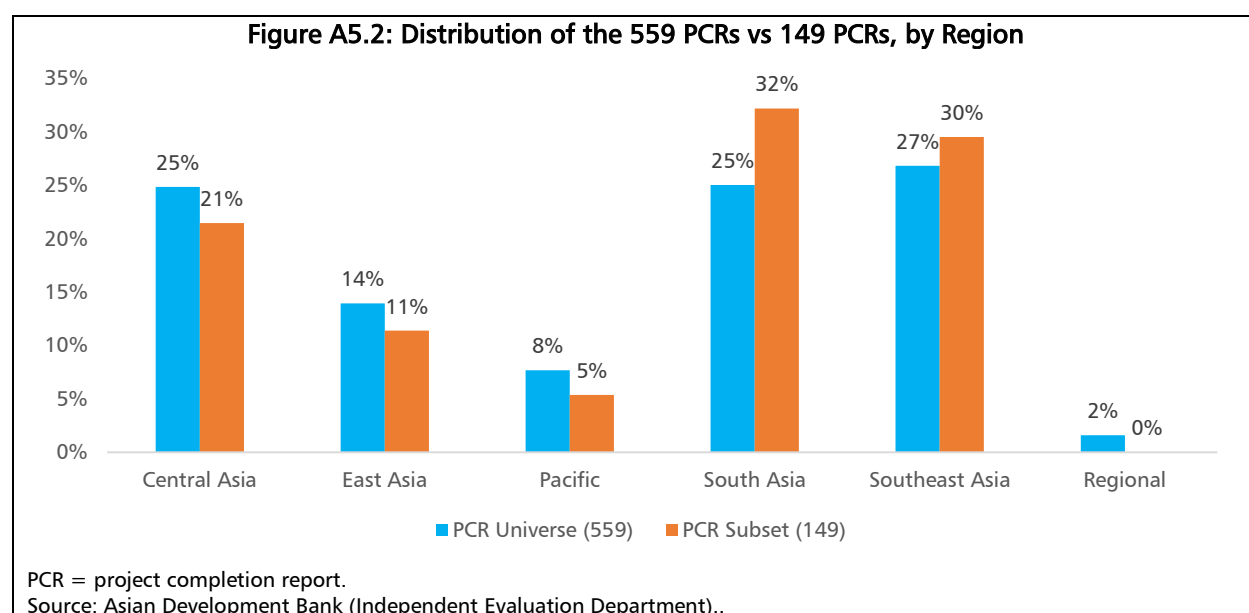
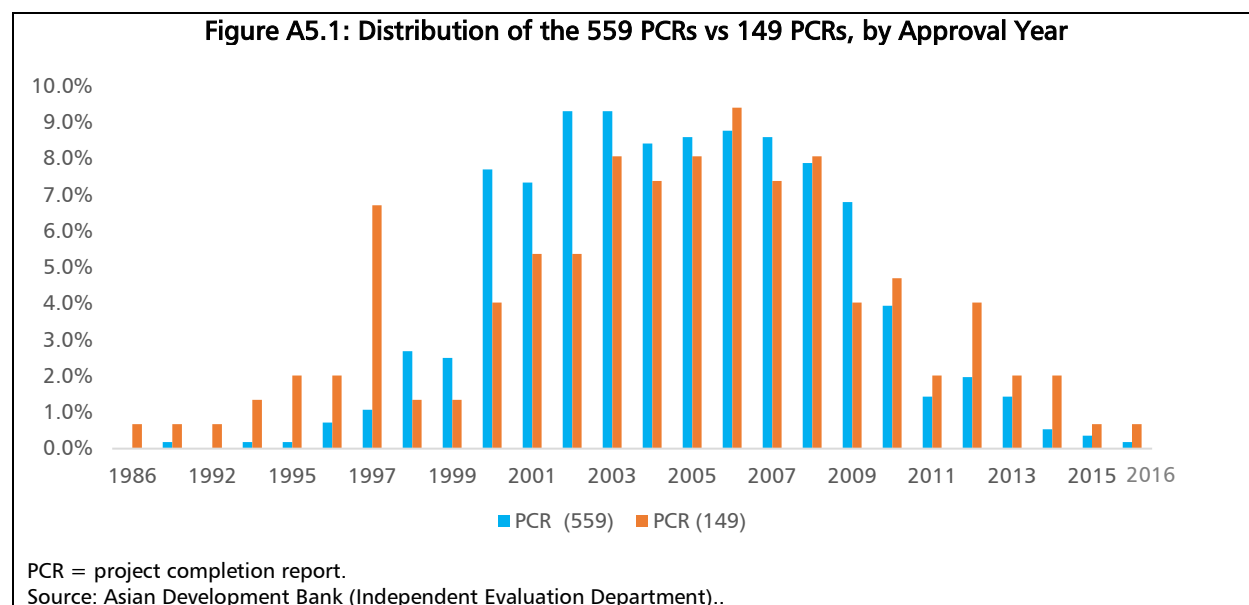
ARM = Armenia, AZE = Azerbaijan, EOM = early operating maturity, GEO = Georgia, IND = India, MON = Mongolia, PRC = People's Republic of China, SRI = Sri Lanka, REG = regional, REGP = regional Pacific, REGSE = regional Southeast, XARR = extended annual review report.

Note: Two XARRs were dropped because they were published before EOM date.

Source: Asian Development Bank (Independent Evaluation Department).

## APPENDIX 5: DOCUMENT REVIEW OF PROJECTS WITH FOLLOW-ON OR MULTIPLE PHASES

1. From the total 559 PCRs, a total of 149 PCRs were identified for in-depth document review (see Appendix 4 for the methodology). Figure A5.1 provides a schematic view of distribution of the two datasets by project approval year, and Figure A5.2, by region. The 149 PCRs comprised the 77 phases discussed in the succeeding paragraphs.



2. **Assessment from the PAS.** Baseline data were present in 91% or 135 PCRs of the 149 PCRs that were assessed as part of the document review, i.e., baseline data were presented for at least one DMF indicator in the DMF, main text or appendixes of the PCR (Table A5.1). Baseline data were present in all the agriculture, energy, industry and trade, and multisector projects and at least 80% of projects in other



sectors, except for the water and other urban infrastructure and services sector, where baseline data were found in only 69% of projects.

3. Of the 149 PCRs assessed, 141 (95%) presented end-of-project data (i.e., end-of-project data were presented for at least one DMF indicator in the DMF, main text or appendixes of the PCR). End-of-project data were available in all PCRs for health, transport, energy, industry and trade, and multisector projects, while at least 88% of the PCRs from other sectors had end-of-project data.

**Table A5.1: Phases with Baseline and End-of-Project Data <sup>a</sup>**

Sector	Baseline Data Present in PCR	Baseline Data Not Present in PCR	Total	EOP Data Present in PCR	EOP Data not Present in PCR	Total
ANR	9	0	9	8	1	9
EDU	11	2	13	12	1	13
ENE	2	0	2	2	0	2
FIN	19	3	22	21	1	22
HLT	9	1	10	10	0	10
IND	2	0	2	2	0	2
MUL	1	0	1	1	0	1
PSM	33	1	34	30	4	34
TRA	40	3	43	43	0	43
WUS	9	4	13	12	1	13
<b>Total</b>	<b>135</b>	<b>14</b>	<b>149</b>	<b>141</b>	<b>8</b>	<b>149</b>

ANR=agriculture, natural resources, and rural development; EDU=education; ENE=energy; FIN=finance; HLT=health; IND=industry and trade; MUL = multisector, PSM=public sector management; TRA=transport; WUS=water and other urban infrastructure and services.

<sup>a</sup> Baseline and end-of project data were considered present if they were identified for at least one DMF indicator in the DMF, main text, or appendixes of the PCR.

Note: The sample was the 149 PCRs that were examined as part of the document review.

Source: Asian Development Bank's project completion reports.

4. In nonsovereign operations, 17 of the 27 XARRs presented baseline data (63%), while 21 XARRs presented end-of-project data (78%) as can be seen in Table A5.2.

**Table A5.2: Phases with Baseline and End-of-Project Data<sup>a</sup>**

Item	Baseline Data Presented in XARR		End-of-Project Data presented in XARR	
	Number	Share (%)	Number	Share (%)
Yes	17	62.96	21	77.78
No	10	37.04	6	22.22
<b>Total</b>	<b>27</b>	<b>100.00</b>	<b>27</b>	<b>100.00</b>

<sup>a</sup> Baseline and end-of-project data were considered present if they were identified for at least one DMF indicator in the DMF, main text, or appendixes of the XARR.

Source: Asian Development Bank's extended annual reviews reports.

5. While most projects had at least one element with baseline and end-of-project data, when the PCRs were assessed based on the total number of outcome and output indicators against the number with available baseline and end-of-project data, only 42% of the 149 PCRs had more than 90% of outcome indicators with baseline data, while 73% had more than 90% of outcome indicators with end-of-project data. At the output level, only 52% of the 149 PCRs had more than 90% of output indicators with baseline data and 70% had end-of-project data (Table A5.3).

**Table A5.3: Share of Total Available Baseline and End-of-Project Data to Total Number of Outcome and Output Indicators (based on PCRs)**

Share	Outcome Indicators				Output Indicators			
	Baseline Data (number of PCRs)	Share (%)	EOP (number of PCRs)	Share (%)	Baseline Data (number of PCRs)	Share (%)	EOP (number of PCRs)	Share (%)
0%–10%	33	22	20	13	16	11	14	9
11%–20%	4	3	1	1	7	5	0	0
21%–30%	7	5	1	1	10	7	0	0
31%–40%	8	5	1	1	5	3	2	1
41%–50%	7	5	3	2	7	5	1	1
51%–60%	3	2	2	1	4	3	3	2
61%–70%	7	5	3	2	5	3	3	2
71%–80%	11	7	6	4	10	7	11	7
81%–90%	6	4	3	2	7	5	10	7
91%–100%	63	42	109	73	78	52	105	70
<b>Total</b>	<b>149</b>	<b>100</b>	<b>149</b>	<b>100</b>	<b>149</b>	<b>100</b>	<b>149</b>	<b>100</b>

EOP = end-of-project, PCR = project completion reports

Note: The sample was the 149 PCRs examined as part of the document review.

Source: Asian Development Bank's project completion reports.

6. For nonsovereign operations, only 19% of the 27 XARRs had more than 90% of both outcome and output indicators with baseline data. Of the total 27 XARRs, only 44% had more than 90% of the outcome indicators with end-of-project data and 33% at the output level (Table A5.4).

**Table A5.4: Share of Total Available Baseline and End-of-Project Data to Total Number of Outcome and Output Indicators (based on XARRs)**

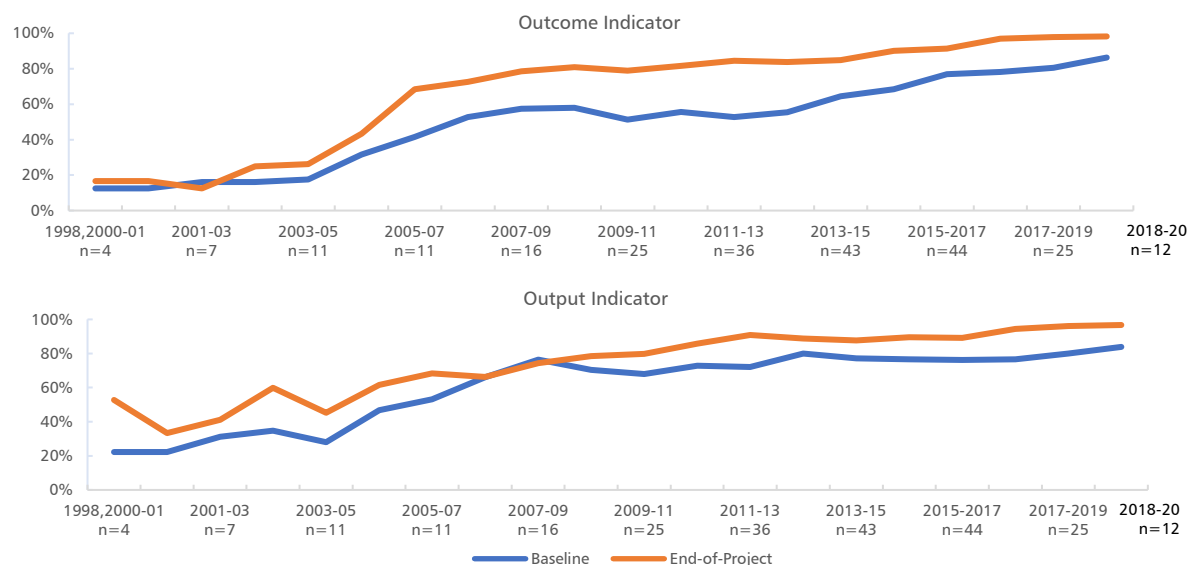
Share	Outcome Indicators				Output Indicators			
	Baseline Data (number of XARRs)	Share (%)	EOP (number of XARRs)	Share (%)	Baseline Data (number of XARRs)	Share (%)	EOP (number of XARRs)	Share (%)
0%–10%	11	41	7	26	11	41	8	30
11%–20%	0	0	0	0	1	4	0	0
21%–30%	0	0	1	4	1	4	1	4
31%–40%	2	7	0	0	2	7	0	0
41%–50%	1	4	1	4	1	4	0	0
51%–60%	2	7	1	4	1	4	1	4
61%–70%	2	7	0	0	3	11	3	11
71%–80%	4	15	4	15	1	4	3	11
81%–90%	0	0	1	4	1	4	2	7
91%–100%	5	19	12	44	5	19	9	33
<b>Total</b>	<b>27</b>	<b>100</b>	<b>27</b>	<b>100</b>	<b>27</b>	<b>100</b>	<b>27</b>	<b>100</b>

EOP = end-of-project, XARR = Extended annual reviews reports.

Source: Asian Development Bank's extended annual reviews reports.

7. Over the years, baseline and end-of-project data reporting at completion improved. It is worth mentioning, though, that reporting of baseline and end-of-project data at completion improved over the years, both at the outcome and output level, for sovereign (Figure A5.3). For nonsovereign, though improving overtime, there were periods that indicators and performance data slightly deteriorated, but again picked up beginning 2016 (Figure A5.4).

**Figure A5.3: Percentage Share of Indicators with Baseline and End-of-Project Data (as reported in the PCR)**

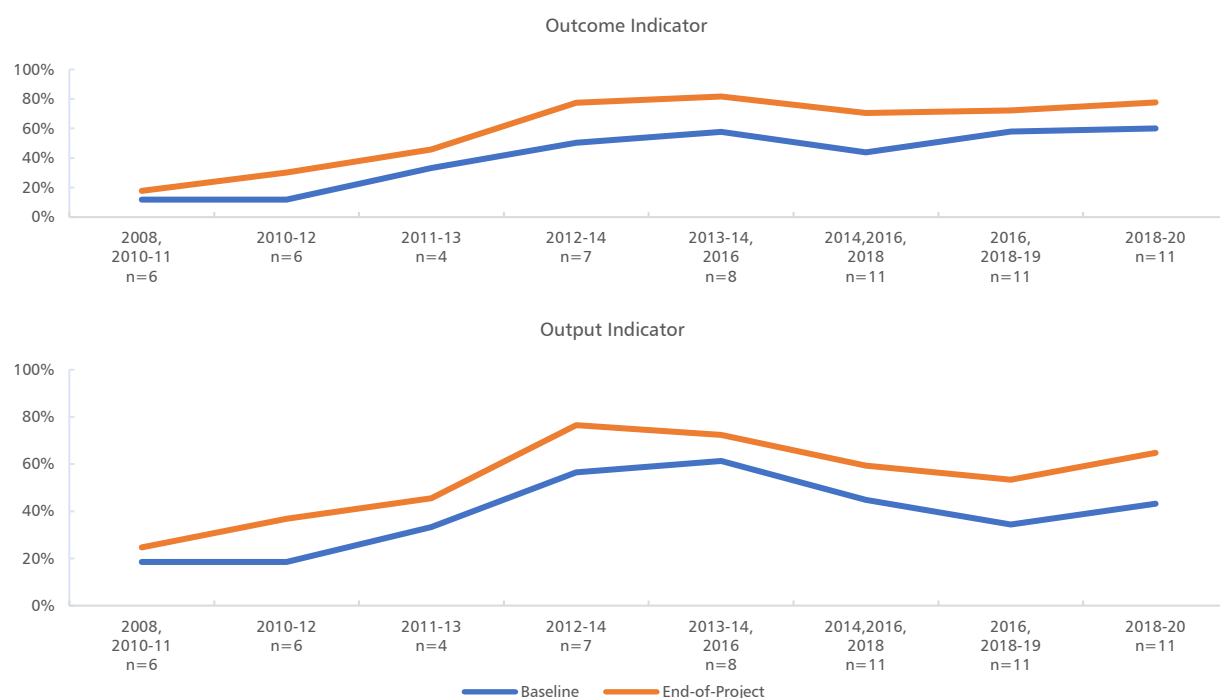


3- year moving average.

PCR = project completion report.

Source: Asian Development Bank's project completion reports.

**Figure A5.4: Percentage Share of Indicators with Baseline and End-of-Project Data (as reported in the XARR)**



3- year moving average.

XARR = extended annual review report.

Source: Asian Development Bank's extended annual review reports.

8. A similar exercise was conducted for recently approved projects. From the randomly selected loans and grants approved in 2018 and 2019, IED reviewed 59 DMFs attached to the RRP. Out of the 59, 97% had 100% of outcome indicators with baseline data, while 88% had 100% of output indicators with baseline data (Table A5.5).

**Table A5.5: Share of Total Available Baseline Data to Total Number of Outcome and Output Indicators (based on Randomly Selected Projects Approved in 2018 and 2019)**

Share	Outcome Indicators		Output Indicators	
	Baseline Data (Number of RRP)	Share (%)	Baseline Data (Number of RRP)	Share (%)
0%–10%	1	1.69	1	1.69
11%–20%			1	1.69
50%	1	1.69		
61%–70%			1	1.69
91%–99%			4	6.78
100%	57	96.61	52	88.14
<b>Total</b>	<b>59</b>	<b>100.00</b>	<b>59</b>	<b>100.00</b>

RRP = report and recommendation of the president.

Source: Asian Development Bank's Reports and Recommendation of the President.

9. A loan covenant on the project's monitoring and evaluation (M&E) system was required for 100 of the 149 PCRs assessed (Table A5.6). Of the 100 PCRs that had a loan covenant on the M&E, 96 (96%) reported that the covenant had been partially complied with or fully complied with.

**Table A5.6: Compliance with Loan Covenants on Project Monitoring and Evaluation System (as Reported in the Project Completion Report)**

Item	Loan Covenant on M&E Required		Loan Covenant on M&E Complied With		Level of Compliance		
	Number	Share (%)	Number	Share (%)		Number	Share (%)
Yes	100	67.11	96	96.00	Completely	80	83.33
No	49	32.89	4	4.00	Partially	16	16.67
<b>Total</b>	<b>149</b>	<b>100.00</b>	<b>100</b>	<b>100.00</b>	<b>Total</b>	<b>96</b>	<b>100</b>

M&E = monitoring and evaluation.

Note: The sample was the 149 PCRs examined as part of the document review. In the PCR's loan covenant compliance table, project's monitoring and evaluation systems usually refer to the project performance management system, benefit monitoring and evaluation system, benefit performance monitoring and evaluation or simply monitoring and evaluation.

Source: Asian Development Bank's project completion reports.

10. Of the 27 XARRs examined, three (11%) reported that a project monitoring and evaluation system had been established, while seven (29%) reported that other forms of M&E systems were used, including annual monitoring reports, development effectiveness monitoring reports, and PSOD's Private Investment Securities Management System, among others (Table A5.7).

**Table A5.7: Nonsovereign Operations with Monitoring and Evaluation Systems  
(as Reported in the Extended Annual Review Report)**

	M&E System Established		Other Forms of M&E Established <sup>a</sup>	
	Number	Share (%)	Number	Share (%)
Yes	3	11.11	7	29.17
No	24	88.89	17	70.83
<b>Total</b>	<b>27</b>	<b>100.00</b>	<b>24</b>	<b>100.00</b>

M&E = monitoring and evaluation.

<sup>a</sup> Other forms of M&E included annual monitoring reports, development effectiveness monitoring reports, and PSOD's Private Investment Securities Management System, among others.

Source: Asian Development Bank's extended annual review reports and Reports and Recommendations of the President, annual monitoring reports, and concept notes.

11. A review of the completion reports' DMFs was also conducted to see whether M&E was explicitly identified as an output or an activity or input. For both sovereign and nonsovereign projects, fewer than 20% of the reviewed PCRs and XARRs found that M&E was part of the output or activity (Table A5.8).

**Table A5.8: Monitoring and Evaluation as an Output or Activity (based on Project Completion Reports and Extended Annual Review Reports)<sup>a</sup>**

	M&E as an Output		M&E as an Activity		M&E as an Output		M&E as an Activity	
	Sovereign Operations		Sovereign Operations		Nonsovereign Operations		Nonsovereign Operations	
	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)
Yes	18	12.08	14	9.40	1	3.70	5	18.52
No	131	87.92	135	90.60	26	96.30	22	81.48
<b>Total</b>	<b>149</b>	<b>100.00</b>	<b>149</b>	<b>100.00</b>	<b>27</b>	<b>100.00</b>	<b>27</b>	<b>100.00</b>

DMF=design and monitoring framework, M&E = monitoring and evaluation.

<sup>a</sup> Based on the PCR DMF, M&E as an output means that M&E was explicitly mentioned in the output statement or identified as one of the output indicators. M&E as an activity means that the PCR DMF explicitly identified M&E as one of the inputs or activities.

Source: Asian Development Bank's project completion reports and extended annual review reports.

12. To see how project M&E is reflected in recently approved projects, IED randomly selected 59 loans and grants approved in 2018 and 2019 and looked at the loan covenants and DMFs, but this time, at appraisal. Of the 59 reviewed RRP's, three had no publicly available loan covenant documents. Hence, from the total 56 RRP's, 93% had mentioned M&E in its loan covenant, mainly through reference to the project administration manual (PAM), project implementation document (PID) or facility administration manual (FAM), where the project M&E system is described. Under their respective DMFs, out of the 59, 7% had project M&E, either as an output statement or as one of the indicators; and 32% had project M&E as one of the project's activities (Table A5.9).

**Table A5.9: Monitoring and Evaluation as part of the Loan Covenant, as an Output or Activity (based on Randomly Selected Projects Approved in 2018 and 2019)**

	Loan Covenant on M&E required		M&E as an Output		M&E as an Activity	
	Number	Share (%)	Number	Share (%)	Number	Share (%)
Yes	52	92.86	4	6.78	19	32.20
No	4	7.14	55	93.22	40	67.80
<b>Total</b>	<b>56</b>	<b>100.00</b>	<b>59</b>	<b>100.00</b>	<b>59</b>	<b>100.00</b>

DMF=design and monitoring framework, M&E = monitoring and evaluation, report and recommendation of the president.

<sup>a</sup> Based on the RRP's loan covenant and DMF. M&E as an output means that M&E was explicitly mentioned in the output statement or identified as one of the output indicators. M&E as an activity means that the PCR DMF explicitly identified M&E as one of the inputs or activities.

Source: Asian Development Bank's Report and Recommendation of the President.

13. Of the 149 PCRs examined, 106 (71%) stated that a government PCR was required in the loan covenant (Table A5.10). Of these, 105 reported partial or full compliance with the covenant on the government PCR.

**Table A5.10: Compliance with Loan Covenants on Government Project Completion Report**

	Loan Covenant on Government PCR Required		Loan Covenant on Government PCR Complied With		Level of Compliance		
	Number	Share (%)	Number	Share (%)		Number	Share (%)
Yes	106	71.14	105	99.06	Completely	103	98.10
No	43	28.86	1	0.94	Partially	2	1.90
<b>Total</b>	<b>149</b>	<b>100.00</b>	<b>106</b>	<b>100.00</b>	<b>Total</b>	<b>105</b>	<b>100</b>

PCR = project completion report.

Note: The sample was the 149 PCRs examined as part of the document review.

Source: Asian Development Bank's project completion reports.

14. Of the 77 sovereign projects with follow-on phases, 57 (74%) incorporated lessons from their previous phases (Table A5.11). Moreover, 43 (56%) projects with follow-on phases used lessons from past projects, evaluation reports, and studies by ADB and development partners. Meanwhile, three of the 17 nonsovereign operations projects with follow-on phases (17.65%) incorporated lessons from their previous phases, while four (23.53%) used lessons from ADB and other development partners.

**Table A5.11: Projects where Lessons from Previous Phases Were Incorporated into the Design**

	Sovereign Operations				Nonsovereign Operations			
	Most Recent Phase Incorporates Lessons from Previous Phases		Most Recent Phase Incorporates Lessons from Other Sources <sup>a</sup>		Most Recent Phase Incorporates Lessons from Previous Phases		Most Recent Phase Incorporates Lessons from Other Sources <sup>a</sup>	
	Number	Share (%)	Number	Share (%)	Number	Share (%)	Number	Share (%)
Yes	57	74.03	43	55.84	3	17.65	4	23.53
No	16	20.78	30	38.96	14	82.35	13	76.47
Not Applicable <sup>b</sup>	4	5.19	4	5.19	0	0.00	0	0.00
<b>Total</b>	<b>77</b>	<b>100.00</b>	<b>77</b>	<b>100.00</b>	<b>17</b>	<b>100.00</b>	<b>17</b>	<b>100.00</b>

<sup>a</sup> Other sources include evaluations and studies by ADB and other development partners, and lessons identified from previous projects by ADB and other development partners.

<sup>b</sup> Includes four sovereign projects whose envisaged follow-on phases did not materialize.

Note: The sample was 77 sovereign projects with follow-on or multiple phases and 17 nonsovereign operations projects with follow-on or multiple phases.

Source: Asian Development Bank's project completion reports, extended annual review reports, Reports and Recommendations of the President, annual monitoring reports, concept notes, back-to-office reports, and aide-memoire.

15. Of the 149 PCRs reviewed, 88 (59%) had beneficiary surveys stipulated in the RRP (Table A5.12a). In addition to beneficiary surveys, 82 (55%) specified various surveys, including traffic count surveys, road pavement surveys, public expenditure tracking surveys, health facility surveys, demographic health surveys, and other national and administrative surveys, property tax surveys, tariff surveys, geological surveys, hydrological surveys, investor surveys, and corruption perception indexes and surveys (Table A5.12b). Of the 27 XARRs examined, two (7%) stipulated beneficiary surveys, while two specified other surveys (Tables A5.12a and A5.12b).



**Table A5.12a: Beneficiary Surveys Stipulated in Report and Recommendation of the President (based on the PCR or XARR)**

Conducted	Sovereign Operations		Nonsovereign Operations	
	Number	Share (%)	Number	Share (%)
Yes	88	59.06	2	7.41
No	53	35.57	10	37.04
Not Applicable <sup>a</sup>	8	5.437	15	55.56
<b>Total</b>	<b>149</b>	<b>100.00</b>	<b>27</b>	<b>100.00</b>

PCR = project completion report, RRP = report and recommendation of the president, XARR = extended annual review report.

<sup>a</sup> No planned survey.

Source: Asian Development Bank's project completion reports and extended annual review reports

**Table A5.12b: Other Surveys Stipulated in Report and Recommendation of the President<sup>a</sup> (based on the PCR or XARR)**

Conducted	Sovereign Operations		Nonsovereign Operations	
	Number	% Share	Number	% Share
Yes	82	55.03	2	7.41
No	57	38.26	9	33.33
Not Applicable <sup>b</sup>	10	6.71	16	59.26
<b>Total</b>	<b>149</b>	<b>100.00</b>	<b>27</b>	<b>100.00</b>

PCR = project completion report, RRP = report and recommendation of the president, XARR = extended annual review report.

<sup>a</sup> Other surveys stipulated in the RRP and reflected in the PCR include market surveys, road condition surveys, traffic count surveys, road pavement surveys, public expenditure tracking surveys, health facility surveys, demographic health surveys and other national and administrative surveys, property tax surveys, tariff surveys, geological surveys, hydrological surveys, investor surveys, corruption perception indexes and surveys.

<sup>b</sup> No planned survey.

Source: Asian Development Bank's project completion reports and extended annual review reports

16. Of the 149 PCRs reviewed, 123 PCRs have data at eOperations database. Of the total 123, 35% have consistent DMFs between eOperations database and the PCR (Tables A5.13).

**Table A5.13: Consistency of the Design and Monitoring Framework between eOPs and PCR**

	eOps DMF consistent with PCR DMF	
	Number	Share (%)
Yes	43	28.86
No	80	53.69
Not Applicable <sup>a</sup>	26	17.45
<b>Total</b>	<b>149</b>	<b>100.00</b>

DMF = design and monitoring framework, eOps = eOperations, PCR = project completion report.

<sup>a</sup> not migrated in eOps.

Source: Asian Development Bank's eOperations database and project completion reports.

## APPENDIX 6: SUMMARY RESULTS FROM THE PERCEPTION SURVEY

1. The survey was undertaken by the Independent Evaluation Department in November 2019. It targeted international staff and national officers at Asian Development Bank (ADB) headquarters and resident missions. The survey aimed to gather the insights of both international and national staff on ADB's project self-evaluation system. Administrative staff were not included in the Independent Evaluation Department (IED) email circulating the survey, nor was there any provision in the survey to identify as administrative staff. The list of potential respondents was obtained from ADB's general mailing list of ADB international and national staff. The form is provided in Linked Document F. Table A6.1 provides the respondents' profile by department as well as ADB's total population by position. Based on an estimated total population of 1,668 ADB international and national staff from these departments, the total response of 234 is a representative sample of the population at 95% confidence interval and 6% margin of error. Tables A6.2 to A6.5 provide the respondents' profile by position, location, and experience with ADB's project self-evaluation system. Of the 234 total respondents, 218 had previous experience in either writing, reviewing, validating, contributing data to, or using information from, project completion report (PCRs) and extended annual review reports (XARRs) (Table A6.5). These 218 respondents were used to prepare the graphs in this section.

**Table A6.1: Survey Response Rate, by Department**

ADB Departments	Total Respondents	Share (%)	Total IS Population	Total NS Population
Central and West Asia Department	62	26.5	139	108
East Asia Department	11	4.7	70	56
Pacific Department	18	7.7	57	40
South Asia Department	28	12.0	115	124
Southeast Asia Department	30	12.8	137	103
Private Sector Operations Department	15	6.4	121	77
Procurement, Portfolio, and Financial Management Department	12	5.1	55	19
Strategy, Policy, and Partnerships Department	11	4.7	38	21
Sustainable Development and Climate Change Department	17	7.3	102	33
Others	18	7.7	171	82
No response	12	5.1		
<b>Total</b>	<b>234</b>	<b>100.0</b>	<b>1,005</b>	<b>663</b>

IS = international staff, NS = national staff.

Source: Asian Development Bank (Independent Evaluation Department).

**Table A6.2: Survey Response Rate, by Position**

Position	Total Respondents	Share (%)
<i>International staff</i>	<i>126</i>	<i>53.8</i>
Managerial (Director and above)	10	4.3
Technical international staff Level 7-8	4	1.7
Technical international staff Level 4-6	98	41.9
Technical international staff Level 1-3	14	6.0
National staff	65	27.8
Others	14	6.0
Position not provided	29	12.4
<b>Total</b>	<b>234</b>	<b>100.0</b>

Source: Asian Development Bank (Independent Evaluation Department).

Table A6.3: Survey Response Rate, by Location

Position	Total Respondents	Share (%)
Headquarters	145	62
Resident Mission	89	38
<b>Total</b>	<b>234</b>	<b>100.0</b>

Source: Asian Development Bank (Independent Evaluation Department).

Table A6.4: Survey Response Rate, by Position and Location (Number of Respondents)

Position	Location		
	Headquarters	Resident Mission	Total
<i>International staff</i>	<i>102</i>	<i>24</i>	<i>126</i>
Managerial (Director and above)	8	2	10
Technical international staff L4-6	79	19	98
Technical international staff L7-8	2	2	4
Technical international staff L1-3	13	1	14
National staff	21	44	65
Others	6	8	14
Position not provided	16	13	29
<b>Total</b>	<b>145</b>	<b>89</b>	<b>234</b>

Source: Asian Development Bank (Independent Evaluation Department).

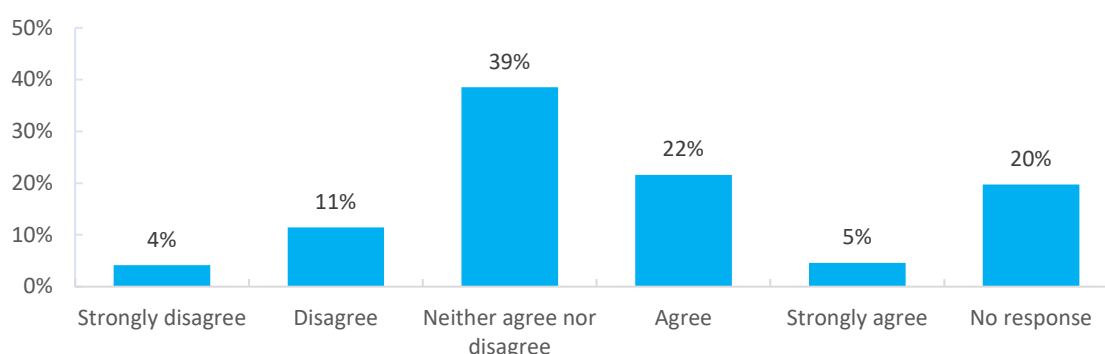
Table A6.5: Survey Response Rate, by Experience with PCRs/XARRs (%)

Experience with PCRs/XARRs <sup>a</sup> (n=218)	Written PCR/XARRs	Reviewed PCR/XARRs written by others	Validated PCR/XARRs	Contributed data for PCR/XARRs	Used information from PCR/XARRs
Written PCR/XARRs (n=102)	<b>100.0</b>	60.8	6.9	41.2	46.1
Reviewed PCR/XARRs written by others (n=127)	48.8	<b>100.0</b>	10.2	37.0	46.5
Validated PCR/XARRs (n=20)	35.0	65.0	<b>100.0</b>	15.0	50.0
Contributed data for PCR/XARRs (n=80)	52.5	58.8	3.8	<b>100.0</b>	55.0
Used information from PCR/XARRs (n=97)	48.5	60.8	10.3	45.4	<b>100.0</b>
<b>Share to Total Respondent (n=234)</b>	<b>43.6</b>	<b>54.3</b>	<b>8.5</b>	<b>34.2</b>	<b>41.5</b>

PCR = project completion report, XARR = extended annual review report.

<sup>a</sup> Respondents who have either written, reviewed, contributed, validated, or used the information from completion reports.

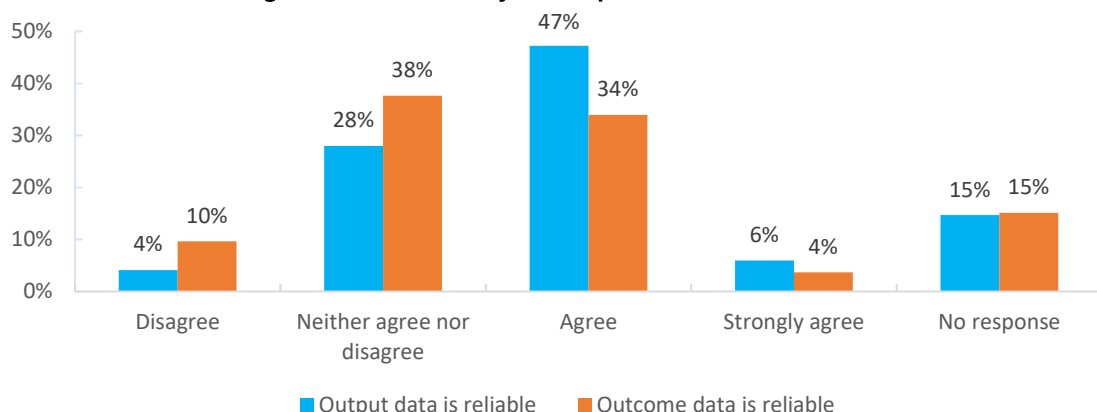
Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.1: Reliability of Data Generated from the Project Performance Monitoring System<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

Survey Question: To what extent do you agree/disagree with the following statements: Project Performance Monitoring System generates reliable data.

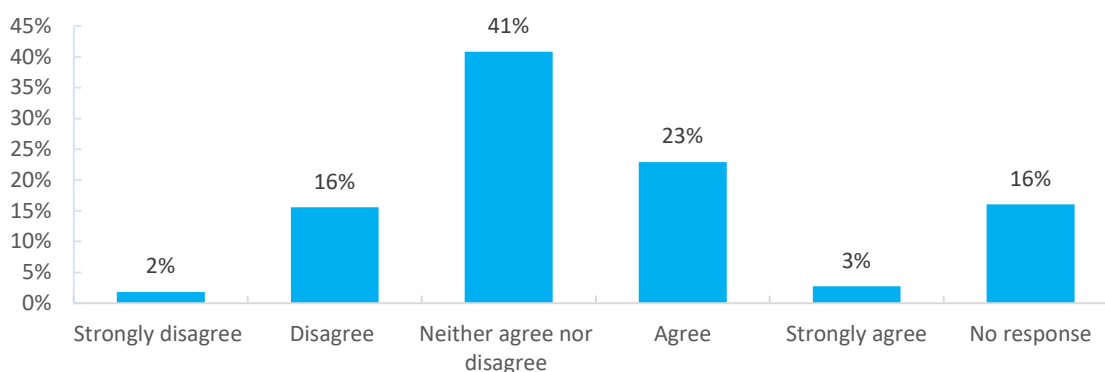
Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.2: Reliability of Output and Outcome Data<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

Survey Question: To what extent do you agree/disagree with the following statements: (i) Data on output is reliable; (ii) Data on outcome is reliable.

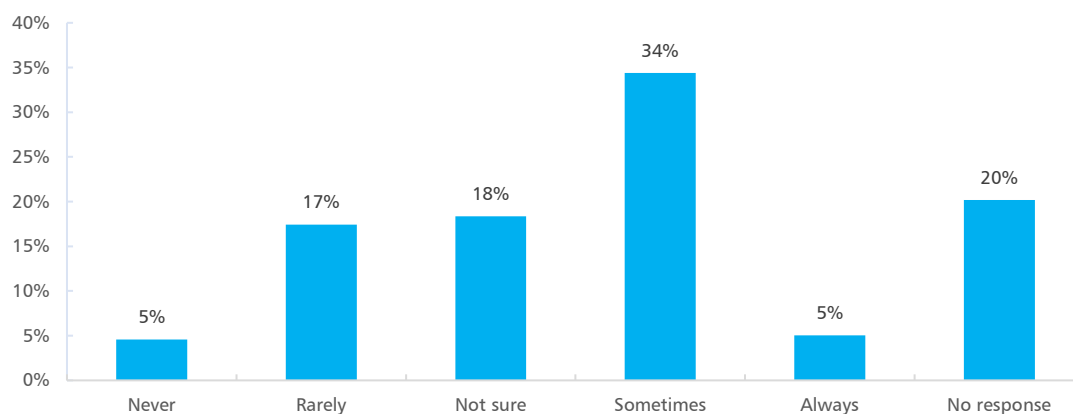
Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.3: Reliability of Data in Government Project Completion Reports<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

Survey Question: To what extent do you agree/disagree with the following statement: Data from the government PCR is reliable.

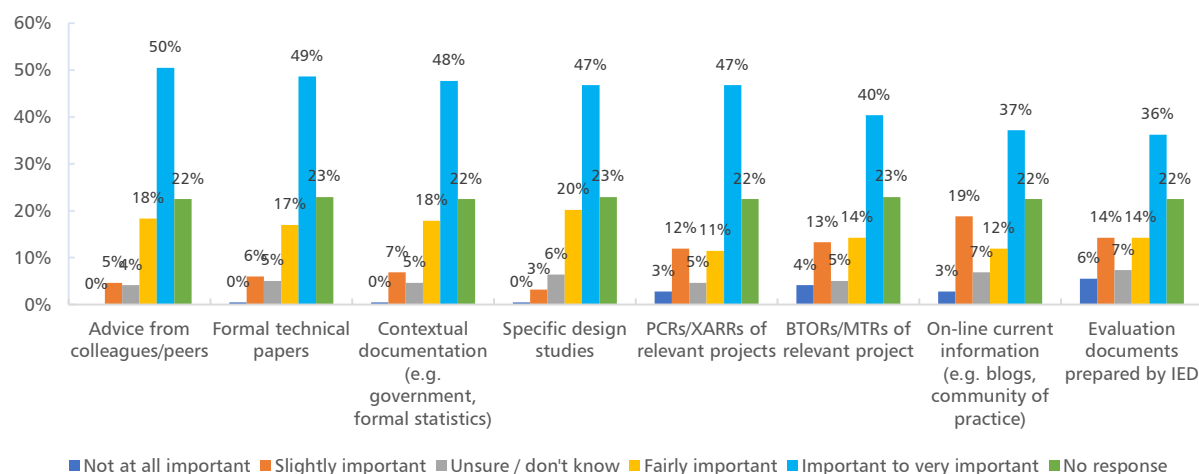
Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.4: Availability of Final Project Completion Reports prior to Follow-on Project Design<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

Survey Question: What is your view about the following statement: The final PCR or XARR is prepared in time to feed into follow-on project design.

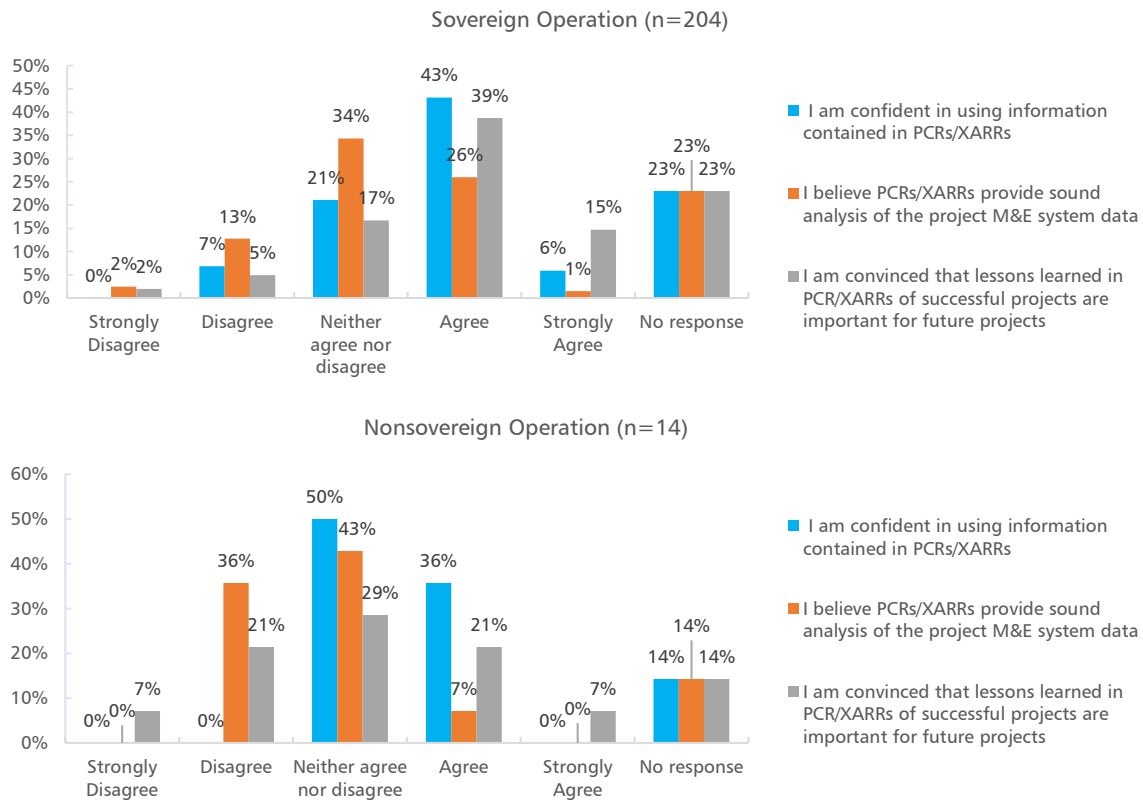
Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.5: Importance of Various Sources of Information for the Design of New Projects<sup>a</sup>**

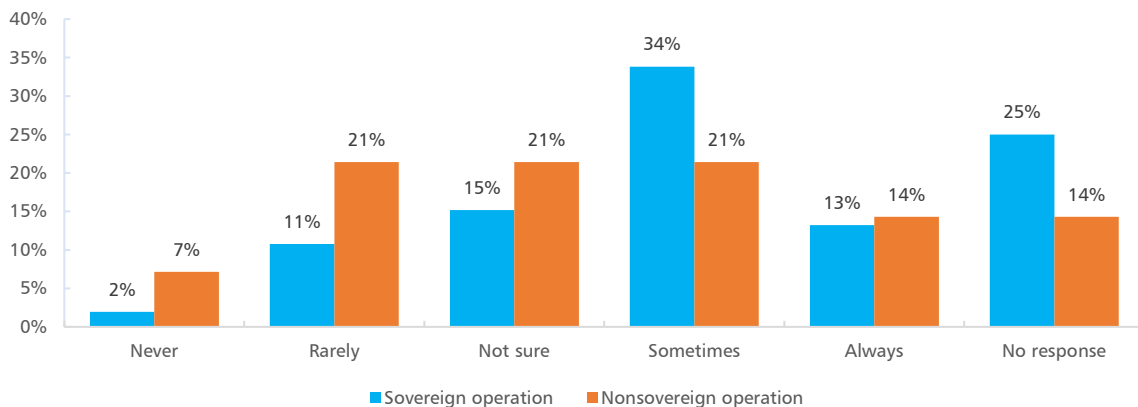
<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

IED = Independent Evaluation Department, MTR = midterm report, PCR = project completion report, XARR = extended annual review report. Survey Question: How important are the following sources of information to design new projects?

Source: Asian Development Bank (Independent Evaluation Department).

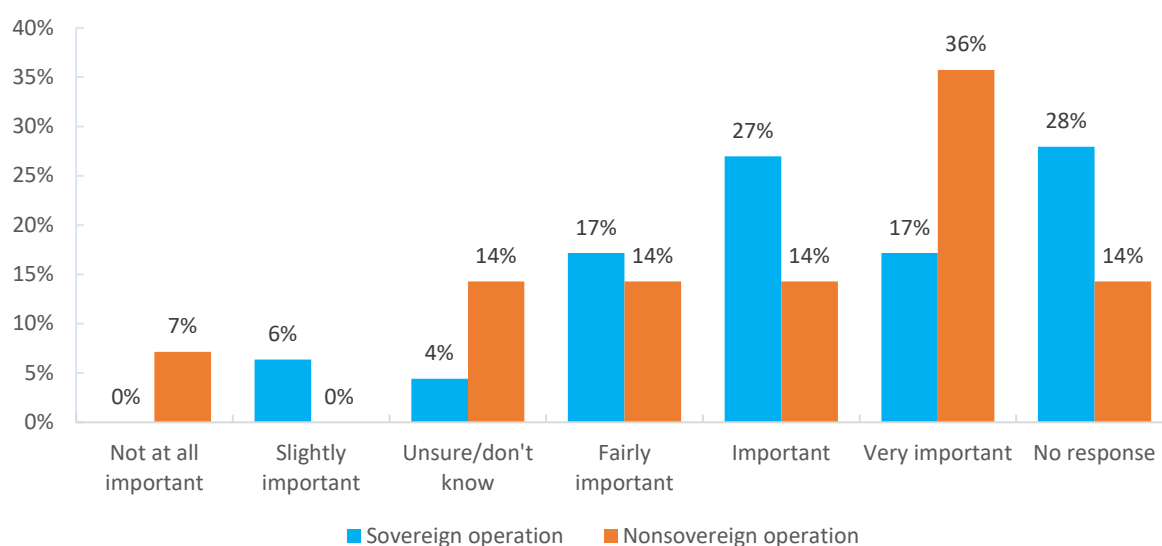
**Figure A6.6: Credibility and Use of Project Completion Reports and Extended Annual Review Reports<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.  
 PCR = project completion report, XARR = extended annual review report.  
 Survey Question: To what extent do you agree/disagree with these statements?  
 Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.7: Does the Preparation Process for Project Completion Reports and Extended Annual Review Reports Feed into Follow-on Project Designs<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.  
 Survey Question: What is your view about the following statement: The preparation process for PCRs and XARRs helps feed into follow-on project designs.  
 Source: Asian Development Bank (Independent Evaluation Department).

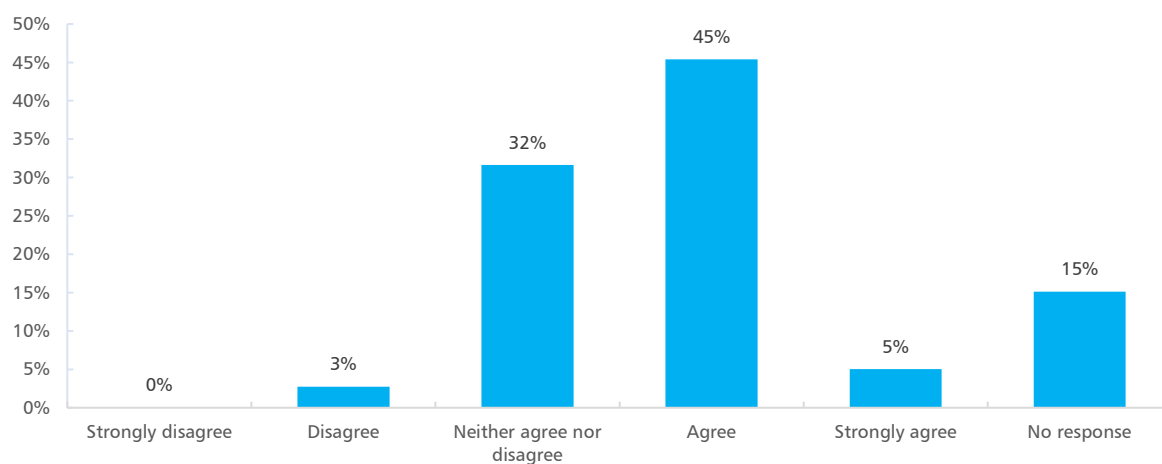


**Figure A6.8: How Important are Formal Technical Papers to the Design of New Projects<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

Survey Question: How important are the following sources of information to design new projects? Formal technical papers.

Source: Asian Development Bank (Independent Evaluation Department).

**Figure A6.9: Overall Reliability of Project Completion Reports and Extended Annual Review Reports<sup>a</sup>**

<sup>a</sup> Based on the 218 respondents with experience on PCRs/XARRs. Experienced ADB staff are those who have either written, reviewed, contributed, validated, or used the information from completion reports.

Survey Question: To what extent do you agree/disagree with the following statements: Overall, data in the PCR/XARRs are reliable.

Source: Asian Development Bank (Independent Evaluation Department).

## APPENDIX 7: ACCEPTANCE AND IMPLEMENTATION OF RECOMMENDATIONS

**Table A7.1: Approved Evaluation Reports with Recommendations in the Management Action Record System (MARS), 2019**

Evaluation Report	Accepted	Partly Accepted	Total	AR (%)
CAPE: Azerbaijan, 2011–2017	5	0	5	100
2019 Annual Evaluation Review: Performance and Scorecards	4	0	4	100
CE: ADB Private Sector Equity Investments	5	0	5	100
SAPE: ADB's Support to Pakistan Energy Sector (2005–2017)	8	0	8	100
CE: ADF XI and 12 Operations	5	1	6	100
CAPE: Indonesia	5	0	5	100
SAPE: Indonesia Finance Sector	6	0	6	100
CE ADB's MFF, 2005–2018: Performance and Results Delivered	4	0	4	100
<b>Total</b>	<b>42</b>	<b>1</b>	<b>43</b>	<b>100</b>

ADB=Asian Development Bank, ADF=Asian Development Fund, AR = acceptance rate, CAPE=country assistance program evaluation, CE=corporate evaluation, MFF=multitranchise financing facility, SAPE=sector assistance program evaluation.

Note: The CAPE Azerbaijan was approved in 2018 but uploaded in January 2019.

Source: Asian Development Bank (Independent Evaluation Department).

**Table A7.2: Management Acceptance of IED Recommendations, 2011–2019 (%)**

	2011 (N=35)	2012 (N=47)	2013 (N=28)	2014 (N=52)	2015 (N=30)	2016 (N=12)	2017 (N=30)	2018 (N=30)	2019 (N=43)
Accepted	100	96	89	42	53	83	93	90	98
Partly Accepted	0	0	0	10	23	17	3	3	2
Not Accepted	0	4	11	48	23	0	3	7	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Asian Development Bank (Independent Evaluation Department).

**Table A7.3: Validated Ratings of Implemented Actions Taken on Recommendations (Number and Percent), 2011–2018**

	2011 (N=72)	2012 (N=48)	2013 (N=44)	2014 (N=28)	2015 (N=26)	2016 (N=66)	2017 (N=31)	2018 (N=11)	2019 (N=15)
Fully Implemented	21	31	36	21	31	42	23	55	27
Largely Implemented	53	46	34	57	38	38	52	27	40
Partly Implemented	24	21	25	18	19	20	26	18	27
Not Implemented	1	0	2	4	12	0	0	0	7
No Rating	1	2	2	0	0	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>No. of Fully or Largely Implemented Actions</b>	<b>74</b>	<b>77</b>	<b>70</b>	<b>79</b>	<b>69</b>	<b>80</b>	<b>74</b>	<b>82</b>	<b>67</b>

Source: Asian Development Bank (Independent Evaluation Department).

**Table A7.4: Evaluation Reports with All Accepted Recommendations Completed during 2011–2019**

Year	No. of Completed Evaluation Reports	No. of Recommendations	AR (%)	No. of Accepted Recommendations Completed	Number Rated FI/LI	FI/LI (% of total)	Average Implementation Period (years)
2011	14	59	86	51-	37	73	1.6
2012	12	48	92	44	26	59	2.2
2013	15	61	95	58	45	78	2.4
2014	8	36	94	34	25	74	3.2
2015	4	23	87	20	15	75	3.2
2016	14	82	83	68	58	85	3.9
2017	10	50	98	49	35	71	3.8
2018	3	27	48	13	9	69	4.1
2019	4	19	84	16	12	75	3.8
<b>2011–2019</b>	<b>84</b>	<b>405</b>	<b>87</b>	<b>353</b>	<b>262</b>	<b>74</b>	<b>3.0</b>

AR=acceptance rate, FI=fully implemented, LI=largely implemented.

Source: Asian Development Bank (Independent Evaluation Department).

**Table A7.5: Evaluation Reports with All Accepted Recommendations Completed during 2019**

Evaluation	AR (%)	Total Number of Accepted Recommendation	Total Completed (no.)	IED Validation Rating				
				FI	LI	PI	NI	% of FI/LI
CAPE Kyrgyz Republic: Evolving Transition to a Market Economy	100	6	6	5	0	1	0	83
CAPE PNG	40	2	1	0	0	1	1	0
Thematic Study on the Effectiveness of Asian Development Bank Partnerships	100	4	4	2	1	1	0	75
Thematic Study on Real-time Evaluation of ADB's Safeguard Implementation Experience Based on Selected Case Studies	100	4	4	0	4	0	0	100
<b>Total 2019 Recommendations</b>	<b>84</b>	<b>16</b>	<b>15</b>	<b>7</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>75</b>

ADB=Asian Development Bank, ADF=Asian Development CAPE=country assistance program evaluation, FI = fully implemented, Fund, AR = acceptance rate, LI = largely implemented, NI = not implemented, PI = partly implemented.

Source: Asian Development Bank (Independent Evaluation Department).

## APPENDIX 8: ACTIONS DOWNGRADED IN 2019

1. Management and IED assessed the implementation of 15 actions taken on the recommendations of 10 evaluations completed between 2012 and 2018. These actions are due in 2019. IED validated 10 out of the 15 actions as having been fully or largely implemented. The five actions downgraded to partly or not implemented involved the setting up a management systems, use of a financing modality, strengthening organizational management, and preparation of an insufficient action plan.

**Table A8.1: Results of Management and IED Assessment of the Implementation of 15 Actions on Recommendations Due in 2019<sup>1</sup>**

No.	Approval	Evaluation Title	Assessment	
			ICD	IED
1	12 Aug 2012	CAPE Kyrgyz Republic: Evolving Transition to a Market Economy	FI	FI
2	4 May 2014	Thematic Evaluation on ADB's Support for Inclusive Growth	FI	LI
3	3 Feb 2015	CAPE Papua New Guinea	FI	PI
4			LI	NI
5	18 Feb 2016	Thematic Evaluation on Effectiveness of Asian Development Bank Partnerships	LI	LI
6	21 Nov 2016	Thematic Evaluation on Real-time Evaluation of ADB's Safeguard Implementation Experience Based on Selected Case Studies	LI	LI
7			LI	LI
8			LI	LI
9	24 May 2017	CAPE India	FI	FI
10	6 Jun 2017	Corporate Evaluation on Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products	LI	PI
11			FI	PI
12	13 Nov 2017	Corporate Evaluation on Results-Based Lending at the Asian Development Bank: An Early Assessment	FI	FI
13			FI	FI
14	14 Mar 2018	2018 Annual Evaluation Review: The Quality of Project Design and Preparation for Efficiency and Sustainability	LI	LI
15	7 Jun 2018	Corporate Evaluation on Policy-Based Lending, 2008-2017: Performance, Results, and Issues of Design	FI	PI

<sup>1</sup> The following rating system is used in assessing implementation progress: fully implemented (if the implementation of action is complete); largely implemented (if the extent of implementation of the action is greater than 67% but less than 100%; partly implemented (if the extent of implementation of the action is anywhere from 33% to 67% or if some actions are "ongoing" without a definite implementation period); and not implemented (if the extent of implementation is less than 33% or the recommendation is no longer relevant).

CAPE=country assistance program evaluation, FI = fully implemented, ICD=implementing and/or coordinating department, IED=Independent Evaluation Department, LI=largely implemented, PI=partly implemented.

Source: Asian Development Bank (Independent Evaluation Department).

2. **Setting up systems to enhance project management takes time and ADB faces challenges.** Two actions in the CAPE Papua New Guinea (PNG) were downgraded to partly or not implemented. The first called for the creation of a results monitoring database to identify and engage stakeholders and to track the financial and impact performance of gender projects. While ADB maintains a database of nongovernment and civil society organizations in PNG, there is no established system that enables ADB to use this information to engage stakeholders and monitor results. The second action called for improved coordination of infrastructure budgeting and execution through staff-driven advisory work to enhance transparency and accountability in project management. ADB's efforts were insufficient in both size and scale (e.g., recruitment of financial and procurement experts in the resident missions). Improvements in budgeting practices require time and consistency in building momentum towards improved public financial management. Neither action was readily apparent during two IED missions to PNG in 2019.

3. **It takes time to change ADB's involvement in non-traditional areas.** For example, one of the actions in the evaluation Policy-Based Lending, 2008–2017: Performance, Results, and Issues of Design called for ADB to expand policy-based lending (PBL) operations in such areas as energy, water and transport to ensure greater synergy of policy and project operations. While there is anecdotal evidence

that the pipeline was been expanded to include PBL in a more diverse range of sectors other than public sector management (PSM), it is too early to conclude that the recommendation was fully implemented. Two years is not long enough to indicate a trend away from PSM. This is also not fully reflected in the approvals database. For this reason, the rating was downgraded from fully implemented to partly implemented.

4. **In response to the corporate evaluation Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products (CEP), ADB Management committed itself to strengthen the organizational arrangements and operational aspects of ADB's CEP operations and consider appropriate incentive structures.** Although the Private Sector Operations Development (PSOD) Guarantees and Syndications Team was upgraded to a unit located in PSOD's front office in 2018, the incentive mechanisms were not fully addressed in the action plan as part of organizational changes. To help increase ADB's CEP business, Management committed itself to formulating a new performance metric for the capital requirements for partial risk guarantees. However, because there was not enough time to finalize this before the Capital Adequacy Framework R-paper was circulated to the Board, the issue will be dealt with in a stand-alone policy paper in early 2020.

5. **An action plan led to a narrowly focused implementation of actions.** Another action in the CEP study that was assessed by IED to have been only partly implemented was an agreement to improve the mobilization approach and measurement system. The action plan failed to include (i) the distinction between the mobilization of short-, medium-, and long-term capital when measuring cofinancing and mobilization and (ii) targets for mobilizing third-party financing through guarantees and syndication operations. However, PSOD has successfully harmonized ADB's definitions of private mobilization with those of other multilateral development banks and applied the definitions in an MDB joint report on mobilization activity since 2017.

## APPENDIX 9: QUALITY OF ACTION PLANS: METHODOLOGY AND FINDINGS

- Forty-eight actions were scored using a four-point rating scale for relevance that measured two dimensions: relevance/alignment and specificity/measurability. The criteria definitions are in Table A9.1

### A. Methodology

**Table A9.1: Criteria Definition and Rating Methodology**

Criteria	Fully	Largely	Partly	Not/Negligible
Score	4	3	2	1
<b>Relevance<sup>a</sup></b> Extent of alignment of action plan with IED recommendation and Management response	Action is 100% aligned and addresses the recommendation and management response completely	Action is at least 80% aligned and addresses the recommendation and management response with minor shortcomings	Action is at least 50% aligned and addresses the recommendation and management response with considerable shortcomings	Action is below 50% aligned and largely fails to address the recommendation and management response
<b>Specificity<sup>b</sup></b> Extent to which the action plan shows clear and adequate targets, outputs and indicators	Action has complete targets, outputs and indicators	Action has adequate targets, outputs and indicators	Action has less than adequate targets, outputs and indicators	Action failed to define targets and outputs

<sup>a</sup> Although IED and Management have decided to use the action plan as a reference point for measuring implemented actions, the scoring includes both the IED recommendation and the Management response in the criteria to obtain an indication of the alignment between the two after recent efforts toward greater engagement.

<sup>b</sup> Specificity is the extent to which an action is defined and disaggregated into targets, outputs and indicators.

Source: Asian Development Bank (Independent Evaluation Department).

### B. Findings

- Most of the actions (88%) were either fully or largely aligned, implying the action plans were generally consistent with IED's recommendations and Management's response.

- Nearly half of the actions (48%) were fully aligned and examples of these are discussed below. In response to the recommendation in the 2018 evaluation of policy-based lending (PBL) which called for improvements in the financial preparedness of DMCs for disaster response through PBL financing, Management proposed reviewing the policy and instruments, formalizing financing through a policy paper, and endorsing the creation of a crisis window for concessional assistance.<sup>1</sup> In response to the 2018 sector-wide evaluation of agriculture, natural resources, and rural development (ANR) in 2018, the action plan was straightforward: to conduct four sector assessments to promote sector diagnostics in the ANR sector.<sup>2</sup>

- Largely aligned actions (42%) left some elements of the recommendation and management response unaddressed. An example of a largely aligned action in the SME study was Management's proposal to hold finance sector workshops and meetings and publish outcomes of capacity development activities to improve staff skills and interdepartmental collaboration. The action plan was silent on one of the salient points of the recommendation: to create an incentive and rewards structure to develop staff skills.

<sup>1</sup> IED. 2018. *Corporate Evaluation Study on Policy-Based Lending, 2008–2017: Performance, Results, and Issues of Design*. Manila: ADB.

<sup>2</sup> IED. 2018. *Sector-Wide Evaluation on ADB Support for Agriculture, Natural Resources, and Rural Development*. Manila: ADB.

5. Partly-aligned actions overlooked key outputs necessary to achieve results. An example was conducting three knowledge-sharing events for ADB staff within 2 years. The action fell short of the recommendation to invest more in staff and client capacity development on results-based lending.<sup>3</sup>

6. Some actions lacked sufficient specificity, making them vague and unsuitable for monitoring. Both largely (40%) and partly measurable (23%) actions had shortcomings in the quality of target statements, outputs and indicators. Also, most actions were merely output statements, there was no strong causality framework, making measurement of results at completion challenging.

7. The individual ratings by evaluation are reported in Table A9.2.

**Table A9.2: Relevance and Specificity Ratings of Action Plans of Evaluations Produced in 2017 and 2018**

Report Title	No. of Actions	Relevance (Average)	Specificity (Average)	Overall (Average)
2017 Annual Evaluation Review: Learning from the Lessons of Project Evaluations	3	3.0	2.3	2.7
2018 Annual Evaluation Review: The Quality of Project Design and Preparation for Efficiency and Sustainability	3	3.0	3.0	3.0
CAPE India	3	3.7	3.7	3.7
CAPE Azerbaijan, 2011-2017	5	3.8	3.6	3.7
Corporate Evaluation Study on Boosting ADB's Mobilization Capacity: The Role of Credit Enhancement Products	5	2.0	2.0	2.0
Corporate Evaluation Study on Policy-Based Lending, 2008–2017: Performance, Results, and Issues of Design	6	3.7	3.7	3.7
Corporate Evaluation Study on Results-Based Lending at the Asian Development Bank: An Early Assessment	3	3.0	3.0	3.0
Sector-Wide Evaluation on ADB Support for Agriculture, Natural Resources, and Rural Development	8	3.5	2.8	3.1
Thematic Evaluation on State-Owned Enterprise Engagement and Reform	4	3.0	4.0	3.5
Thematic Evaluation on Support for Small and Medium-Sized Enterprises, 2005-2017: Business Environment, Access to Finance, Value Chains, and Women in Business	4	3.0	3.0	3.0
Thematic Evaluation Study of Asian Development Bank Support for Gender and Development (2005–2015)	4	3.8	3.8	3.8
<b>Total Number of Actions</b>	<b>48</b>	<b>3.3</b>	<b>3.1</b>	<b>3.2</b>

Source: Asian Development Bank (Independent Evaluation Department).

<sup>3</sup> IED. 2018. *Corporate Evaluation Study on Results-Based Lending at the Asian Development Bank: An Early Assessment*. Manila: ADB.



## APPENDIX 10: LIST OF LINKED DOCUMENTS

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- A. Sovereign Operations: Project Performance and Annual Success Rates  
<https://www.adb.org/sites/default/files/linked-documents/A-Sovereign-Ops-Performance-and-Success-Rates.pdf>
- B. Nonsovereign Operations: Annual Success Rates  
<https://www.adb.org/sites/default/files/linked-documents/B-Nonsovereign-Ops-Success-Rates.pdf>
- C. ADB Financing Modalities  
<https://www.adb.org/sites/default/files/linked-documents/C-ADB-Financing-Modalities.pdf>
- D. Review of Self-evaluations at Other Multilateral Development Banks  
<https://www.adb.org/sites/default/files/linked-documents/D-Review--Self-Evaluations-MDBs.pdf>
- E. List of Projects with Follow-on or Multiple Phases  
<https://www.adb.org/sites/default/files/linked-documents/E-List-of-Projects-with-Follow-on-Multiple-Phases.pdf>
- F. Instrument for Staff Perception Survey  
<https://www.adb.org/sites/default/files/linked-documents/F-Instrument-for-Staff-Perception-Survey.pdf>
- G. Focus Group Discussions  
<https://www.adb.org/sites/default/files/linked-documents/G-Focus-Group-Discussions.pdf>
- H. Implementation of Recommendations in Other Multilateral Development Banks  
<https://www.adb.org/sites/default/files/linked-documents/H-Implementation-of-Recommendations-in-Other-MDBs.pdf>
- I. Action Plans and Issues  
<https://www.adb.org/sites/default/files/linked-documents/I-Action-Plans-and-Issues.pdf>