

## Management's Response to IED's 2025 Annual Evaluation Review: Support for Regional Initiatives and Public Goods

On 31 March 2025, the Director General, Independent Evaluation Department, received the following response from Director General, Strategy, Policy and Partnerships Department (SPD) on behalf of Management:

### I. General Comments

1. Management welcomes *the 2025 Annual Evaluation Review (AER): Support for Regional Initiatives and Public Goods* by the Independent Evaluation Department (IED). Management appreciates the valuable and informative analyses on the completed operations performance of the Asian Development Bank (ADB), management action plans, and the special chapter on ADB's support for regional initiatives and public goods.

2. Management notes that success rates of completed sovereign and nonsovereign operations stagnated in 2022–2024 due to challenges in infrastructure performance impacted by legacy operations, while technical assistance success rates improved, driven by increased efficiency and relevance through strategic use of digital platforms and local expertise. Management also highlights the finding that recently approved operations performed better due to new technology and ADB's long-term engagement in policy reforms, despite the overall stagnant performance of operations. This underscores the importance of management's ongoing efforts to enhance operations' performance.

3. Management is pleased to note the finding that ADB's regional cooperation and integration (RCI) strategies have been consistent, adaptive, and responsive to regional needs of Asia and the Pacific and the three strategic pillars of ADB RCI agenda—connectivity, competitiveness, and regional public goods (RPGs) have been consistent over time, with a growing emphasis on RPGs in more recent years.

### II. Comments on the Theme Chapter: Elevating ADB Support for RCI and RPGs

4. **Addressing Strategic Gaps.** Management agrees that there is a need to address strategic gaps for strengthening RCI operations and enhancing impacts in emerging priority areas. For this purpose, Management plans to develop an operational approach for RCI in 2025 to provide strategic guidance for RCI operations over the period of 2025–2030. Related to this, a bank-wide RCI task force has been established to assess the constraints, identify new priority areas, and recommend strategic approaches and actions to reinvigorate RCI operations in the evolving global and regional contexts. Measures will be recommended to increase ADB's support for the promotion of RPGs.

5. **Making more resources available for RCI.** Management supports the AER's emphasis on the need to "make more resources available for RCI" as called for by the midterm review of the Strategy 2030. Management is proposing to set up a \$15 million Technical Assistance Special Fund (TASF) set-aside (subject to approval by the Board) to strengthen RCI pipeline development and preparation of high-priority RCI projects. This would complement expanded support from the Asian Development Fund's (ADF) thematic window for RCI–RPG projects, with available resources targeted to increase to about \$337 million during the ADF 14 period (2025–2028), from \$239 million in ADF 13 (2021–2024).

6. **Improving incentives and tracking of RCI initiative.** Management recognizes the need for improved incentives in delivering more complex RCI interventions and fine tuning the RCI classification system. Actions are being taken to update the RCI scorecard based on the streamlined corporate result framework. We would also like to note the need for a balance between applying more rigorous RCI classification and incentivizing project teams to develop more RCI projects which are often more complex and time-consuming for processing.

### III. Comments on Operational Performance

7. **Performance of Multitranche Financing Facilities (MFFs).** The AER noted that the declining success rate of MFF operations, particularly in transport and water and urban development (WUD), has negatively impacted infrastructure performance and lowered the overall success rate of ADB operations. The low success rates of MFFs were attributed to inadequate preparation and design readiness, resulting in significant delays. In several instances, the selection of MFF modality was deemed inappropriate as subsequent tranches did not materialize. However, management would like to highlight the distinct attributes of MFFs, flexibility and long-term financing availability period, which relate to the observed low success rates. Introduced to allow for greater flexibility, MFFs enabled ADB to invest programmatically and enhance development outcomes through sustained engagement with client countries. Over time, however, MFFs have proven more susceptible to external shocks such as unanticipated price escalations driven by the COVID-19 pandemic or geopolitical conflicts, resulting in insufficient financial coverage for the original scope of investment programs. Changes in government priorities or tight fiscal conditions in client countries have also hindered the application for later financing tranches, which can only be triggered by a periodic financing request (PFR) from the government. Considering these features, management suggests that MFFs should be treated as a distinct category and evaluated within this context. Additionally, overall success rates data excluding MFF success rates could provide a clearer understanding of ADB's overall performance.

8. **Increasing variance between self-assessment and validation ratings.** Management notes that the variance between self-assessed and IED-validated ratings has increased for both sovereign and nonsovereign projects over the past few years. A more detailed analysis of this trend could help address this ongoing challenge. Specifically, the increasing variance is not common across all sectors; in sovereign operations, infrastructure sectors are experiencing greater divergence between self-assessment and validation ratings, while the variance of non-infrastructure sectors has remained largely consistent over the years. Management appreciates IED's ongoing efforts to update evaluation guidelines to improve clarity and relevance and supports the continuation of collaborative efforts between management and IED to address the rising variance. Management will work to enhance the capability of project teams to present clear and comprehensive information supported by appropriate evidence and documentation. In the same way, reducing this variance can be achieved through validators' implementation of clear and consistent methodologies, better understanding of the sector specific implementation issues and challenges on the ground followed by an open attitude towards feedback and requests for rating adjustments. Management will continue to cooperate with IED to identify the causes of variance and take measures to reduce it.

### IV. Measures to Strengthen Operations Performance

9. To enhance operational performance and better serve clients, ADB has implemented several initiatives, including the New Operating Model (NOM), Strategy 2030 Midterm Review, and the new Corporate Results Framework (CRF) 2025–2030. NOM has progressed into its

second phase, focusing on decentralization efforts and improvements in reporting systems and guidance, which aim to increase business process efficiency by bringing staff closer to clients. The Strategy 2030 Midterm Review and CRF 2025–2030 refine ADB’s strategic focus and establish new corporate targets in key areas such as private sector development, regional cooperation and public goods to provide better support for developing member countries (DMCs) and enhance development impacts. Other key actions which have been taken to improve project success include:

(i) **Sectors Group’s action plan to improve project implementation.** In 2024, ADB’s Sectors Group developed an action plan focusing on project readiness, portfolio monitoring, and project sustainability to improve project implementation. Some of the actions identified include: (a) promoting DMCs’ awareness on the use of Project Readiness Financing (PRF) and Small-Expenditure Financing Facility (SEFF), adoption of project readiness criteria, checklist, and recommended regulatory and institutional changes; (b) promoting financial and operational sustainability during country partnership strategy preparation and country pipeline management discussions; (c) strengthening internal management platforms to address project sustainability issues earlier by, for example, integrating early warning notifications into project safeguards monitoring systems; and (d) emphasizing upstream engagement and supporting policy reform to strengthen governance and improve institutional capacity for asset operation and maintenance (O&M).

(ii) **Business process reforms for more efficient and effective nonsovereign operations.** In 2024, Private Sector Operations Department (PSOD) implemented business process reforms to enhance the efficiency and management of nonsovereign operations. These reforms include: (a) new credit screening tools for proposed private sector transactions in specific sectors, (b) simplified transaction processing documentations, (c) a streamlined Investment Committee structure, and (d) targeted training to build capacity among staff for transaction development. Management also continued its ongoing business process enhancements for sovereign operations to strengthen efficiency and effectiveness and ensure better outcomes for DMCs.

(iii) **Strengthening capacity for project readiness and implementation.** Management has increased efforts to build capacity within executing and implementing agencies to enhance project readiness and implementation. This includes using regional and national institutions in the Pacific to provide training and expanding outreach to DMCs to improve understanding of ADB policies. Management will also explore establishing the ADB academy as a centralized platform to carry out capacity development programs for DMCs in partnership with academic institutions, think-tanks, and universities, including ADB Institute. Continuous improvement of PRF and SEFF will also be undertaken to encourage the two project readiness modalities to be more actively utilized to support development and implementation of high-quality projects.

(iv) **Efforts to improve performance at project completion.** Various training courses have been provided to project teams to enhance the recorded achievement of targets in project design and monitoring frameworks. As part of the annual training on the Project Design and Management Program, intensive training and targeted guidance on results management were delivered. Additionally, there were on-demand and specialized training sessions for project teams, as well as an eLearning course available to all ADB staff and counterparts in member countries. Management also supported IED in reviewing and updating evaluation guidelines to improve clarity and relevance. IED

should continue its efforts to enhance validators' capacity to implement clear and consistent methodologies to address the increasing variance between self- assessment and validation ratings.