About the Asian Development Bank

ADB aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than $2 a day. Despite many success stories, the region remains home to two thirds of the world’s poor. ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB’s vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB’s main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. ADB’s annual lending volume is typically about $6 billion, with technical assistance usually totaling about $180 million a year.

ADB’s headquarters is in Manila. It has 26 offices around the world and more than 2,000 employees from over 50 countries.

INDEPENDENT EVALUATION
AT THE
ASIAN DEVELOPMENT BANK

Operations Evaluation Department
March 2007
INDEPENDENT EVALUATION AT THE ASIAN DEVELOPMENT BANK

Operations Evaluation Department
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# CONTENTS

PREFACE v

THE BEGINNINGS 1

THE CHANGING CONTEXT 3

THE NEW MODUS OPERANDI 7

EVALUATING OPERATIONS PERFORMANCE 11

DIRECTIONS IN EVALUATION 25

INFLUENTIAL EVALUATIONS 29

MANAGING KNOWLEDGE 37

CONCLUSIONS 41

*Appendix 1* Independent Evaluation at ADB: A Brief Account 43

*Appendix 2* Evaluation by Type 48

*Appendix 3* Key Operations Evaluations Department Reports 50

*Appendix 4* Catalogue of Evaluation Reports 51

*Appendix 5* Heads of Evaluation 56

*Appendix 6* Heads of Audit and Development Assistance Committees 57
ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
DMC – developing member country
OCR – ordinary capital resources
OED – Operations Evaluation Department
NGO – nongovernment organization
The Board of Directors and Management of the Asian Development Bank (ADB) aim to promote the effectiveness of its operations. The Operations Evaluation Department supports their efforts toward this by enhancing understanding of what works, what does not, and what must be improved. Operations evaluation has changed from the beginnings of evaluation activities in ADB almost 30 years ago. Initially, the focus of evaluation was on assessing whether implementation was consistent with the intentions reflected in the appraisal of a project, and the extent to which the project achieved the expected economic and social benefits. Operations evaluation now shapes decision making throughout the project cycle and in ADB as a whole. Timed to coincide with the 40th anniversary of the establishment of ADB in 1966, this booklet on Independent Evaluation at the Asian Development Bank offers more than an account of the early steps of operations evaluation. It describes recent accomplishments and looks to the future. Independent Evaluation at the Asian Development Bank was written by Olivier Serrat, Senior Evaluation Specialist (Knowledge Management), with assistance from Stephen Banta, Consultant, under the overall supervision of Keith Leonard, Director, Operations Evaluation Division 1.

Bruce Murray
Director General
Operations Evaluation Department
Asian Development Bank
The Asian Development Bank (ADB) created a Postevaluation Office in 1978 to assess whether the actual benefits of completed projects were commensurate with those expected at appraisal and, if not, to explain the reasons for divergence. Thirty years later, the function of operations evaluation at ADB has changed from recording history to shaping decision making throughout the project cycle and in ADB as a whole. Today, the core task of the renamed Operations Evaluation Department (OED) is the systematic and objective assessment of policies, strategies, country programs, and projects, including their design, implementation, results, and associated business processes, to determine their relevance, effectiveness, efficiency, and sustainability. By this process of evaluation, ADB demonstrates three elements of good governance: (i) accountability, by assessing the effectiveness of ADB’s operations; (ii) transparency, by independently reviewing operations and publicly reporting findings and recommendations; and (iii) improved performance, by helping ADB and its clients learn from past experience to enhance ongoing and future operations.

**The Beginnings**

Evaluation was neither part of the initial activities nor the structure of ADB when it was established in 1966—there was little to evaluate until operations got under way. A system was established in 1972 for measuring results against intentions. While the main focus of such evaluation was historical, the object was to improve the planning, appraisal, and implementation of ADB’s operations. The Economics Office, with the assistance of consultants, provided the internal evaluation capability, while academic institutions and nonprofit organizations were contracted to perform external evaluations. The role of ADB’s operations departments was to make background information available.

By 1977, a total of 17 evaluation studies had identified factors contributing to success or failure of projects. The main product was the project performance audit report. Importantly, 1977 also saw a review of evaluation policies and procedures to increase the impact of evaluations on ADB’s operations. The result was the creation in 1978 of a separate unit, the Postevaluation Office, reporting directly to the President. Evaluation activities were reviewed by the Audit Committee of the Board of Directors. The office was staffed with four professionals, plus the Chief. In 1979, it began to codify its work by developing standards and procedures for producing project performance audit reports, and it released its first summary of findings and recommendations from evaluation.¹

Broader evaluations were introduced in 1982. By 1986, performance evaluation had become important enough to merit a theme chapter in ADB’s Annual Report. In 1993, the establishment of the Task Force on Improving Project Quality signaled ADB’s determination to improve its standards of performance and to enhance the effectiveness

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¹ There are two types of evaluation: independent and self-evaluation. Self-evaluation is conducted by those responsible for designing and implementing a country strategy, program, project, or technical assistance activity. It comprises several instruments, including project/program performance reports, midterm review reports, technical assistance or project/program completion reports, and country portfolio reviews. Independent evaluation is undertaken by an evaluation department or by evaluators outside of the organization. This paper discusses only independent evaluation undertaken by OED.
of its operations. The Task Force identified the major themes underlying project quality to be (i) ADB responsiveness to its developing member countries (DMCs), (ii) DMC ownership and capacity, and (iii) accountability for project quality in ADB. In 1994, the Board of Directors endorsed the Report of the Task Force.\(^2\) The action plan contained in the report drew on findings and recommendations from evaluation. In 2000, the scope of project performance audit reports was broadened to include achievement of benefits, measured against a logical framework. A brief account of independent evaluation at ADB since 1978 is appended.

THE CHANGING CONTEXT

ADB has assisted the Asia and Pacific region over the past four decades. The region is now recognized as the most economically dynamic in the world and the incidence of poverty has fallen sharply. When ADB started operations, however, the region was one of the poorest, and most countries had limited foreign exchange reserves. In the 1970s and 1980s, ADB was predominantly a project lender, supporting DMCs’ investment needs in agriculture, industry, and infrastructure. However, issues of sustainable, inclusive development and quality of life became increasingly important. Over the past three decades, to address these issues and meet the new needs they entail, ADB has shifted its operations from supporting mainly economic growth and physical infrastructure to a greater emphasis on poverty reduction, social development, gender equality, environmental sustainability, policy reform, and regional cooperation. ADB has thus changed from being essentially a provider of project finance to a more broad-based institution with greater emphasis on policy and institutional support and on knowledge products and services to complement resource transfers.

The first two decades of ADB’s experience showed that a sound policy and institutional framework is critical for ensuring the intended development impacts of projects. This lesson was equally pertinent as ADB ventured into the cross-cutting areas of poverty reduction, human development, gender issues, environmental management, and good governance. Policy dialogue on sector issues assumed ever greater importance. Besides seeking improvements on a project-by-project basis, ADB began in the mid-1980s to support wider sector policy and institutional reform. To facilitate this process, ADB complemented project lending with new modalities: program lending (instituted in the mid-1980s) and sector development programs (in the mid-1990s). In 2005, ADB introduced the multitranche financing facility and other financing instruments and modalities, on a pilot basis, to improve its business processes, align its programs more closely with client priorities, reduce bottlenecks in processing development assistance, and expand its product offerings.

Because of its Asian character and experience, DMCs regard ADB as a trusted partner that understands Asia’s diverse cultural norms and the wide range of development issues in the region. ADB is knowledgeable about the importance, sensitivity, and complexity of governance issues in the region. The trust of its DMCs enabled ADB in 1995 to become the first multilateral development bank with a Board-approved governance policy. It has learned from the varied governance experience in the region,
including that derived from its “graduates”—regional members that no longer receive direct ADB assistance. This was demonstrated by ADB’s rapid response to countries hit by the 1997 financial and economic crisis.

The importance of the private sector, both domestic and foreign, in the development process is recognized. ADB conducts both public and private sector operations within a single institutional setup. It thus has the potential to be a broker between the public and private sectors. DMCs must be able to rely on ADB for assistance and advice on expanding the role of the private sector with appropriate safeguards in place for regulatory, financial, social, and environmental priorities. The private sector, meanwhile, should be able to rely on support from ADB in mitigating risks and strengthening domestic financial and capital markets. ADB can also catalyze resource transfers through cofinancing.

All shareholders recognize ADB’s efforts to promote regional and subregional cooperation. The successful Greater Mekong Subregion program, begun in a postconflict situation, is an example of the dividend that can be realized when peace prevails. ADB also supports subregional initiatives relevant to development in the Pacific DMCs, the Central Asian republics, and the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN (Association of Southeast Asian Nations) Growth Area. Regional cooperation and integration initiatives offer increasing possibilities for development in the Asia and Pacific region.

ADB has been responsive to environmental concerns since its creation. Its involvement in environmental management has increased substantially since the mid-1980s. The environmental aspects of all its projects and programs are reviewed, and ADB has assisted DMCs in building institutions dealing with environmental concerns and policies. ADB has succeeded in placing environmental issues at the forefront of development planning, and has raised region-wide awareness. ADB must build on its record to help realize the environmental targets of the Millennium Development Goals.

ADB’s operations have faced some major challenges. Assistance for capacity building has not been fully effective, as it was often related to the needs of projects rather than those of institutions. Even then, targeting of beneficiaries and interactions with them in the context of project preparation and implementation have not always been sufficient. ADB could also have provided clearer policy advice based on more rigorous analytical work.

ADB has taken initiatives to enhance its focus and improve development effectiveness. Two major changes in thinking and approach include the poverty reduction strategy, approved in 1999 and 2000, respectively. At the same time, the resident mission policy, adopted early in 2000, was expected to lead to improved country focus in operations and a much closer relationship with DMCs. The long-term strategic framework, 2001–2015, spells out ADB’s vision of a region free of poverty and provides an agenda for ADB’s poverty-reduction and growth-financing activities over 15 years, with an accent on sustainable economic growth, inclusive social development, and good governance for effective policies and institutions.

Recently, the medium-term strategy of 2006–2008, the second in a series designed to flesh out the long-term strategic framework for shorter periods,
adjusted operational priorities in response to evolving conditions. It identifies five priorities: (i) catalyzing investment, as a prerequisite for sustaining high growth, employment creation, and rising productivity; (ii) strengthening inclusiveness and the poverty-reducing impact of growth through rural infrastructure development and social development; (iii) promoting regional cooperation and integration as a means of reinforcing national level poverty reduction strategies at the regional level; (iv) managing the environment to ensure that the pattern of economic growth is also environmentally sustainable; and (v) improving governance and preventing corruption, which is key to improving the development effectiveness and poverty reducing impact of ADB’s operations. The second medium-term strategy also introduced certain adjustments in ADB’s business processes, including a more selective sector focus. Core sectors

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### The Changing Operations Evaluation Landscape

The context of development is changing and there is a sense that its rate and extent are now greater than ever. The drivers of change are global and regional as much as national. OED needs to think and work in new ways, learn from the past, but also look to where operations evaluation is heading.

- **New emphasis on aid effectiveness.** The recent emphasis on aid effectiveness is not only due to increased demand for better development results and accountability, but is also partly a result of budgetary constraints.

- **New agendas.** Development agencies face challenges caused by the crowded policy agenda. There are many elements to this, including the need to address issues such as conflict reduction and prevention, fair international trade, environment agreements, gender, a new international financial architecture, more effective working arrangements among the United Nations family and other global institutions, stronger civil society, country ownership and leadership of poverty reduction processes, and harmonization of activities among the aid community. Many of these suffer from definitional problems and unclear time horizons, making them intrinsically difficult to evaluate.

- **New partners.** Development agencies find themselves working with new partners and in different partnership configurations. Multi-agency consortia are becoming more common, and agencies are moving beyond government-to-government links to forge direct links with the private sector, nongovernment organizations (NGOs), and civil society organizations.

- **New pressures.** The growing influence of NGOs is adding a dimension, often positive, to debates on aid and the delivery of development services. When focusing on single issues, these groups gain media attention and use the Internet to organize and mobilize. They have sometimes had contentious relationships with ADB. They have become increasingly powerful and cannot be ignored.

- **New instruments.** New instruments are being tried, including sector-wide approaches, the comprehensive development framework, poverty reduction strategy papers, poverty reduction and growth frameworks, medium-term expenditure frameworks, and the sustainable livelihoods approach. Some of these imply changes in the way development agencies work, requiring significant shifts in how evaluation is approached.

- **New horizons.** Aid delivery has been shifting from the project to the program to the country level. But there is also an array of complex issues that require a regional or global approach, including climate change, trade, migration, genetically modified organisms, HIV/AIDS, and avian flu.
identified for future operations include road transport, energy, urban infrastructure, rural infrastructure, education, and the finance sector. The role of ADB in leveraging additional investment through financing partnerships and cofinancing was emphasized, as well as strengthening project implementation to achieve development results. Implementation is to be country focused, and it is operationalized through individual country partnership strategies. The rapidly changing development context requires continuing sharpening of methods, guidelines, and directions for operations evaluation, as well as new products and services.
Evaluation has changed with ADB. Early work focused on input–output relationships in projects, using economic analysis, but evolved to cover the entire results chain of inputs, outputs, outcomes, and impacts. The main unit of account shifted from the project to the country, informed by sector and thematic assessments as well as by evaluations of ADB’s business processes. The full mix of lending and nonlending services that make up country assistance programs has now become the dominant preoccupation of evaluation, with priority attention to relevance, efficiency, efficacy, and sustainability. In parallel, feedback has grown from restricted circulation of evaluation reports to maximum transparency and active dissemination of findings and recommendations through the Internet. Institutionally, evaluation has gained recognition from Board and ADB Management commitment to achieving development results. Indeed, more suggestions for evaluations are now received than OED can undertake with its current staff complement and budget.

Managing for development results is a prerequisite to improving the quality of assistance. It is one of the five key principles in the Paris Declaration on Aid Effectiveness of March 2005, which promotes development through country ownership, harmonization, alignment, results orientation, and mutual accountability. Multilateral and bilateral agencies are under pressure to demonstrate development effectiveness and to show impact on the ground. ADB is improving its effectiveness in reducing poverty and promoting development in the Asia and Pacific region by means of an action plan built on three pillars: (i) country capacity, (ii) ADB’s results orientation, and (iii) effective global partnerships. OED can contribute in several ways: It will review and evaluate progress toward achievement of managing for development results and ADB’s underlying culture and management style; it will assess how concepts of managing for development results feed into preparation of country partnership strategies and the project cycle with an eye to the needs of DMCs; and it will examine how ADB’s Management uses such concepts and relevant experience to guide decision making.

An important organizational change to increase the independence of OED took effect in January 2004. OED now reports directly to the Board of Directors through the Board’s Development Effectiveness Committee (DEC), instead of to the President. Other significant changes are that (i) the Board rather than the President appoints the director general of OED, and (ii) ADB Management’s role in evaluation changed from approving evaluation reports to responding to their conclusions.

The Development Effectiveness Committee

The DEC was established by ADB’s Board of Directors in December 2000 and initiated activities on behalf of the Board in 2001. It consists of not more than six members of the Board, who meet about 12 times a year. Its general mandate is to assist the Board to carry out its responsibility of ensuring that the programs and activities of ADB achieve development effectiveness. Such development effectiveness is assessed through ADB’s operations evaluation. For the purpose of the DEC’s work, “development effectiveness” is the measure of (i) whether ADB’s programs and activities in furtherance of its policy goals and objectives have resulted in the desired outcomes, and (ii) whether these programs and activities have made efficient use of ADB’s available resources. The DEC

- reviews the work program of OED;
- reviews selected evaluation reports and the actions taken by ADB on them;
- reports to the Board on high-priority operations evaluation issues, if any, that have a significant bearing on the relevance, efficiency, and effectiveness of ADB, and makes recommendations on such issues to the Board;
- monitors and reports to the Board on the implementation of decisions;
- reviews OED’s work program for preparation of project, program, and technical assistance completion reports; and

The DEC’s evolving key areas of concern are the following:

- How are the evaluation recommendations that ADB’s Management decides to accept turned into action so that targeted changes for improvement happen?
- How are actions and their impacts monitored?
- How can OED play a more strategic role? Specifically, how can the influence of independent evaluations on ADB’s long-term strategic thinking be increased?
- How can the DEC play a more strategic role and increase the value it adds to ADB’s learning process?

The specific steps that the DEC has taken to support OED include (i) suggesting topics of strategic interest for inclusion in OED’s work program, (ii) helping to get the timing right for policy studies, (iii) ensuring that country assistance program evaluations are discussed by the DEC before country partnership strategies are finalized, and (iv) initiating measures to strengthen ADB Management responses.

To ensure the independence and transparency of evaluation reports, a new approval, review, and disclosure process has been established. Since evaluation reports are final upon approval by the director general of OED, they are made publicly available immediately upon circulation to ADB’s Management and the Board. ADB’s Management is given a specific period in which to respond to lessons and recommendations. ADB Management responses and the DEC chair’s summaries of discussion are disclosed as they become available.

The policy paper to enhance the independence and effectiveness of OED saw the need to formalize practices for avoiding conflicts of interest in evaluations. In

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March 2005, ADB became the first member of the Evaluation Cooperation Group\(^\text{10}\) of the multilateral development banks to formally adopt guidelines\(^\text{11}\) to avoid conflict of interest in independent evaluations, which specify conditions under which OED management, staff, and consultants must recuse themselves.

OED has also strengthened the process used to formulate its work program. Previously, only annual work programs were prepared, but starting in 2005, a 3-year rolling framework was developed.\(^\text{12}\) Wide-ranging consultations took place for the preparation of the 2006–2008 work program. Discussions on institutional priorities for evaluations were held with the DEC and all vice-presidents. Inputs were also sought from ADB’s operations departments as in the past. The evaluation program has become more strategic and more integrated, with one evaluation feeding into another. For instance, evaluations of the effectiveness of ADB’s technical assistance, microcredit operations, energy policy, governance and anticorruption policies, approaches to partnering and harmonization, policy-based lending, adoption of managing for development results, safeguard policies, and accountability mechanism were programmed to feed into reviews of these by ADB’s Management.

The influence of evaluations on ADB’s operations, policies, and strategies was assessed in the 2006 Annual Evaluation Review.\(^\text{13}\) Their influence was evident in (i) the sector priorities for ADB’s operations under the new model for selectivity and focus set out in the second medium-term strategy, (ii) ADB Management’s agreement to implement an action program to improve portfolio performance in response to the DEC’s recommendation following its discussion of the 2005 Annual Report on Loan and Technical Assistance Portfolio Performance,\(^\text{14}\) and (iii) changes in new country strategies and programs directly related to lessons and recommendations from previous country assistance program evaluations.\(^\text{15}\)

Through its oversight of OED, the DEC is now helping to ensure that actions are taken on lessons and recommendations that it considers to be of high priority and that ADB’s Management has accepted. In its annual report to the Board in 2005, the DEC included a specific, candid assessment of the system for taking actions. The DEC considered that there was room for ADB to become a full-fledged learning organization using evaluation results more systematically. The DEC reported on actions taken by OED and by ADB’s Management on its recommendations:

(i) Traditionally, the intended end-users were consulted during and near the completion of an evaluation. Nowadays, OED reviews the scope and

\(^{10}\) The Evaluation Cooperation Group was established by the heads of evaluation of the multilateral development banks in 1996 to (i) strengthen the use of evaluation for greater effectiveness and accountability, (ii) share lessons from evaluations and contribute to their dissemination, (iii) harmonize performance indicators and evaluation methodologies and approaches, (iv) enhance evaluation professionalism and collaborate with the heads of evaluation units of bilateral and multilateral development organizations, and (v) facilitate the involvement of borrowing member countries in evaluation and build their evaluation capacity.


\(^{12}\) Available: http://www.adb.org/evaluation/work_prog.asp


methodology with the main stakeholders, particularly ADB’s operations departments, before starting.

(ii) OED has introduced the new step of discussing draft findings and recommendations from evaluation with ADB’s operations departments and, in the case of country assistance program evaluations, with the government before the evaluations are finalized. The objectives are to ensure that those who will be responsible for implementing the recommendations understand them, to find out which are acceptable and feasible, and to build early commitment.

(iii) The actions that ADB’s Management commits to in its formal responses to evaluation reports have generally been more specific and time bound.

To improve consistency and quality, guidelines for the evaluation of public sector projects, program loans, technical assistance, and country assistance programs were issued in 2005. Guidelines for evaluating private sector operations were completed in 2007. The new modus operandi has brought institutional advantages, but it also raises the question of how OED itself should be evaluated. To address this issue, the Evaluation Cooperation Group has begun to examine the feasibility of establishing a peer review process of the evaluation function in its members.

\[\text{Available: http://www.adb.org/evaluation/methods.asp}\]
There is a long feedback loop from approval to completion of an operation, when development results can be assessed. It takes 7 years or more to implement projects or programs after Board approval and for completion and evaluation reports to be prepared. Thus, virtually all projects or programs that were approved in the mid-1990s were in various stages of implementation at the turn of the millennium. Indeed, many are still under implementation. The completion and evaluation reports for most of the projects and programs approved in the 1990s were prepared between 2000 and 2005. Analysis of project success was undertaken based on the year of approval. Figure 1 shows that the success rates of Asian Development Fund (ADF)-funded projects approved before the 1990s tended to be considerably lower than those funded by ordinary capital resources (OCR), and average ADF ratings were much more volatile. In the 1990s, however, the OCR and ADF ratings converged, and both improved. Given the development challenges faced by ADF-eligible countries, this is a positive finding. The long-term trend of the ratings suggests that the design

**Figure 1**

*Trends in Project Ratings by Year of Approval and Source of Funding* (Combined Completion and Evaluation Results)

ADF = Asian Development Fund, OCR = ordinary capital resources.

Source: OED.
and implementation of ADB-assisted projects have progressively improved, whether funded by OCR or by ADF. This indicates successful, gradual institutional learning from lessons of past operations. This improvement in project outcomes needs to be continuously monitored to ensure that the trend is sustainable.

While project performance has varied significantly across countries, it has not varied significantly by country classification (i.e., degree of eligibility for ADF funding). The analysis by country classification in Table 1 demonstrates improvement from the 1970s to the 1990s across all country groupings, though patterns of progress differ. By the 1990s, the success rate of each group with access to ADF had gradually increased, and countries in Group A (with the exception of Nepal) were performing better than those in Groups B1 and B2.

The averages by classification mask important country differences. Within all groups, there are outliers in both directions. The country variation holds true for source of funding. For some OCR borrowers, projects are more likely to be successful than in ADF-eligible countries, but ADB’s portfolios perform better in some countries that have access to ADF than in some OCR borrowers. In Group B2, the People’s Republic of China stands out as one of ADB’s best-performing portfolios, achieving an 82% success rate in the 1990s. In contrast, Papua New Guinea had a 22% success rate in the 1990s, the weakest portfolio performance in ADB. In Group B1, the success rates of the portfolios in Bangladesh (84%) and Viet Nam (91%) significantly exceeded both group and ADB averages for projects approved in the 1990s. In contrast, only 57% of projects approved for Pakistan in the 1990s were rated as successful. In Group A, the portfolio success rates of Bhutan, Cambodia, Kyrgyz Republic, Lao People’s Democratic Republic, Maldives, Mongolia, and Solomon Islands exceeded Group A and ADB averages in the 1990s. On the other hand, the success rates for Kiribati, Nepal, Samoa, and Vanuatu were below average for countries in Group A.

There is a school of thought that country ownership, which is a key factor for project success, increases with a country’s share of the financing of a project. This hypothesis was tested by comparing project success rates with the percentage of project costs financed by the executing agency after controlling for sector differences. No significant statistical relationship was found, nor was there any clear pattern to suggest that project success improved with the share of government financing. Since the likelihood of project success is not compromised as the share of ADB funding increases, it is reasonable for ADB to address the greater fiscal constraints faced by lower income countries by increasing the allowable financing limit.

Project performance varied more significantly by sector than by country category. The likelihood of project success by sector is depicted in Table 2. The findings indicate that both OCR- and ADF-funded projects generally perform similarly in the same sectors, with certain important exceptions. The ratings of ADF-funded projects eventually converged with those of OCR-funded projects across sectors from 1970 to 1997.

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18 Since 1977, ADB has had a three-tier classification system that forms the basis for determining the eligibility of DMCs to borrow from ADF and for applicable limits on ADB financing of project costs. DMCs are classified into three groups based on two criteria: (i) per capita gross national product, and (ii) debt repayment capacity. Group-A DMCs are fully eligible for ADF, Group-B DMCs (“blend” economies) are eligible for limited amounts of ADF in particular circumstances, and Group-C DMCs are not eligible for ADF financing.
Table 2
Project Performance by Sector and Source of Financing
(% of Projects Rated Successful)

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<th>ADF 1980s (%)</th>
<th>ADF 1990–1997 (%)</th>
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<th>OCR 1970s (%)</th>
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<td><strong>58</strong></td>
<td><strong>71</strong></td>
<td><strong>64</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, DFI = development finance institution, OCR = ordinary capital resources.
Source: OED.

Republic of Korea Financial Sector Program and Institutional Strengthening of the Financial Sector Project

Highly Successful

By 1996, the Republic of Korea had become the world’s 11th largest economy. Many industrial conglomerates had grown rapidly on borrowed capital and were highly leveraged. Interlocking relationships between the corporate and finance sectors, and the accommodative role of government, meant that many financial institutions did not operate within prudent, market-driven norms. In mid-1997, the currencies, stock markets, and other asset prices in Southeast and East Asian economies, including Korea, depreciated rapidly, causing panic among investors and financial institutions. Several smaller Korean conglomerates declared bankruptcy but were not bailed out by the government, which had been the practice in the past. Confidence in Korea’s finance sector eroded. Demands were made for the repayment of foreign exchange loans, and a foreign exchange crisis was imminent. The Government approached the international community for emergency assistance. As part of the package, ADB provided a $4 billion program loan aimed at restructuring the entire finance sector. This was ADB’s largest loan ever, and it was processed in record time.

Evaluation found that the program had a very high level of government ownership of the intended reforms. It had addressed fundamental structural weaknesses in the finance sector. The coverage of the reforms and their sequencing had been appropriate. The reforms facilitated the elimination of nonviable institutions, opened the sector to competition, and improved the regulatory framework and market oversight. Finance sector indicators improved rapidly in 1998 and the finance sector is now healthier and less vulnerable to external shocks.

People’s Republic of China Anhui Environmental Improvement Project for Municipal Wastewater Treatment and Industrial Pollution Abatement

Successful

Rapid economic growth in Anhui province in the 1990s resulted in increases in nutrients and pollutants entering Chao Lake with concomitant algal blooms, fish kill, and pollution of the water supply of Hefei and Chaohu cities. The project was the first major initiative of a massive cleanup campaign. It aimed to improve the water quality in Chao Lake and reduce wastewater, air, and solid waste pollution in Hefei and Chaohu. It had six subprojects: two treatment facilities for Hefei and Chaohu, and industrial pollution abatement for four top industrial polluters in Anhui.

The project was implemented as envisaged, although there were some cost savings and a delay in implementation. Implementation of project components varied, ranging from excellent to less than satisfactory. The two wastewater treatment plants improved the environment by treating about 310,000 cubic meters of polluted water per day. The wastewater treatment ratios of these two plants are among the highest in the country. The four industrial pollution abatement subprojects improved the quality of products; reduced air, water, and solid waste pollution discharges; and reduced resource inputs by improving production efficiency.

The project was relevant and effectively and efficiently helped to address pollution in Chao Lake, targeted as a top priority for environmental cleanup by both Anhui and the State Council. The recalculated economic internal rate of return was 16.4% and the recalculated financial internal rate of return was 8.4% (higher than the cost of capital). With some exceptions, the subprojects were generally well maintained, but the poor financial performance of some enterprises may adversely affect the sustainability of some. Despite their satisfactory financial internal rates of return, the project is assessed as less likely to be sustainable (without the government’s coverage of debt). The project has achieved significant impacts on institutional strengthening of environmental management and on the operation and maintenance of wastewater treatment facilities.

The two associated advisory technical assistance operations achieved significant results. Training courses were conducted for operators of municipal and industrial wastewater treatment facilities throughout Anhui in environmental monitoring, operation, maintenance, and management of such facilities. A permanent training center was established using the training manuals and equipment provided under technical assistance. A long-term integrated environmental management plan was formulated to improve water and air quality and solid waste management in the Chao Lake basin. The outputs of the technical assistance were highly relevant, timely, and instrumental for the formulation of the Chaohu Environmental Improvement Plan, approved by the State Council, and included in Anhui’s 10th Five-Year Plan. More than 80% of the investment projects recommended to improve environmental quality in the Chao Lake basin have either been, or are being, constructed. ■

Indonesia Health and Nutrition and Social Protection Sector Development Programs

Successful

A sector development program is a combination of investment (a project) and policy-based (a program) components designed to meet sector needs in a comprehensive and integrated way. In 2006, OED evaluated the sector development programs for health and nutrition and for social protection in Indonesia. These were OED’s first evaluations of that lending modality. Both programs were designed and implemented in response to the 1997 financial and economic crisis that undermined social well-being in Indonesia by increasing unemployment, reducing family incomes, and raising prices of necessities. As a result there was a substantial increase in the number of people living in poverty and a reversal of social development progress achieved over the preceding two decades. The Government’s limited budget constrained the delivery of essential and basic services, preventing people—especially the poor and vulnerable groups—from accessing quality health care and educating their children.

The health and nutrition sector development program aimed to secure for the poor access to essential health, nutrition, and family planning services; maintain the nutritional status of vulnerable groups; and reduce the incidence and impacts of communicable diseases associated with poverty and malnutrition. It supported fundamental reforms through the development of pro-poor health policies, structures, and systems. The project was designed to improve and maintain the health and nutrition of the population and secure continued access to essential health, nutrition, and family planning services. The program helped the government institute policy reforms. The project produced most of the expected outputs. Project interventions largely reached the intended beneficiaries. These included (i) health card distribution to the poor; (ii) revitalization of community-based health posts that provide prevention and promotive health, nutrition, and family planning services and community volunteers; and (iii) provision of maternal care, family planning and immunization services. However, complementary and supplementary feeding for infants, children, and pregnant women with high caloric deficiency, as well as assistance for schoolchildren, reached fewer than expected. Key health indicators suggest that the general health and nutrition status of the population, including family planning practice, improved. Maternal deaths were contained by promoting prenatal care, increasing the number of deliveries attended by professionals, and enhancing the referral system for high-risk cases. The health of infants and children was improved by intensifying outreach by paraprofessionals and ensuring support for immunization programs. A pro-poor-based planning and resource allocation system was established. Furthermore, mechanisms were put in place to minimize misuse of resources and to resolve complaints.

The purpose of the sector development program for social protection was to reduce impoverishment while introducing sector reforms to strengthen social services delivery in anticipation of decentralization. The program loan provided support to government policies aimed at maintaining access of the poor to social services; maintaining the quality of services; continuing decentralization of social services management; and strengthening the efficiency, transparency, and accountability of management of funds in schools and health centers. The project loan aimed to maintain school enrollment and educational quality at precrisis levels through the provision of scholarships and school grants; protect the health and nutritional status of the poor, especially infants, mothers and children; and provide

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Indonesia Health and Nutrition and Social Protection Sector Development Programs  (continued)

scholarships and supplementary feeding to street children. Overall, the program succeeded in achieving its objectives. Achievements in education surpassed expected outputs. The nutrition component, due to its complexity, was less successful. Enrollment ratios were either maintained or rose. The block grants to primary schools prevented them from refusing children who could not pay. Life expectancy rose and infant mortality declined during the period of loan activity. The program was highly relevant in mitigating the impact of the crisis on the most vulnerable members of Indonesian society in terms of their access to basic social services in education, health, family planning, and nutrition. The education components generated additional funding from the World Bank and the Government, which enhanced the success of the program. The policy actions supported numerous novel interventions including: (i) allocating central government funding to local government based on the poverty index, (ii) decentralizing decision making, (iii) providing block grants to education and health service providers, (iv) making direct transfers to final beneficiaries through the post office to increase efficiency and reduce leakage, and (v) establishing independent monitoring of effectiveness of the program and accuracy of funds transfer. Although the central monitoring unit demonstrated the value of independent monitoring, this component was not sustainable after donor funding ceased.

Pakistan Livestock Development Project\(^a\)

Unsuccessful

Millions of rural poor in Pakistan depend on livestock for their livelihood. The project sought to address problems related to weak extension services, animal health and breeding, and limited feed sources during the summer. It aimed to establish a policy and institutional framework to encourage private investment in livestock, increase production and byproduct utilization, and increase rural employment and incomes. Components were (i) strengthening the Federal Livestock Division and provincial livestock departments, (ii) establishing extension services, (iii) breed improvement, (iv) improving animal health services, (v) slaughterhouse improvement, and (vi) capacity building through local and overseas training and consultancies.

Considerable resistance was encountered in reorienting the traditional extension services to a more bottom-up, production-based system. Rivalry among provincial agencies had a negative impact on project coordination. While the appointment and training of extension staff were partly effective, benefits were limited. Breeding activities were partly successful. A major accomplishment was the privatization of veterinary services, but slaughterhouse initiatives were a failure. The training component was extensive and successful, but consultants’ inputs were often poorly coordinated. At the time of evaluation, the only project-supported initiatives still operating were those that involved the private sector or where beneficiaries were charged for services. Economic reevaluation resulted in an almost negative economic internal rate of return, an unsatisfactory project outcome. Extension activities were unsustainable.

ADB’s experience has been best in the transport/communications and energy sectors, with project success rates reaching 87% for both in the 1990s; the success rates are high for both ADF- and OCR-funded projects. In the transport sector, road projects have dominated the portfolio for both sources of funding. Project success has also been high for port, airport, and telecommunication projects, again regardless of the source of funding. The performance of the relatively small railway portfolio has been considerably weaker than that of the other transport modes. The characteristics of successful road projects are listed in the box.

Evaluations of ADB’s energy portfolio have found generally good project outcomes regardless of funding source. Power projects dominate the portfolio. Difficulties are sometimes experienced in complying with financial covenants and with ADB’s environmental and resettlement safeguard policies, particularly for hydropower

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**Characteristics of Successful Road Projects**

- Adequate levels of traffic use the completed roads; traffic growth is associated with economic growth.
- Vehicle operating costs and journey times were reduced and transport services improved.
- Continuity of ADB’s engagement in a country’s road sector and of ADB staff involvement had a positive influence on ADB’s contribution to project success. Reform initiatives were often pursued through a dialogue spanning several lending and technical assistance operations, sometimes covering a decade.
- Good quality at entry covered the quality of the project preparatory technical assistance, the project design, and the incorporation of lessons learned from previous projects.
- Strong government ownership was evident when ADB supported parts of a major highway investment plan that featured prominently in the medium-term investment plan of the DMC.
- Executing agencies performed well, were sometimes supported by supervision consultants, and often had a track record of having previously handled similar projects.
- Executing agencies, consultants, contractors, and ADB staff worked together to solve problems and handle unforeseen circumstances that developed during implementation.
- Supervision consultants and contractors performed satisfactorily.
- Regular ADB supervision missions were a consistent feature of successful projects, particularly during the first 2–3 years after loan approval, when most problems arise and ADB missions can be of most help.
- Adequate maintenance is essential for project success and sustainability.

**Characteristics of Successful Power Projects**

- Because of the large deficiencies in the supply of energy, demand was not a problem, and benefits were immediate once the projects were completed.
- Increased electricity supply facilitated economic growth and contributed to a better quality of life.
- ADB evidenced a long-term commitment to working in the power sector.
- The plant and equipment were fully utilized and correctly operated and maintained.
- Financial policy dialogue and tariff reform helped to ensure sufficient funding for investment, operation, and maintenance.
- The project management team in the executing agency showed commitment, quality, and experience; familiarity with ADB’s loan requirements; and an ability to learn from previous projects.
- There was continuity of the executing agency’s staff and the consultants employed to assist with implementation.
- There was early recognition of problems during implementation and a flexible approach by both ADB and the executing agency to solve problems.
- ADB support contributed to strengthening institutions.
- ADB’s contributions to successful outcomes included a careful assessment of the capabilities of the executing agency, a flexible approach to project design and implementation, and regular project review.
Characteristics of Successful Irrigation and Drainage Projects

- Elements of an enabling environment that allowed farmers to supply the demand for their produce included (i) a policy and institutional framework that promotes sound water resource management; (ii) a legal framework for water user associations that promotes cost recovery at least sufficient to finance sustainable operation and maintenance; (iii) rural infrastructure (e.g., roads that allow farmers to market their products, and farm inputs to be delivered when they are needed); (iv) efficient markets that are free of price distortions and barriers to competition for both farm products and agricultural inputs; and (v) access to information on demand, prices, and technology.

- Long-term ADB involvement in the sector and building up effective partnerships with executing agencies over a decade or more contribute to project success, policy reform, and the development of institutional capacity.

- Indicators of project ownership by executing agencies include (i) establishing site-based project offices, (ii) well-qualified staff, (iii) selecting executing agency personnel involved in earlier projects, and (iv) financing a considerable share of project cost.

- Good quality at entry reflected the quality of the feasibility study and project design, incorporation of lessons from prior projects, and the level of stakeholder participation.

- Direct stakeholders and beneficiaries were involved in all project phases, particularly operation and maintenance. Participatory techniques were used to develop a sound understanding of the roles and responsibilities of farmers and water user associations and to create a climate in which participants were willing to pay irrigation fees.

- Adequate water supply reached tail-end users, who are usually small farmers.

- Making changes in project design during implementation contributed to achieving good project outcomes.

- Effective quality control systems for civil works and internal and external audit systems were in place, even in remote areas.

- During implementation, continuous attention was paid to building the systems needed for effective operation and maintenance.

- Effective ADB project administration includes regular review missions, proactively helping to solve problems and making required approvals in a timely manner.

Projects. NGOs and civil society organizations have raised concerns about the latter. Successful power projects exhibit the characteristics listed in the box.

The agriculture and natural resources sector has had poor outcomes relative to other sectors for both ADF- and OCR-funded projects. By the 1990s, project success rates were only 52% across funding sources. For ADF-funded projects, the success rate slightly exceeded the average for irrigation and rural development projects and for a small number of fertilizer plant projects. The difficulties faced in the sector were examined in 2005 in an evaluation of partly satisfactory operations in the Lao People’s Democratic Republic. Problems experienced included (i) inadequate project design, including insufficient understanding of the problems and opportunities viewed from the perspective of beneficiaries; (ii) no clear distinction between addressing the needs of subsistence farmers and options for commercialization of agriculture; (iii) project complexity; (iv) weak institutions; (v) shortfalls in operation and maintenance; (vi) marketing impediments confronting farmers and agribusinesses; and (vii) adverse impact of external factors (e.g., declining farm gate prices through much of the 1980s and 1990s). These problems are pervasive throughout the agriculture sector in both OCR- and ADF-funded projects. Nevertheless, since the livelihoods of about 80% of the population in the region depend directly or indirectly on agriculture, the sector remains important for virtually all countries. Some ADB irrigation and drainage projects have achieved good results. When successful, such projects bring significant gains to the beneficiaries. For irrigation projects, the key success factors were (i) an enabling policy environment; (ii) involvement of stakeholders and beneficiaries during all project phases, particularly operation and maintenance; (iii) participatory techniques to develop a sound understanding of the roles and responsibilities of farmers and water user associations and to create a climate in which participants are willing to pay irrigation fees; and (iv) adequate water supply reaching tail-end users, who are usually small farmers. The characteristics of successful irrigation and drainage projects are outlined in the box.

ADF-funded projects in social infrastructure and lines of credit have been less successful than those funded by OCR. Social infrastructure includes a diverse group of subsectors (urban development, water supply and wastewater treatment, sanitation, education, and health and population). In the 1990s, 67% of the ADF-funded social infrastructure projects were rated
as successful, lower than the 82% success rate for OCR-funded projects. The difference in project outcomes by source of funding was evident in all subsectors. Among ADF-funded projects, urban development performed best (78% success rate in the 1990s), followed by education (70%), water supply and sanitation (69%), and health and population (50%).

The difficulties in achieving successful project outcomes in the social sectors were illustrated in the 2005 social sector evaluation in Pakistan. Relative to the performance of operations in most other sectors in the country, the social sector outcomes were poor. According to the evaluation, only 8% of 24 projects were rated as successful, 58% were partly successful, and 33% were unsuccessful. Although the performance of more recently approved projects was better, performance remains unsatisfactory, particularly in light of ADB’s commitment to managing for development results. Successful water supply/wastewater treatment and education projects are associated with several characteristics as listed in the boxes.

The ratings of projects in the finance sector reflect the performance of loans to government-owned development finance institutions. There are clear differences in the performance of ADF- and OCR-funded lines of credit. Only 26% of the ADF-funded lines were rated successful, while for OCR-funded lines (after excluding projects in graduated economies approved in the 1970s and 1980s) the success rate was 52%. The findings suggest that ADB should refrain from financing lines of credit in ADF countries. Generally, the strength of financial institutions, depth of the financial markets, and quality of regulation improve as countries develop. ADB’s current approach is to focus on finance sector reform rather than channeling funds through development finance institutions.

In countries blending ADF and OCR funds, the success rate of OCR-funded projects (66% overall) has been higher than that of ADF-funded projects (52%). That

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### Characteristics of Successful Water Supply/Wastewater Treatment Projects

- Rapid urbanization created a strong demand for the output of the projects.
- There were positive impacts on intended beneficiaries, particularly women.
- There was an ability to learn from past lessons and incorporate the lessons in project design.
- Technical innovation and a positive impact on the environment occurred.
- Proper operation and maintenance helped ensure long-run sustainability.
- The projects typically (i) were run by financially self-sustaining water supply institutions, (ii) set up water user committees, and (iii) adopted the “user pays” principle.
- A participatory approach contributed to success. Successful projects were typically formulated through extensive consultations with local government staff and the local community, including NGOs and civil society organizations. Beneficiary participation resulted in a stronger sense of ownership and willingness to accept some responsibility for operation and maintenance and to pay higher tariffs.
- Executing agencies were committed, highly involved in project implementation, supported by institutional strengthening and training activities, and provided with counterpart funds in a timely manner.
- Consultants and contractors performed well.
- Regular ADB review missions proactively helped to solve problems.
held for projects approved in the 1970s, 1980s, and 1990s, with no evidence of a convergence in success rates. A significant difference in sector mix provides part of the explanation. Agriculture and the social sectors, which have had modest success rates, account for 79% of ADF projects in blend countries compared with 42% of OCR projects. In contrast, transport and energy, sectors with high success rates, account for 45% of OCR projects but only 18% of ADF projects.

The 2006 Annual Evaluation Review examined the characteristics of successful projects in five sectors: roads, power, water supply and sanitation, education, and irrigation and drainage. Naturally some of the characteristics noted are sector specific, but a number cut across several sectors. Some factors are dependent on the local situation, and some on the situation at ADB. Strong government ownership of a project is important. This translates into commitment and good performance of the executing agency, and provision of adequate counterpart funds for implementation and for operation and maintenance. The executing agency must be able to work together with the consultants, contractors, and ADB staff; must be familiar with ADB requirements; and must be able to learn from previous projects. For projects involving public works, the performance of supervision consultants and contractors is crucial. Continuity of ADB engagement in the country and sector, and of ADB staff involvement—ADB’s long-term commitment—is salient. Also on the ADB side, quality at entry is a recurrent theme, covering quality of project preparatory technical assistance, participatory approaches to project design, a flexible design that allows a project to be adjusted during implementation, and the incorporation of lessons learned from previous projects. Regular supervision and project review missions from ADB were found to contribute to project success.

**Program Lending.** While project lending has constituted the majority of ADB’s assistance, program loans are also an important instrument and were used extensively in response to the 1997 financial and economic crisis. Program loans are disbursed
relatively quickly to cover the adjustment costs of policy reforms. Program loans have been made to 31 countries, although most program lending is concentrated in a few. From 1978 to 2002, 133 program loans were approved for a combined ADF and OCR total of $18.1 billion. Of these, 92 have been evaluated: 48% were rated successful, 49% partly successful, and 3% unsuccessful. Most of the program loans approved after 2002 are still being implemented and have not been evaluated.

The trend in program ratings by year of approval is depicted in Figure 2. The success rates were unacceptably low for program loans approved through 1991, particularly regarding those approved from 1989 to 1991, when none of the 15 programs was rated successful. However, the success rate improved for programs approved after 1991, reflecting the positive effect of initiatives to improve quality, greater experience with the use of a policy-based lending modality, and revision of ADB’s program lending policies in 1996.

Program loans are a more common lending modality in ADF countries than in OCR countries. Nearly 75% of program loans rated (68 of 92) were ADF funded. This is not surprising, as the need for policy and institutional reform is greatest in countries that are eligible to borrow from ADF. The analysis confirms that country factors such as economic performance, development priorities, quality of governance, and strength of institutions contributes to the success rates of programs. In all, 67% of the OCR-funded programs have been rated successful compared with 41% of ADF-funded programs. These results highlight the difficulty of formulating successful program loans in ADF countries.

Program lending has been most commonly used in the agriculture/natural resources and finance sectors and has rarely been used in the transport/communications and energy sectors. However, the sector distribution has changed significantly. More than 75% of the 78 program loans approved since 1996 have been concentrated in three sectors: law/economic management/public policy, finance, and multisector. The success ratings by sector and source of funding presented in Table 3 are difficult to compare because of the small numbers of OCR-funded program loans in most sectors. Most agriculture, industry, and social infrastructure program loans were in ADF-eligible countries, and there was no OCR-funded transport program loan. On average, ADF-funded agriculture programs performed poorly (worse than agriculture projects), with a low success rate of 30%; however, from 1995 onward, significant improvements were achieved. The finance sector is the one sector that had a comparable number of program loans funded by OCR and ADF. In this sector, the success rate for ADF-funded

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19 Ten of these were in the agriculture and natural resources sector, two in the finance sector (both were the first to the country), one in the transport and communications sector (the first in the sector), one in the energy sector (the first in the sector), and one in the industry sector.
program loans (53%) was significantly lower than for those funded through OCR (90%). The disappointing performance of some program lending has been attributed to (i) the absence of government commitment to the principles and concepts underlying the reforms, (ii) the lack of a comprehensive sector analysis prior to the formulation of the policy reform package, (iii) a lack of clarity in program objectives and policy measures and their interrelationships, (iv) inadequate capacity of the executing agencies to carry out the required studies and monitoring, and (v) unsustainable policy reforms. Sometimes, the reform agenda was overoptimistic about what could be achieved during the timeframe of the program. Delays in tranche releases were common.

The 2006 Annual Evaluation Review also reported on two themes that are consistent with the commitments made by ADB to ADF donors: (i) relating staff incentives to achieving development results; and (ii) factors contributing to project quality, including governance.

### Relating Staff Incentives to Achieving Development Results

The 2006 Annual Evaluation Review was the first systematic attempt at ADB to examine staff accountability for project success. It confirmed that ADB’s current formal and informal incentives reward loan processing and approval, with insufficient focus on project administration, project success, or achieving medium-term results. Adjusting ADB’s incentive systems to encourage more focus on project results and success is consistent with commitments made in both the 2004 human resources strategy and the second medium-term strategy. The question is not whether to change the systems, but how to do it.

The present staff performance evaluation system needs to be complemented by a chain of accountability for achieving development results that begins at the top with ADB’s Management and senior staff and cascades down to all staff. Incentives need to be fully aligned with accountability throughout the chain. The 2006 Annual Evaluation Review recommended that ADB explore the feasibility of providing stronger incentives for staff to focus on project quality at entry and on project administration and supervision. Initial work could include an assessment of best practices in comparable institutions and developing indicators for measuring the achievement of development results. ADB’s Management agreed to examine the feasibility of this approach.

### Factors Contributing to Project Quality, including Governance

Good governance and the control of corruption have become important parts of the international development agenda. However, the 2006 Annual Evaluation Review concluded that the relationship between governance and development effectiveness is complex and not straightforward. There are many definitions of governance, and there are many measurement problems that make data less than fully reliable. Analysis of the relationship between measures of governance and macroeconomic indicators suggests the following:

- The Asia and Pacific region is the fastest-growing economic region in the world, but governance is weak in many countries according to standard governance indicators.

### Table 3: Program Loan Performance by Sector and Source of Financing

<table>
<thead>
<tr>
<th>Major Sector</th>
<th>Asian Development Fund</th>
<th>Ordinary Capital Resources</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and Natural Resources</td>
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<td>Energy</td>
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<td>Finance</td>
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<td>Social Infrastructure</td>
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<td>Transport and Communications</td>
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<td>Industry</td>
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<td>100</td>
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<tr>
<td>Multisector/Other</td>
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<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>67</strong></td>
<td><strong>48</strong></td>
</tr>
</tbody>
</table>

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Table 3: Program Loan Performance by Sector and Source of Financing

(% of Programs Rated Successful, Loans Approved from 1978 to 2002)

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-- = not applicable.

Source: OED.
Although there is a strong, positive relationship between the level of economic development and governance variables when a worldwide database is used, the relationships are much weaker if only countries in which the per capita gross domestic product is lower than $5,000 are analyzed.

No significant relationship can be found between good governance and the rate of economic growth from 1996 to 2004. Some countries in the region with relatively good governance had lower growth rates than countries with lower governance ratings.

The analysis of projects approved in the 1990s suggests evidence of a relationship between some of the dimensions of governance and good project outcomes; however, it is not clear how strong or robust the relationships are. Other factors are also important, perhaps more so than governance, in determining project success (e.g., sector, country characteristics, macroeconomic climate, country ownership, capacity of the executing agency). The relationships between good governance at the macro level and project success may be somewhat weaker than is conventionally assumed. It may be that governance issues at the sector level have a more direct bearing on project success.

Subsequent to ninth replenishment of ADF, ADB harmonized its performance-based allocation procedures with those of the World Bank. ADB’s 2004 performance-based allocation policy for ADF resources increased the weight given to governance in measuring country performance from 30% to 50%, although this is still lower than the 66% assigned in the World Bank’s formula. There was, however, no analysis undertaken by ADB that demonstrated that good governance is the key binding constraint for development in all DMCs and that it merits such a high weight in the performance-based allocation formula. ADB has not undertaken a rigorous study that links good governance, as a causal factor, to economic growth, poverty reduction, development results, portfolio performance, or project success.

The 2006 Annual Evaluation Review recommended that ADB undertake such a study. Depending on the results, consideration may have to be given to including sectoral governance variables in the formula or to reducing the weight for governance in the performance-based allocation formula. Benchmarking a country’s governance performance and then rewarding progress in improving governance would be more consistent with managing for development results than making major decisions on ADF allocations based on the governance score in any one year. Steps also need to be taken to improve the consistency of what is meant by governance in ADB’s various governance-related policies and country governance assessments. Reducing the weight might be perceived as sending the wrong message, given that ADB has recently adopted the second medium-term strategy, which places priority on good governance and controlling corruption. However, this must be balanced against the potential harm that may be caused to DMCs whose ADF allocation is reduced because of a score on a variable that is difficult to define, measure, and compare over time and across countries.

Clearly, good governance and efforts to control corruption are important. The issues identified by the review relate to a lack of clarity of definition, difficulties of measurement, a lack of rigorous analysis of the subject at ADB, and questions about whether governance is the most important binding constraint to development in all countries. These issues are important, because in the performance-based allocation formula, ADB purports to be able to accurately define and measure governance on a numeric scale and uses the results to allocate more or less ADF funding to DMCs.

**Technical Assistance.** OED maintains a database of evaluation findings from technical assistance performance evaluation reports and project/program performance evaluation reports for technical assistance associated with projects/programs. The
ratings included in Table 4 are significantly below the 70% success rate that reflects satisfactory outcomes. Overall, 63% of technical assistance operations evaluated in technical assistance performance evaluation reports were rated as being at least successful, and 48% of activities evaluated in project/program performance evaluation reports were rated as successful. The percentage of activities rated as successful in technical assistance and project/program performance evaluation reports has been fairly static over time. For technical assistance activities approved in the 1980s, the portion rated as successful was 44%; it was 58% from 1990 to 1994, 59% from 1995 to 1999, and 60% from 2000 to the present. There is thus no trend toward more successful technical assistance outcomes over the past 15 years. ADB’s Management needs to develop specific actions to address strategic and management issues concerning technical assistance activities.20

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<table>
<thead>
<tr>
<th>Source</th>
<th>Number of Technical Assistance Operations</th>
<th>% Successful</th>
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</thead>
<tbody>
<tr>
<td>Technical Assistance Special Evaluation Studies</td>
<td>110</td>
<td>72</td>
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<tr>
<td>Country/Sector Assistance Program Evaluations</td>
<td>113</td>
<td>71</td>
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<tr>
<td>Technical Assistance Performance Evaluation Reports</td>
<td>185</td>
<td>63</td>
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<tr>
<td>Project/Program Performance Evaluation Reports</td>
<td>143</td>
<td>48</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>551</strong></td>
<td><strong>63</strong></td>
</tr>
</tbody>
</table>

Source: OED.
DIRECTIONS IN EVALUATION

The new modus operandi for OED that took effect in 2004 has implications for its performance. The structural changes place more emphasis on OED’s developmental role and make development impact a more explicit consideration for operational decisions. In a changing context, OED has focused its 3-year rolling work program on priority areas, has moved to capture synergies between OED and ADB’s operations departments, and has begun to select evaluation topics in a way that should ensure higher effectiveness and impact.

Assigning Resources. Fewer project or program performance evaluation reports are in OED’s forward work program. Efforts are made to select evaluation topics that are of strategic relevance to ADB and DMCs. There are changes, too, in the way that OED assigns staff to evaluation studies. In the past, OED specialists worked individually on separate evaluations, supported by consultants and national officers. Today, two or more evaluation specialists work together on one evaluation. This is expected to deepen the analysis.

Harmonizing Evaluation Standards. The Evaluation Cooperation Group was chaired by the director general of OED in 2005–2006 and, in October 2005, the group met for the first time at ADB’s headquarters. The Evaluation Cooperation Group has developed good-practice standards for various types of evaluations and undertakes benchmarking studies to assess how each member applies them. Standards have been completed for public and private sector project lending and program lending, and are being prepared for the evaluation of country strategies and technical assistance. Two benchmarking studies have been completed for private sector project lending, and one is under way for public sector project lending. ADB took the lead in developing the

OED’s Work Program

In 2007–2009, OED will (i) undertake fewer evaluations of individual operations but validate ratings in all project or program completion reports; (ii) increase the number of broad evaluations such as corporate and policy evaluations, country and sector assistance evaluations, thematic evaluations, and impact evaluations; (iii) improve the evaluative content of the Annual Evaluation Review and Annual Report on Loan and Technical Assistance Portfolio Performance; (iv) prepare or revise evaluation guidelines; (v) sequence evaluations so that those done early in the 3-year rolling work program feed those planned for the later years; and (vi) promote knowledge management, including dissemination of findings and recommendations in accessible and digestible ways.

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21 As the institution and its clients mature, concern shifts from individual operations to the selection of forms of interventions, and higher-level evaluation efforts contribute to this kind of strategic thinking.
standards for evaluating policy-based lending and is leading ongoing work to develop standards for country assistance program evaluations.

The Evaluation Cooperation Group is examining the feasibility of developing a robust peer review of evaluation functions in the multilateral development banks that will address issues such as (i) the independence of the evaluation office and the role of Management and Board of Directors, (ii) the selection of evaluation topics, (iii) adherence to good-practice standards, (iv) the quality of evaluation reports, (v) use of lessons and recommendations, and (vi) staffing and budgets. The group has appointed ADB to a task force to develop the peer review methodology.

**Evaluating Country/Sector Assistance Programs.** Because country and sector assistance program evaluations are having an impact on the formulation of the subsequent country partnership strategies, these evaluations will receive priority in allocating OED staff resources. The DEC strengthened feedback between evaluation findings and formulation of country strategies by requiring country assistance program evaluations for major countries to be prepared and discussed by the DEC before a new country partnership strategy is completed. A new appendix has been added to the document template for country partnership strategies to indicate how the strategy addresses the country assistance program evaluation and the DEC's recommendations. A new product, the country assistance program evaluation update, will be introduced because (i) completion reports for country partnership strategies are being prepared, which will provide a better basis for preparation of country assistance program evaluations; (ii) some country portfolios are relatively small, and do not merit the depth of analysis undertaken in past country assistance program evaluations; and (iii) OED will undertake second country assistance program evaluations for an increasing number of countries.

**Jointly Evaluating Country/Sector Assistance Programs.** The Evaluation Network of the Development Assistance Committee of the Organisation for Economic Co-operation and Development has identified the evaluation of total official development assistance flows to a country as an important topic that has not been addressed by evaluators. Beside the Evaluation Cooperation Group, and as part of the international harmonization agenda, there is increasing interest in undertaking joint evaluations for greater consensus and usefulness of results. The Joint Evaluation of Global Environment Facility Projects of 2005–2006 was OED's first involvement in such an evaluation. In 2007, work will begin on a joint country assistance program evaluation in Bangladesh in partnership with the World Bank, the Department for International Development of the United Kingdom, and the Japan Bank for International Cooperation. This evaluation is expected to be finished in 2009.

**Validating Country Partnership Strategy Completion Reports.** ADB is beginning to produce country partnership strategy completion reports. OED will pilot a new evaluation product in 2007 in the Maldives, the country strategy completion report validation, primarily for countries with small portfolios for which production of a full country assistance program evaluation would not be an efficient use of resources.

**Validating Project/Program Completion Reports.** OED will change the way that individual projects/programs are selected for evaluation. The strategic objective is for the quality of completion reports to be sufficient to rely on this self-evaluation. Efforts to improve the quality of completion reports appear to have removed the upward bias of ratings at completion. The changes include the following: (i) moving away from the 25% random selection of projects and programs for which evaluation reports are prepared to a smaller, purposeful sample of 10 per year; (ii) OED would validate, based on a desk review, all ratings (with the validation assessment to
be attached to the completion report) rather than commenting on draft completion reports—much of this work will be outsourced using funds that were previously spent on staff consultants for preparation of evaluation reports; and (iii) reporting success based on the combined completion and evaluation ratings as has been done in the more recent issues of Annual Evaluation Reviews. The projects and programs for evaluation will not be randomly selected. Selection triggers will include dispute over a rating, by OED or external stakeholders, and special interest.

Evaluating Impact. OED agrees with the general conclusions of the debate in the international evaluation community about impact evaluations: (i) more rigorous impact evaluations are desirable; (ii) the methodology will be determined by issues related to data availability, time, and resources; and (iii) impact evaluations will be undertaken selectively, largely in the social sectors. OED is undertaking its first rigorous impact evaluation on microcredit in the Philippines as part of an evaluation study on the effectiveness of ADB’s microcredit operations. This will be completed in 2007. One impact evaluation is programmed per year.

Developing Evaluation Capacity. Evaluation capacity development is part of OED’s mandate. As of January 2007, OED had formulated 15 technical assistance operations to this intent for a total amount of $4.35 million in Bangladesh, the People’s Republic of China, Nepal, Papua New Guinea, Philippines, Sri Lanka, and Thailand. Three phases can be distinguished in this assistance:

- Phase 1: Technical assistance focused on building a postevaluation capacity within a central agency and providing the means for disseminating postevaluation findings for decision making.
- Phase 2: Technical assistance aimed at establishing ADB’s project performance management system in central and sector agencies.
- Phase 3: Technical assistance aimed at building more generic results in monitoring and evaluation capability.

In the future, OED expects to work with evaluation units in DMCs to provide on-the-job evaluation experience and knowledge transfer, building on lessons learned from the evaluation of the 15 technical assistance operations, not all of which were successful.

Promoting Portfolio Performance. OED began to provide real-time feedback on

Developing Evaluation Capacity in Developing Member Countries

- Stability of trained staff, high-level support, and the existence of a mandate for evaluation by decree are factors that contribute to success.
- More thorough preparation of future technical assistance operations should ensure high-level ownership and commitment, and participation of key stakeholders in formulation and design.
- If the conditions for public sector capacity building are not met, an assessment must determine whether the systemic or underlying problems should be addressed first.
- Building DMC capacity requires a holistic approach, considering the needs at all levels.
- The location of responsibility for evaluation within organizational hierarchies is also important.
- During design and implementation of technical assistance operations, care must be taken that performance evaluation systems do not become supply driven, complex, or too resource intensive to sustain.
- Establishing performance evaluation systems is a means to an end—benefits are obtained when the results are used in decision making. The design of technical assistance should include specific features to encourage, facilitate, and formalize the incorporation of evaluation results in decision making.
- A case study approach is needed to develop staff competency and confidence to carry out evaluation.
- For larger technical assistance operations, a firm or institution should be recruited, rather than individuals.
- The pace of technical assistance should be driven by a sense of ownership and commitment in DMCs.
- The introduction of computerized information systems is not a solution to poorly performing manual systems. Various institutional, management, and social factors need to be taken into account.
Evaluating Business Processes. In connection with ADB’s reorganization of 2002, a working group on business process change was appointed in 2001 to review country strategies and programs and subregional cooperation strategies and programs; public sector loans (including project preparatory technical assistance operations), private sector loans, and nonlending products and services (including advisory technical assistance operations); and portfolio management. In addition to its reporting on portfolio performance, OED has included business process-related evaluation studies in its work program. Forthcoming evaluation studies will examine, for instance, the effectiveness of ADB’s loan processing system, its approaches to policy dialogue and reforms, and the quality of the design and monitoring framework.

Disseminating Findings and Recommendations. Although there have been improvements, ADB is not yet a learning organization in terms of actively using the lessons documented in OED reports to improve future operations. OED is developing a better system to categorize and disseminate its findings and recommendations using information technology. However, technology by itself will not solve the problem. OED is investing resources in knowledge management to distill lessons and do a better job of disseminating them within and outside ADB. New knowledge products and services are being designed, tailored to specific audiences, in forms that present results in accessible and digestible ways. Objective indicators are being developed to assess whether ADB is becoming a learning organization by using OED findings and recommendations.

Perceptions of OED: Feedback from Members of the Board of Directors

Interviews with Board members revealed the general perception of the mission and functions of OED as to provide independent assessment with a direct link to operations. OED is seen as collegial, dedicated, and professional. While OED has generally changed with the changing focus of ADB, there is an inevitable lag as evaluation activities adjust to new organizational thrusts.

OED has been able to influence ADB’s operations at all levels by providing concrete recommendations based on solid and credible analysis. At the project/program level, the time lag between completion and evaluation is an issue, as evaluation findings can easily be dismissed as discussing the old way of doing things, while current practices may have changed. At the strategy and policy level, the improved timing of country and sector assistance program evaluations has increased impact on the design of new country partnership strategies.

In its knowledge management, OED faces several interface problems. Within ADB, OED should open up channels of communications, become even more specific about actionable recommendations, and delineate accountabilities clearly. The most difficult interface is with DMCs: OED should emphasize development of evaluation capacity. In the eyes of wider clientele such as NGOs, civil society organizations, and the general public, OED should not only be independent, but be perceived as such. It should produce concise and insightful summaries of its work that people can access and understand easily.

To help ADB improve its development effectiveness, Board members invited OED to:

- develop a comprehensive annual development effectiveness report—building on the Annual Evaluation Review and Annual Report on Loan and Technical Assistance Portfolio Performance—that presents a truly serious discussion of results and holds ADB’s Management accountable for what it promised to do;
- work in ways that enhance the link between development effectiveness and resource allocation;
- generally emphasize simplicity in project/program designs;
- keep the focus of ADB on poverty reduction, both income and non-income;
- further strengthen the design and monitoring framework of projects, in particular by identifying killer assumptions and risks; and
- promote more interaction and sharing among ADB departments and offices.

Audiences include the Board of Directors; Management; senior staff; staff in headquarters, resident missions, and representative offices; institutional responsibility centers in DMCs; local stakeholders; NGOs and civil society organizations; other development agencies; and umbrella organizations such as the Development Cooperation Directorate in the Organisation for Economic Co-operation and Development and the Evaluation Network that it coordinates, the United Nations Evaluation Group, and the Evaluation Cooperation Group.
Influential Evaluations

Evaluations that focus on key issues and provide usable findings and recommendations in a timely manner are a cost-effective means to improve the performance and impact of policies, strategies, programs, and projects. By challenging accepted thinking, such evaluations also contribute to improving overall development effectiveness.

Building a Results-Based Management Framework

Results-based management involves identifying the impact of an intervention, formulating its outcome, specifying outputs and inputs, identifying performance indicators, setting targets, monitoring and reporting results, evaluating results, and using the information to improve performance. A good quality design and monitoring framework is an integral quality-at-entry results-based management tool that (i) clearly identifies key project objectives with measurable performance indicators, (ii) establishes quantified and time-bound milestones and targets for the indicators at each level of the project, and (iii) specifies the sources of data for tracking implementation progress. Lacking one or more of these elements at entry weakens a project's design quality.

In 2003, an evaluation study on project performance management found that the quality of ADB’s design and monitoring frameworks was poor—particularly in terms of clearly documenting the impacts and outcomes that ADB is trying to achieve. In response to the findings from this evaluation, ADB’s Management developed an action plan to rectify the situation. Multiple actions were initiated to create quality assurance, mentoring, and training capability within originating departments, and these departments were given clear responsibility and accountability for quality, and quality assurance. The vice-presidents of ADB’s operations departments gave instructions that frameworks needed to be improved for loans and technical assistance operations, and directors general and directors were also required to sign off on frameworks. Recognizing that staff skills needed to be enhanced, the action plan directed that focal points be appointed in all regional departments to promote awareness, consistency, and knowledge sharing. Greater executing agency involvement in the preparation of design frameworks was also anticipated to help develop executing agency ownership further, sharpen design quality, and build understanding that the frameworks would be used as a monitoring tool.

The Central Operations Services Office and OED both played important roles. The former engaged a framework specialist, formulated the project performance monitoring system, and administered the initial inputs of the specialist to draft guidelines and conduct training programs. In 2004, more than 300 staff members attended briefing sessions that OED delivered on framework quality. A video version of this briefing was released for use by resident missions and interested parties. In 2004, OED also responded, daily, to requests for help in strengthening frameworks. Nevertheless, internal quality assurance alone is unlikely to be sufficient to ensure quality. Independent checking is also needed to validate that quality assurance systems are working effectively and whether quality improvements are actually achieved. To determine

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Building a Results-Based Management Framework (continued)

whether the efforts undertaken in 2004 bore fruit, OED subsequently conducted several independent assessments of the quality of frameworks. These assessments confirmed that, prior to implementation of the action plan, the majority of design frameworks were substandard. However, after implementation of the action plan in 2004, there was a sharp reversal resulting in a statistically significant improvement whereby approximately two thirds of project frameworks were judged to be of acceptable quality.

The 2006 Annual Report on Loan and Technical Assistance Portfolio Performance contained a special chapter on design and monitoring frameworks to once again examine their quality and to track changes. The trends in the overall quality of the frameworks prepared at the project design stage and approved each year since 2000 are illustrated below.

| Design and Monitoring Frameworks Rated Satisfactory or Better Overall |
|--------------------|----------------|--------|--------|--------|
|                    | 2000 | 2002 | 2004 | 2005 |
| Loans              | 32%  | 52%  | 71%  | 83%  |
| Advisory Technical Assistance | 19%  | 6%   | 35%  | 64%  |
| Regional Technical Assistance   | 12%  | 0%   | 44%  | 56%  |

The significant improvements in design and monitoring framework quality can be plausibly attributed to action plan improvements instigated by evaluation studies. Nevertheless, despite these achievements too many advisory and regional technical assistance frameworks remain substandard. Past evaluation studies have consistently documented the disappointing performance of ADB’s knowledge products and services. One of the contributing factors appears to be poor planning—particularly at the impact and outcome levels. It should not be surprising therefore that a lack of clarity in formulating higher level project objectives is associated with poor results. OED will continue to monitor the quality of frameworks. The Central Operations Services Office has developed, published, and distributed guidelines for preparing frameworks and has continued to provide training in the understanding and use of this core results-management tool.

In a brief on managing for development results prepared for the DEC in November 2005, the Strategy and Policy Department noted that the Central Operations Services Office had set interim performance targets for framework quality. The goal was to have at least 80% of the frameworks prepared for loan projects and programs, and at least 50% of the frameworks prepared for advisory and regional technical assistance activities, rated satisfactory or better during 2005 and in subsequent years. The 2006 Annual Report on Loan and Technical Assistance Portfolio Performance shows that those targets were achieved in 2005. However, the ultimate target in the short to medium term must be to have all of the frameworks prepared during the project design phase, for all projects, rated satisfactory or better. ADB is also reaching out from headquarters. Since September 2005, 283 staff from executing agencies in 17 DMCs and 45 staff members from resident missions have attended workshops on project design and management. Ninety-five facilitators from 12 DMCs have participated in related training. Officials from 19 DMCs participated in the Third International Roundtable on Managing for Development Results held in Hanoi, Viet Nam, in February 2007.
**Promoting Portfolio Performance**

The 2006 Annual Report on Loan and Technical Assistance Portfolio Performance identified several problems: (i) a stagnation in OCR loan approvals; (ii) persistent delays in project implementation; (iii) a growing problem with year-end bunching for loan and technical assistance approvals, as well as project, program, and technical assistance completion reports; (iv) a steady decline in OCR project loan disbursements during the previous decade; (v) difficulty in meeting the conditions for program loan tranche releases; (vi) lending concentrated in a few DMCs; (vii) in response to falling interest rates, a few large borrowers prepaid their older and relatively expensive OCR loans; (viii) negative net resource transfers from ADB to DMCs; (ix) a fall in OCR income of 43% during 2001–2004; and (x) weaknesses in portfolio management—20% of ongoing loans and 75% of ongoing technical assistance activities went without a review mission during 2004. The report concluded that these broad trends all supported the contention that ADB’s traditional lending products and systems no longer met many of the needs of its key clients. Unless ADB could address these issues by developing new products and procedures to meet the DMCs’ development needs, ADB would be threatened with losing relevance as the premier development institution in Asia and the Pacific.

The DEC agreed that the strategic questions raised by the report were of fundamental importance to ADB’s continued relevance to the region and that the significance of the issues was enhanced by the independence of the analysis. The DEC agreed with OED’s recommendations were quite sensible, taken together they were not sufficient to deal with the portfolio problems diagnosed in the report. The DEC requested ADB’s Management to prepare a comprehensive action plan to address the key strategic issues analyzed in the report.

The resulting action plan was prepared in November 2005. Among others things, it included actions designed to (i) enhance project administration efficiency, (ii) improve technical assistance portfolio management, (iii) improve planning and timing of Board consideration of loans, (iv) improve sector selectivity, (v) strengthen project monitoring and evaluation, and (vi) increase and improve the OCR portfolio. The action plan incorporated initiatives being undertaken by ADB in its reform agenda, including the innovation and efficiency initiative, the strategy for enhancing ADB support to middle-income countries and borrowers from ordinary capital resources, and managing for development results at ADB. OED will continue to monitor the implementation of the action plan.

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**Improving Country Partnership Strategies**

Country partnership strategies have become the key instrument to set priorities for ADB’s operations in a country. Thus, country assistance program evaluations currently have the clearest, most direct, and most systematic influence on ADB’s operations. Experience in 2005 and 2006 suggests that their influence on the formulation of new strategies has been mainstreamed. The Board does not normally discuss a country partnership strategy until after the DEC has considered the corresponding country assistance program evaluation and informed the full Board of the DEC’s views based on the findings. Lessons from country assistance program evaluations fall in 10 areas:

- Future assistance should be prioritized based on selectivity and focus, with successful ADB performance in a sector as one key criterion.
- Country partnership strategies should be results based—the lack of monitorable indicators made it difficult to evaluate past strategies.
- Success has been greatest when ADB maintains a long-term involvement in a sector and combines programs for capacity building with investment support.
- Projects and programs using relatively simple designs that are rooted in local conditions are more likely to succeed than complex interventions.
- Steps must be taken to strengthen the impact of technical assistance used to support policy reform, capacity building, and institutional strengthening.
- ADB should deepen its relationships with broader society, as this enhances ownership and often helps to achieve better development results.
- ADB should intensify its coordination with development partners and stakeholders.
- Governance, including the need to control corruption, should be explicitly addressed in country partnership strategies, and not just as a crosscutting theme.
- The understanding of corruption and the risks that it has for ADB’s operations remains superficial in country partnership strategies.
- Failure of project designs to recognize and address institutional weaknesses in implementing agencies early on leads to weak project performance.

Examples of recent country assistance program evaluations that have influenced the subsequent country partnership strategies include those for Bhutan, Cambodia, Indonesia, Lao People’s Democratic Republic, Philippines, and Uzbekistan.
Agriculture and Natural Resources Sector Assistance Program Evaluation in the Lao People’s Democratic Republic

OED evaluated 20 years (1986–2005) of ADB support to agriculture and natural resources development in the Lao People’s Democratic Republic in a sector assistance program evaluation covering 2 programs (totaling $50 million), 7 investment projects ($84 million), 32 advisory technical assistance operations ($12.4 million), 11 project preparatory technical assistance operations ($6.7 million), and 14 regional technical assistance operations ($10.5 million) with components in the Lao People’s Democratic Republic.

In the wake of the Government’s New Economic Mechanism in 1986, aimed at a transition to a market-based economy, ADB responded with broad, policy-based lending intended to reduce market distortions by liberalizing trade, rationalizing pricing practices, restructuring taxation, and separating commercial and central banking. Investment projects began in 1993 targeted at agribusiness, commercialization of smallholder agriculture, irrigation, livestock, river basins, watersheds, upland agriculture, and tree plantations.

The study found that, while individual projects had been relevant to the country’s development needs and to agriculture and natural resources issues, in the aggregate their effect had been diffused and therefore less effective. The country strategies for assistance to the agriculture and natural resources sector were rated partly satisfactory, being predominantly project driven. The existing country partnership strategy did not have a framework for prioritizing assistance to the sector. Neither investments nor policy-based loans had been coordinated. Thus, the evaluation study rated the overall performance of assistance as partly successful.

ADB’s portfolio management and project administration in the sector needed strengthening. Review missions were not conducted regularly, they did not cover remote areas, and appropriate expertise was not always available. While the relevance of sector assistance was important, relevance alone would not make ADB an effective institution. Greater selectivity in engagement was required.

ADB’s Management found the evaluation study timely in that it fed into the preparation of the country partnership strategy for 2007–2011. It declared the study’s conclusions generally valid, but queried what would have happened in the absence of ADB’s operations. ADB’s Management suggested that this question be asked in all subsequent sector assistance program evaluations.

After the evaluation study was released, the minister of agriculture and forestry investigated whether or not poor project performance was unique to ADB’s operations in the sector, by means of a series of government-led evaluations of external assistance in different subsectors (viz., irrigation, forestry, natural resources, crop production). These evaluations drew on the criteria and rating systems used in the OED study. This Government-led evaluation found that ADB’s operations were good in comparison with others. It also stimulated discussions in the ministry about how best to reform its public investment. One outcome was that the ministry added “expected project sustainability” to the project screening criteria for all new projects, after observing that this had been a particular problem in ADB and government-led evaluations. The OED study had a major effect by demonstrating approaches for undertaking higher level evaluations that made sense to key Government officials. Other ministries, particularly health and education, are now showing interest in Government-led evaluations.

Contributing to Safeguard Policy Update

ADB has safeguard policies on involuntary resettlement (1995), indigenous peoples (1998), and the environment (2002). The policies have guided formulation and implementation of ADB’s assistance programs, particularly its lending activities. Evaluation of the three safeguard policies was included in OED’s work program for 2006 at the request of the DEC. Based on its discussions of the evaluation reports, the DEC considered that the process it had recommended—to allow time for an independent evaluation to feed into ADB Management’s review of the safeguard policies—had yielded useful results. The process served to raise many of the right questions for the review. The issues identified and recommendations made addressed not only implementation of the policies but also provisions in the policies themselves. And, by its response to the evaluation studies, Management started the critical corporate-level dialogue that would lead to policy review. The DEC believes that a reasonable process of open and inclusive dialogue involving all stakeholders, particularly on issues that are not clear cut, is needed. Such a dialogue may require an iterative process exceeding ADB’s conventional consultation activities.

Involuntary Resettlement

The evaluation study found that the policy is relevant to project implementation and to ADB’s aim to reduce poverty. It assessed the policy as effective in terms of outcomes for affected persons. However, it found inputs, processes, and systems for policy implementation less efficient. Changing procedures and the organizational arrangements made to enforce the policy have gradually set the bar higher. More resources allocated to capacity development rather than short-term compliance may yield better long-term results. The study recommends that the planned update of the policy have a results-based framework, and that it should indicate mandatory and nonmandatory but desirable elements. ADB should decide on the level of inclusiveness of the policy, particularly regarding secondary adverse impacts of projects on people.

- ADB’s Management and the Board need to reconcile the differences between the original policy on involuntary resettlement and that currently applied.
- Whatever the nature of the policy adopted, its results-based framework should distinguish desired impacts, outcomes, outputs, activities, and inputs at both the macro (country) and micro (project) levels.
- The policy update should highlight a set of performance standards.
- The policy update should elaborate on the objective of greater reliance on country executing agency systems for land acquisition and resettlement safeguards.
- There should be clearer guidelines and procedures regarding the identification of resettlement operations needed, and compensation and assistance within resettlement operations.

The study makes recommendations regarding implementation of involuntary resettlement plans:

- Formulate a time-sequenced implementation plan to complement the policy update.
- Improve involuntary resettlement monitoring.
- Deepen involvement in building country systems and capacity for involuntary resettlement.

ADB’s Management welcomed the evaluation study, noting that both sets of recommendations should be further reviewed and considered in the context of policy update, including the consultation process. The chair’s summary of the DEC discussions advised that ADB should recast the policy in a comprehensive results framework, providing clear guidelines on the principles, degree, and approaches by which flexibility may be exercised in application.

Indigenous Peoples

The evaluation study concluded that decisions taken by ADB’s Management had expanded the scope of the original policy. The original focus on “adverse and significant” impacts was reinterpreted to cover “adverse or significant” impacts, and the associated operational procedures became more elaborate over the years.

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Contributing to Safeguard Policy Update (continued)

The policy is misunderstood by ADB staff and clients. First, the distinction between indigenous peoples and ethnic minorities is not always clear, and differs somewhat between the policy and the operational procedures. Second, the policy is ambiguous about whether the definition provided by national legislation or that derived from the policy is to be followed. Third, there is overlap with the policies on involuntary resettlement and environment. The clearest adverse impacts of ADB-supported projects on indigenous peoples relate to induced environmental change, loss of land and related livelihood, and resettlement. These are also the subject of the policies on involuntary resettlement and environment and are addressed primarily in the involuntary resettlement plan and the environmental management plan. If considerations of land, livelihood, and resettlement were discounted then the impacts that trigger the policy would be less straightforward adverse impacts related to cultural change and, perhaps, integration into the economic mainstream and/or competition with non-indigenous peoples when an area is opened up or developed. Fourth, the need to prepare indigenous peoples development plans for projects with significant benefits to indigenous peoples, and specific actions for projects with limited positive or negative impacts on them, has left unclear the nature of these plans and specific actions. In practice, an acceptable scope for a separate plan has proved difficult for ADB staff to define. Fifth, the required consultation of indigenous peoples has been expanded by operational procedures to something very close to full consent for the project. The policy offers little advice on how to define an acceptable level of consent or how to document and measure it. The study recommends the following:

- The policy update should clarify the areas that cause misunderstanding in the policy and address the policy drift related to ADB’s Operations Manual and practice in ADB.
- ADB should set goals for the development of indigenous peoples and related strategies for some DMCs where ADB’s forward program involves considerable interaction with indigenous peoples.
- If ADB maintains a stand-alone policy, it should include a results-based framework—distinguishing desired impacts, outcomes, outputs, activities, and inputs, both at the macro (country) and micro (project) levels.
- A sequential approach to policy development and capacity building in indigenous peoples safeguards should be adopted, focusing on a few DMCs first.
- Indigenous peoples development plans should be prepared for projects having clear risks for indigenous peoples that are capable of being mitigated through project interventions.
- Conceptual work and case study work are needed to lay out the particular risks for indigenous peoples associated with different categories of investments, as there is currently a high degree of divergence in approaches to the definition of these risks.
- The policy update should describe the criteria to be used to determine whether the amount of consultation and broad community support for a project and mitigation measures are adequate and in what circumstances ADB endorses the principle of free, prior, and informed consent for the project from the side of indigenous peoples.
- To complement the policy update, there is a need for a policy implementation plan that reconciles the policy aspirations with organizational, budget, and human resources implications.

ADB’s Management generally appreciated the evaluation and agreed to consider the recommendations in the update of the policy.

Environment

The evaluation study found that the policy is relevant to ADB’s activities and the needs of DMCs. ADB’s involvement in projects sometimes added value by improving environmental performance at the project level. However, the value addition varied from country to country, from project to project, and in different aspects of environmental assessment. There is also evidence that the policy provided impetus to improve the environmental safeguards toward greater clarity, more emphasis on assessment of project alternatives, and improved monitoring, notwithstanding weaknesses in all these areas. On the whole, the environmental safeguard procedures governed by ADB’s Operations Manual were deemed to have been effective in avoiding significant adverse environmental impacts from ADB’s programs and projects.

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Contributing to Safeguard Policy Update (continued)

However, the efficiency and sustainability of the safeguard procedures are questionable due to high transaction costs and limited benefits. The main cause of this is the uniform application of a single set of procedures to all DMCs, which is no longer an effective response to the needs of DMCs nor to the growing resource constraints faced by ADB. There would be merit in revising the policy and safeguard procedures to address the changing context in DMCs. This would likely be focused on the necessity for greater flexibility in procedures, recognition of the need for alignment with national systems, a shift to an emphasis on capacity building rather than on projects, and a change in emphasis from procedural compliance to results delivery and cost effectiveness.

The study recommends that the policy should be revised to better reflect current needs and resources within DMCs and ADB, as follows:

- Organizational effectiveness should be strengthened in relation to the reorganization of 2002, including consolidation of environmental resources within ADB.
- The quality of ADB’s environmental assessment process should be improved and transaction costs should be lowered to make the policy more cost effective. Categorization, scope, quantification, standards, and technical methodologies should be systematically reviewed and updated.
- Partnerships with NGOs and civil society organizations on environment should be improved.
- ADB should move toward adoption of improved country systems and harmonization with other development partners in selected DMCs. ADB should follow the guidance in the Paris Declaration on Aid Effectiveness on greater harmonization between funding agencies and partner countries on environmental assessment.
- An implementation plan for the revised environment policy should be prepared. ADB should develop an action plan to implement the revised policy involving an assessment of ADB’s resources at headquarters and in the field for implementing environmental safeguards.

ADB Management’s response confirmed that the evaluation study raised important issues that are relevant to policy update. Management believed that the ongoing process of policy update, including the planned consultations with a wide range of stakeholders, provides an appropriate vehicle for further examining the report and addressing the recommendations of the study. The chair’s summary of the DEC discussions notes that the study raised many of the right questions for the review; that the issues identified and recommendations made address not only implementation of the policy but also provisions in the policy itself; and that, by its response to the evaluation, ADB’s Management started the critical corporate-level dialogue that would lead to the policy review.
MANAGING KNOWLEDGE

In June 2004, ADB prepared a knowledge management framework to guide its transition to a knowledge-based organization. The framework defines knowledge as understanding the why, what, how, who, when, and where relative to taking action. It reviews practices with reference to formal knowledge products and services and significant but often unrecognized knowledge byproducts. It highlights initiatives to enhance the capacity to process knowledge, analyzes challenges and opportunities, and specifies the goal and objectives of knowledge management, guiding principles, expected outputs, and associated action plans.

ADB’s Knowledge Products and Services

Formal Knowledge Products and Services
- Publications and journals on specific development issues such as *Asian Development Outlook*, *Asian Development Review*, and *Key Indicators of Asian and Pacific Countries*
- Economic, sector, and thematic work (country economic, poverty, and thematic assessments, etc.)
- Information posted on ADB’s website
- Project, program, and evaluation reports
- Policy and strategy reviews
- Seminar and workshop materials and synopses of brainstorming sessions, regional meetings of stakeholders, etc.
- Statistical data

Knowledge Byproducts
- Analyses of sectoral and institutional issues as part of project preparation
- Problem analysis, alternatives, and solution trees
- Environmental and social assessments and surveys as inputs to projects
- Social action plans associated with projects
- Understandings created through information exchange in external networks, seminars, and conferences
- Other sourced research information that provides insights into policy, processes, and performance
- Project-related knowledge transfers, including innovative designs and introduction of new technologies
- Best practices embodied in loans, grants, and technical assistance activities


As regards operations evaluation, Knowledge Management Framework (2004) identifies a need to improve evaluation of knowledge products and services. This will enable ADB to capture lessons, incorporate them into new and ongoing products, and enhance effectiveness. This entails development of a more systematic approach to, and consistent methodology for, evaluating knowledge products and services.

OED conducts evaluations to find out what results are being achieved, what improvements should be considered, and what is being learned about policies, strategies, programs, and projects, including their design, implementation, and results.

Producing credible, timely, and objective data, information, and knowledge that describe ADB’s organizational performance promotes development impact if what is learned informs decision making. Sharing lessons also demonstrates good governance and advances understanding of what ADB aims to accomplish, thereby generating support for it. Figure 3 illustrates the principal audiences for evaluations.

Lessons are of two types: operational and developmental. Operational lessons have a managerial and administrative component offering ideas for the establishment of an environment enabling identification and ownership of good practices. They relate,

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**Figure 3**

**Audiences for Evaluations**


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24 Evaluations can be formative or summative. Formative evaluations are undertaken early to understand what is being achieved and identify how that can be improved. Summative evaluations are conducted during implementation or ex-post to assess effectiveness and determine results and overall value. Evaluations can be categorized by focus or in terms of the stage in the life cycle of the operation being evaluated.

among others, to performance measurement, aid coordination, resource requirements, team building and coordination, procurement practices, delivery and reporting systems, and logistics. Developmental lessons pertain to realization of development results, improvement of developmental practice, and delivery on priorities.

Evaluation reports that are simply placed on a shelf provide no return on investment. The highest value can be realized only when what is learned from evaluation impacts decision making and improves practice in a relevant, effective, efficient, and sustainable manner. Specifically, what key audiences, both inside ADB and outside it, can gain from lessons creates opportunities to (i) identify shortcomings in policies, strategies, programs, projects, and associated processes, methods, and techniques; (ii) set out remedial courses of action to address issues and problems; (iii) increase institutional learning that builds capacity to manage for development results and development effectiveness; and (iv) inform key audiences about how ADB is performing.

Each benefit from evaluation is defined by what value the evaluation offers, the strategies developed for sharing results, and the manner in which the results are used. Building value means staying committed and focused. Evaluation is both an opportunity to contribute to the improvement of development activities and a process to forge findings and recommendations. The results that are then shared should (i) improve developmental practices, (ii) enhance institutional learning, (iii) validate hypotheses, and (iv) facilitate identification of issues and resolution of problems. To accomplish this, it is necessary to think of the broader picture, focus on results, maintain flexibility, keep messages clear and simple, and extend them in timely fashion and the right format with appropriate dissemination techniques.

Knowledge must not be seen as something that is supplied from one person to another, or from better-off countries to developing countries, but rather as something that can flow back and forth and be continually improved, adapted, and refreshed. Knowledge management tools can be harnessed in support of this. The advent of the Internet has brought information technologies that facilitate this practice. They include e-learning, web conferencing, collaborative software, content management systems, and email lists. There are also organizational enablers including knowledge audits, communities of practice, action reviews, peer assists, information taxonomies, coaching, and mentoring. Each expands the level of inquiry and provides a platform to achieve a specific purpose or action.

ADB’s annual lending volume is typically about $6 billion, with technical assistance totaling about $180 million a year. Therefore, the return on investment in lesson learning for operational and developmental impact is likely to be high, and maximizing it is a legitimate concern. In late 2006, OED established the Knowledge Management Unit. This initiative is expected to (i) promote client awareness among staff of OED, (ii) accelerate dissemination of findings and recommendations to key audiences, and (iii) increase learning and exchanges in OED and ADB. Improvements are being made to OED’s

The Growing Importance of the Internet

The Internet has already surpassed newspapers and Yellow Pages as a vehicle for knowledge products and services. As the Internet becomes more popular, the importance of a successfully established and managed Internet presence is self-evident. In 2006, OED made efforts to increase the dissemination of the findings and recommendations from evaluation using the web and introduced hyperlinks and meta tags in documents. It began to contribute some of its knowledge products and services to portals of development information such as Development Gateway, Eldis, and Livelihoods Connect. In 2006, OED improved its website to ensure that all knowledge products and services are accessible to key audiences in reader-friendly ways. In 2007, OED will increase its Internet presence with an emphasis on:
- website content,
- navigational structure,
- website and identity appearance,
- website load time, and
- cross-media accessibility.

OED’s website is available at http://www.adb.org/evaluation/default.asp
Signs of Improvements in Evaluation-Based Learning

Concepts of knowledge management borrowed from the corporate sector have made inroads into development agency thinking. They can also be applied in an evaluation setting:

- **Concentration.** ADB’s strategic planning frameworks are moving towards greater concentration on country, sector, and thematic areas. They also display a parallel trend towards greater decentralization.

- **Learning.** Increasingly, ADB sees itself as a learning organization. It is restructuring its management information systems accordingly. Operations evaluation is expected to play a key part in this; it has been given greater institutional independence and is being given greater priority.

- **Quality of evaluation.** More sophisticated methods, more impact orientation, and a greater number of broader based evaluations suggest that in the future more knowledge will be generated that is needed for both quality improvement and conceptual advancement of development, and for greater external accountability.

- **Feedback.** ADB must increase the extent to which it systematizes and institutionalizes its feedback system for evaluation-based learning and accountability.

- **Information and documentation.** ADB is making increasing use of modern, Internet-based information and documentation systems. These cut information gathering and search costs and strengthen institutional memory. However, the functionality of the systems leaves room for improvement. In particular, efforts are needed to manage the quickening flood of data and information. Another problem is how to network the systems and how to cater for upward feedback in a decentralized organization.

- **Internalization.** ADB must do more to promote internalization of lessons from evaluation, taking a more systematic and innovative approach. OED is currently appraising the inclusion of this in an overall strategic framework for knowledge management.

- **Monitoring.** Implementation monitoring, i.e., implementation of findings and recommendations from evaluation, should be based on established monitoring and evaluation systems.

- **Disclosing.** By publicly releasing position papers at early stages of evaluations and posting on OED’s website the comments of external stakeholders, OED has advanced ADB’s public disclosure policy.

- **Partners and stakeholders.** ADB has, in the past, largely addressed its feedback to internal audiences. The need for greater participation of in-country partners and stakeholders, including the media, in the feedback process is increasingly recognized.

- **Broad-based evaluations.** Moving from project evaluations to a higher level country, sector, and thematic focus is an important way of increasing potential evaluation impact, especially when evaluations are timed to coincide with policy reviews. Given relatively well-developed monitoring and evaluation systems, feeding findings and recommendations from evaluation into ongoing projects is comparatively straightforward. In contrast to this, using the lessons learned from broader based evaluations presents more challenges.

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CONCLUSIONS

Understanding what works, what does not, and what must be improved promotes informed decision making about choices, approaches, and practices. Good evaluation reports promote informed decision making by distilling and articulating what is learned. To this end, OED works to (i) produce high-quality, relevant evaluation studies; (ii) promote the use of evaluation for better decision making; (iii) engage in more and better evaluation partnerships to support harmonization of evaluation approaches; and (iv) build increased evaluation capacity and better evaluation systems.

The performance of evaluation must be seen within the changing context and associated trends in evaluation. The state of the art is always evolving and always inexact. Directions in evaluation are based on evolving concepts of best practice and probability. Over time, these have led to different kinds of development interventions—and new interventions often call for new evaluation approaches. What is more, the age of the knowledge economy is a dynamic age. Information and communication technologies are generating new insights and perceptions almost daily.

Within the changing context, trends, and directions, findings and recommendations from evaluation must be perceived as useful to decision making. To be credible, they must be seen as objective, rigorous, and impartial. To be transparent, they must be available to key audiences. Then, hopefully, independent evaluation at ADB will help enhance its accountability to shareholders, stakeholders, and the public and its impact in reducing poverty in the Asia and Pacific region.

For OED to fulfill its mandate, it must make strategic decisions to select evaluation topics that are relevant and are likely to have an impact. It must measure the results attributable to evaluation activities against the original expectations denominated in the chain of inputs, outputs, outcomes, and impacts. It must build value throughout the evaluation process. And it must reach out to get the right knowledge to the right people at the right time, and help them to apply it in ways that improve organizational performance.
Appendix 1 INDEPENDENT EVALUATION AT ADB: A BRIEF ACCOUNT

The Beginnings

The Asian Development Bank (ADB) set up an independent system for evaluating the performance of its development assistance in 1972. The 1973 Annual Report states that “a program for the postevaluation of completed loan projects was initiated.” Postevaluation reports were to be submitted to the Board of Directors. The first one was in 1973 on the Modernization of Tea Factories Project in Sri Lanka. The main purpose of such reports was “to assess how far implementation was consistent with the intentions as reflected in the appraisal of the project, and the extent to which projects achieved the expected economic and social benefits.”

The main focus of evaluation was looking at the past, but there was a forward-looking element as well: “From such reviews of past experience, further improvements might be possible in planning and appraisal techniques and in project implementation.” Expansion of the evaluation function was mandated, as the funds for 17 loans had been fully disbursed as of the end of 1973.

The 1974 Annual Report notes the approval in August of that year of the Program for Action for postevaluation, with two objectives: “first, to determine whether projects had achieved their intended objectives; and second, to re-examine, in cooperation with developing member countries and the executing agencies of the various projects, the objectives themselves and the effectiveness of the means of achieving them.” Two types of postevaluation were pursued: internal, by the Economics Office with the assistance of consultants; and external, by academic institutions and nonprofit organizations. The role of staff from ADB’s operations departments was limited to supplying background information.

In 1975, four internal evaluations were completed; and two external ones were substantially finished, with two more under preparation. The 1975 Annual Report discusses results and recommendations for the first time: “Both the external and internal postevaluation studies have shown that the projects concerned have generally achieved their objectives. In some cases, specific recommendations have been made which, after further examination and in consultation with the executing agencies and the borrowers, are being implemented on a regular basis....Recommendations have also been made which will be useful to the Bank in formulating similar future projects.”

The 1976 Annual Report on “The First Ten Years” of ADB’s operations notes two completed external and three internal evaluations aimed at “achieving improvements in the efficiency and effectiveness of future Bank-assisted projects.” Most projects were deemed successful “despite some instances of delay in execution and of cost overruns.”

Articulating the Operations Evaluation System

By the following year a total of 17 evaluation studies—13 internal and 4 external—had identified “conditions for success and causes for failure.” The growing importance of evaluation was seen: “As the number of completed projects increases, postevaluation results, systematically compiled and analyzed, will become an important tool of management for the Bank as well as for the executing agencies concerned.” And the first seeds of the expansion of evaluation activities beyond the cataloguing of projects appeared: “...a review has been initiated of the postevaluation policies and procedures of the Bank with a view inter alia to streamlining them and increasing their impact on the Bank’s operational functions.” The Audit Committee of the Board of Directors was established with oversight of postevaluation activities.

The Postevaluation Unit became the separate, independent Postevaluation Office, reporting to the President, in 1978, during which year two internal reports were completed and work on four external evaluations was pursued. Postevaluation of completed projects was becoming an integral part of ADB’s operations, with 50% coverage planned. The Postevaluation Office’s activities were comprehensively reviewed by the Audit Committee, which recommended to the Board several measures to strengthen them, including introduction of the project completion report, to be prepared by ADB’s operations departments and validated in project performance audit reports prepared by the Postevaluation Office; and the establishment of procedures to feed back evaluation findings into ADB’s operations.

The next year saw the formulation of standards and procedures for project performance audit reports, and the publication of the first Annual Review of Postevaluation Reports summarizing findings and recommendations. A quantum leap was made in 1980 with the issuance of 13 reports covering 17 loans and technical assistance activities.

1 Source: ADB Annual Reports.
Appendix 1 INDEPENDENT EVALUATION AT ADB: A BRIEF ACCOUNT (continued)

The 1981 Annual Report stated that “postevaluation is emerging as an important management tool and as a key input for policy making.” The third Annual Review of Postevaluation Reports again noted the prevalence of delays and cost overruns in ADB projects. The number of evaluations increased significantly: 35 projects covering 13 countries and 10 sectors were reviewed in 30 reports. A new product was introduced, the abbreviated project performance audit report for projects that evidenced few problems. In late 1981, a Board paper was circulated on evaluation activities and procedures. The intention was to audit all projects with completion reports issued in the previous year.

By 1982, which saw 23 project performance audit reports released covering 11 developing member countries (DMCs), a total of 81 reports had been issued for 91 projects. Significantly, four special studies were initiated in the year on the impact of ADB’s operations in the fisheries sector and on the effectiveness of executing agency arrangements, project-related technical assistance, and training in development finance institutions. Thus the role of the Postevaluation Office expanded to the realm of effectiveness and impact studies. Staff began attending meetings on new loan projects “with a view to ensuring that the experience gained from completed projects...was appropriately taken into account.”

In 1983, the guidelines for project completion reports were revised, and guidelines for project performance audit reports were introduced. The two-tiered evaluation became formal. Twenty-four audit reports were issued, plus the first special study (on training in development finance institutions).

Creating New Evaluation Products and Services

In 1984, the first impact evaluation study was completed along with 27 project performance audit reports covering 30 projects in 11 DMCs in 12 sectors.

In 1985, the first audit for a program loan was conducted, in addition to two impact evaluation studies on the fisheries sector. A computerized postevaluation information system was also established. The seventh Annual Review of Postevaluation Reports presented major points for consideration by the Board, which took action to implement them. Henceforth, all appraisal reports would include a summary of lessons learned.

Following a decline over several years in official development assistance and in private assistance to DMCs, mandating the most effective use of ADB’s resources, the 1986 Annual Report included a theme chapter on performance evaluation. It noted that 40% of staff time was spent on loan supervision activities, with the ex-post evaluation of projects broadening supervision from implementation efficiency to benefit achievement. The evaluation system was being continuously improved and refined: completion and audit reports were now required for all completed projects. To provide a two-way feedback system, the Postevaluation Office reviewed draft completion reports, and ADB’s operations departments commented on draft evaluation reports. By the end of 1986, 200 project performance audit reports had been prepared covering most sectors in most DMCs. Special studies had “become a particularly valuable tool for drawing and disseminating lessons, not only in specific sectors and subsectors, but also with regard to lending programs and the quality of sector work.” For a longer-term perspective, the Postevaluation Office initiated more impact evaluation studies for projects likely to yield valuable insights, usually covering a range of projects in a DMC. Other impact evaluation studies looked at the same sector over several countries. DMCs were encouraged to prepare their own completion reports.

An important postevaluation finding was that more than two thirds of ADB’s projects had “substantially achieved their physical, institutional, and socioeconomic objectives”. But there was a tendency to overestimate projected economic returns at appraisal. Factors affecting success included (i) external factors not under the control of the country or the project, like commodity prices, market access, and exchange rate; climate; and political events; (ii) country-related factors like the institutional and policy environment; and (iii) project-specific factors like project design and implementation. Postevaluation findings showed that project design and external factors were the most crucial.

The theme chapter contained the first inkling of the future role of the design and monitoring framework in project formulation and implementation: “Experience shows that evaluation is facilitated if the project’s objectives, planned achievements and inputs are stated in explicit and measurable terms at the project formulation and appraisal stage.”

By the 1987 Annual Report, postevaluation was a regular chapter. The write-up began giving success rates by country group and by sector, and made attempts to explain the results. A review of the six postevaluated program
loans stressed “the importance of adequately addressing pertinent sector and operational issues during program formulation and close monitoring of program design, progress and related developments during implementation.”

Increasing Special Studies and Sector Syntheses

The year 1988 saw an increased number of special studies, all country or sector specific. Due to the growing number of loans reaching term, the policy of evaluating all completed projects was changed to a purposeful selection of projects, plus all program and sector loans, and all first loans to a subsector or a country.

The 1989 Annual Report discusses the first reevaluation study, aimed to glean insights into the long-term sustainability of a project.

The 1990 Annual Report presented the first two in-depth evaluations of technical assistance operations, one of project preparatory technical assistance, and one of advisory technical assistance. Steps were taken to assist DMCs in developing and strengthening their own evaluation capabilities, notably through technical assistance to Papua New Guinea for on-the-job training of evaluators and planners, and for establishing a computerized information system.

The write-up for 1991 discusses the reasons for project success or lack thereof. Although poverty reduction had received little attention when the evaluated projects were appraised, the 1991 project performance audit reports recorded the projects’ impacts on the poor. Similarly, despite little discussion of environmental effects in the appraisal reports, attention was given to environmental assessment. And some evaluation studies began to look at the impacts of projects on women. In short, evaluation activities began to examine “issues and subjects of broader relevance to the Bank’s operations, practices, and procedures.”

Developing Evaluation Capacity

The Management Committee on Postevaluation Findings was established under the President to discuss the conclusions and recommendations of studies and to formulate plans. Advisory technical assistance was provided to Sri Lanka to strengthen that country’s postevaluation capabilities. Regional technical assistance was approved to cosponsor, with the Development Assistance Committee (DAC) of the Organisation for Co-operation and Development (OECD), a regional seminar on Performance Evaluation in Asia and the Pacific.

The 1992 Annual Report states that project performance audits were still the core activity of the Postevaluation Office. The first postevaluation was done of a private sector project without government guarantee. Lessons identified included the need to improve project quality through more effective use of project preparatory technical assistance, the desirability of an integrated approach to water supply and irrigation projects, and the need to improve the formulation and design of program loans and to ensure that the institutional capabilities in DMCs are adequate. Advisory technical assistance was provided to strengthen postevaluation activities in the Philippines and Thailand, and a technical assistance completion report was prepared on the 1990 advisory technical assistance to Papua New Guinea.

In 1993, a special study presented an analytical review of postevaluation findings in the Philippines covering 41 projects and 1 program. It discussed the factors affecting project implementation and performance, and emphasized the need for better project preparation and appraisal. Other studies pointed to the inadequate operation and maintenance of physical facilities as a major factor affecting the performance and sustainability of projects. Two workshops were held to promote interaction of the Postevaluation Office with ADB’s operations departments. The Management Committee on Postevaluation Findings underscored the need to improve project preparatory technical assistance and to adopt the logical framework approach in project planning and implementation. To facilitate the incorporation of evaluation experience in programming and project appraisal work, country syntheses of postevaluation findings were introduced. The Postevaluation Office also stepped up its efforts to help DMCs develop and strengthen their own evaluation capabilities.

In 1994, the postevaluation information system was made more user friendly, and country and sector syntheses were expanded. Closer coordination with the evaluation units of multilateral and bilateral agencies was promoted through participation in the Expert Group on Aid Evaluation of DAC/OECD.

In line with the recommendations of the Task Force on Improving Project Quality, the 1995 work program of evaluation activities placed special emphasis on broader evaluation studies and on helping DMCs to develop their performance evaluation capabilities. The coverage of project performance audits was consequently reduced to 30% of completed projects. A special study was done on
Appendix 1  INDEPENDENT EVALUATION AT ADB: A BRIEF ACCOUNT  (continued)

the effectiveness of ADB assistance for capacity building in Nepal and Western Samoa. Key findings during the year were to (i) keep project design simple, well focused, and manageable; (ii) examine the socioeconomic aspects of beneficiaries, secure their participation, and ensure that benefits are properly targeted and delivered; and (iii) build benefit monitoring and evaluation into projects.

In 1996, an impact evaluation study of assistance for benefit monitoring and evaluation concluded that its focus on the project level was inadequate. The study stated that benefit monitoring and evaluation needs to be linked with sector- and national-level efforts. Two regional workshops held under a regional technical assistance led to the preparation of a plan to support the implementation of the project performance management system, and several projects were selected as pilots. The Task Force on Improving Project Quality recommendation to prepare an annual performance evaluation program each year “to bring together the activities of various departments and offices as they relate to project performance” concluded that “the institutional mechanism for generating feedback in the Bank is fairly comprehensive and well developed.”

In 1996, the Postevaluation Office was actively involved in formalizing the Evaluation Cooperation Group, composed of the heads of the evaluation units of the multilateral development banks.

Shortening the Feedback Loop

In 1997, the Postevaluation Office undertook a survey to ascertain the relevance, importance, and extent of use of evaluation results by ADB’s operations departments. Recommendations were to shorten the feedback loop, conduct more thematic special studies of operational relevance, prepare expanded country and sector syntheses, and make the postevaluation information system more user friendly. The Postevaluation Office also conducted its first process evaluation—a special study on Issues Pertaining to the Engagement of Consultants in Bank Loan Projects and Their Effect on Project Performance—covering six countries. ADB accepted the 2-year chairing of the Evaluation Cooperation Group.

The Postevaluation Office was increasingly looking at larger units than the traditional single completed project or program, and also at processes. The first country assistance program evaluation was conducted for the People’s Republic of China in 1998, as was a special evaluation study on ADB’s midterm review process. The Postevaluation Office, along with the Central Operations Services Office, became the focal point for monitoring progress and providing assistance in accomplishing project performance reports. The Postevaluation Office launched an Internet web page summarizing evaluation findings and lessons, with links to the websites of other international organizations and with a keyword search capacity.

Promoting Quality at Entry

To recognize the larger role of the Postevaluation Office, its name was changed at the beginning of 1999 to the Operations Evaluation Office. As part of ADB’s central focus on poverty, it began to pay closer attention to the articulation of project objectives and design that could be evaluated in order to facilitate monitoring and verification of ADB’s poverty reduction efforts. The project performance management system was upgraded to emphasize monitorable performance indicators. Two special evaluation studies examined the use of technical assistance to assist public expenditure management, capacity building, and institutional strengthening; and another examined the role of nongovernment organizations and community-based organizations in 54 projects in nine countries. A new product, Evaluation Highlights, was launched, and the Operations Evaluation Office inaugurated a newsletter for the Evaluation Cooperation Group.

The 2000 Annual Report notes, “The Operations Evaluation Office has intensified its work on preparing in-depth studies of particular thematic issues; evaluating the effectiveness of ADB’s operations, practices, and procedures; monitoring and reporting on actions taken by ADB and its executing agencies in response to recommendations; building evaluation capacity within and outside ADB to enhance self-evaluation; and coordinating closely with multilateral and bilateral agencies on evaluation methodology.” The Operations Evaluation Office revised the guidelines for preparing project performance audit reports, introducing a four-tiered rating system. Several significant evaluations were issued: one examined the impacts of ADB’s involuntary resettlement policy; one looked at ADB’s role in and support for agriculture and natural resources research; one scrutinized participatory development processes; and one analyzed the sustainability of policy reforms through advisory technical assistance.

In 2001, the Operations Evaluation Office became the Operations Evaluation Department (OED) with additional personnel, still reporting to the President but under
the oversight of the Board’s Development Effectiveness Committee (DEC). Five audit reports for program loans showed that reforms need a longer time frame, more policy dialogue, and sustained government commitment. Also needed are detailed sector studies, participatory approaches to program design, and realistic assessments of the capacities of executing agencies. Several important evaluations were produced on ADB’s crisis support interventions in Indonesia, gender and development, economic and sector work, Asian Development Fund (ADF) resources, and privatizing public sector enterprises. With the Evaluation Cooperation Group, OED pursued the harmonization of evaluation activities and methodologies, and developed good practice standards. OED was involved in a joint evaluation in Viet Nam of the Comprehensive Framework Approach to Partnership.

Significant studies in 2002 examined ADF operations, beneficiary perceptions of the impact of selected agriculture and social infrastructure projects on poverty reduction, project cost estimation, the impact of rural roads on poverty, investment fund operations, and water supply and sanitation activities. OED assessed the new loan classification system and took the lead in reviewing the process for performance-based allocation of ADF resources.

**Ensuring Independence of Evaluation**

Studies in 2003 investigated financial cost recovery in the power sector, participatory processes, water and forestry sector operations, and project performance management. In December, the Board approved major changes in the operations of OED, which took effect in January 2004. OED now reports to the Board through the DEC. The director general is appointed by the Board upon the joint recommendation of the DEC and the President. OED has more autonomy in staff selection, and develops its work program in consultation with the DEC and ADB’s Management, with approval by the Board. There is a separate resource envelope for evaluation operations. Completed reports are circulated simultaneously to ADB’s Management and the Board.

**Progressing to Full-Fledged Operations Evaluation**

The eight country assistance program evaluations produced as of 2004 revealed problems with the former country operational strategies and country assistance plans, and thus contributed to ADB’s switch to country partnership strategies. Under its new mandate, the focus of OED’s work shifted to (i) the broader development agenda; and (ii) project and program evaluations that would feed into country assistance program evaluations, requiring closer links between the latter and the country partnership strategy and between sector assistance program evaluations, first introduced in 2003, and other evaluation studies. The country assistance program evaluation for Nepal was prepared in parallel with the country partnership strategy, which was ADB’s first results-based country partnership strategy.

OED’s other activities in 2004 included preparation of a report for the Evaluation Cooperation Group on good practices for evaluation of policy-based lending; and analyzing the success rate of projects.

In 2005, the Annual Evaluation Review became a more analytical report rather than simply a catalogue of evaluation activities. It was a retrospective look at 968 public sector projects. The results of the 2005 evaluations were used to help ADB improve its country strategies.

By 2006, the influence of country assistance program evaluations on the formulation of new country partnership strategies had been mainstreamed: the Board does not normally discuss a country partnership strategy until after the DEC has considered the corresponding country assistance program evaluation. A 2006 evaluation on poverty targeting in rural areas in three countries challenged some key assumptions. Three studies were begun, which by now have all been completed, to review ADB’s safeguard policies, in preparation for the policy update scheduled for 2007.
## Appendix 2 EVALUATION BY TYPE

<table>
<thead>
<tr>
<th>Type</th>
<th>Purpose</th>
<th>Challenge</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project</strong></td>
<td>Evaluates a predefined cause-and-effect relationship leading from project inputs to project outputs and fulfillment of project objectives.</td>
<td>Project objectives are often complex, unrealistic, ill defined, and/or may have changed over time. Baseline studies may not have been carried out.</td>
<td>The scope of a single project makes it relatively easy to focus the evaluation if the objective against which success is evaluated was specifically expressed in quantifiable terms.</td>
</tr>
<tr>
<td><strong>Program</strong></td>
<td>Evaluates institutional performance, processes, changes, and interrelationships, as well as the development impact of the program.</td>
<td>Involvement and ownership of local partners in an externally funded program are required.</td>
<td>A program loan enables ADB to assist in developing a sector (or subsector, sectors) as a whole and improving its performance through appropriate policy and institutional improvements over the medium to long term. Program loans are relatively quick disbursing to cover the immediate adjustment costs arising from policy reforms.</td>
</tr>
<tr>
<td><strong>Sector Assistance</strong></td>
<td>Evaluates ADB’s sectoral strategy, policy dialogue, ongoing and completed projects and technical assistance, and ADB’s performance within a given sector in one country.</td>
<td>In addition to considering ADB’s contributions, evaluations must also consider the contributions of other development stakeholders. There is uncertainty associated with assessing the outcome of ongoing operations.</td>
<td>This is a cost-effective way to evaluate ADB’s operations in a sector. Such evaluations can reduce transaction costs, shorten the evaluation feedback loop, and have considerable impact on formulation of ADB’s operations in the sector.</td>
</tr>
<tr>
<td><strong>Country Assistance</strong></td>
<td>Evaluates the entire ADB support to a country covering ADB’s strategy, policy dialogue, both completed and ongoing projects and technical assistance, and ADB’s performance. It provides ADB and the country with a basis for deciding on changes in the future country partnership strategy.</td>
<td>These are complex evaluations involving both aid agency and national policies and objectives, and cover all sectors and different modalities of aid. In addition to considering ADB’s contributions, evaluations must also consider the contributions of other development stakeholders. There is uncertainty associated with assessing the outcome of ongoing operations.</td>
<td>Important for policy and planning at the highest level to provide a basis for future country strategies and to identify ways for ADB to become a better and more effective development partner.</td>
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</tbody>
</table>
## Appendix 2  EVALUATION BY TYPE (continued)

<table>
<thead>
<tr>
<th>Type</th>
<th>Purpose</th>
<th>Challenge</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modality</td>
<td>Evaluates the efficiency and effectiveness of specific forms of assistance such as policy-based lending, project support, technical assistance, and sources of financing, e.g., Asian Development Fund, ordinary capital resources.</td>
<td>Individual cases to be evaluated often have different objectives, making it difficult to explore the effects and impacts of development assistance systematically.</td>
<td>Drawing experience from a larger sample of development assistance can reveal lessons that could improve development effectiveness by changing development policies and practices.</td>
</tr>
<tr>
<td>Thematic</td>
<td>Extracts and aggregates data and information on a specific theme, e.g., non-government and civil society organizations, participation, governance, gender, environment, capacity building. This may involve different modalities, sectors, or countries and make use of data and information from different types of evaluation and sources identified in literature reviews or the experience of other donors.</td>
<td>Methodological constraints exist in comparing different activities in different contexts, and different forms of assistance in the context of different national activities and policies. Difficulties are often experienced in making generalizations based on a limited number of country case studies.</td>
<td>This can be influential in shaping development policies and practices.</td>
</tr>
<tr>
<td>Impact</td>
<td>Assesses changes in the well-being of individuals, households, communities, or firms that can be attributed to a particular project, program, or policy. The central impact evaluation question is what would have happened to those receiving the intervention if they had not in fact received the program.</td>
<td>Since it is not possible to observe the beneficiaries both with and without the intervention, the key challenge is to develop a counterfactual—that is, a group which is as similar as possible (in observable and unobservable dimensions) to the beneficiaries. This comparison allows establishment of definitive causality, thereby attributing observed changes in welfare to the intervention while removing confounding factors.</td>
<td>Impact evaluations are a tool for dynamic learning, allowing policymakers to improve ongoing programs and ultimately better allocate funds across programs.</td>
</tr>
</tbody>
</table>
Appendix 3  **KEY OPERATIONS EVALUATION DEPARTMENT REPORTS**

**Country assistance program evaluations** evaluate the performance of ADB’s country strategy and assistance programs, usually over the past 10 years, against the objectives laid out and the country’s own development priorities.

**Sector assistance program evaluations** assess the relevance, efficiency, effectiveness, and sustainability of ADB’s assistance with respect to a particular sector’s development and financial performance, as well as its impact on economic development and poverty reduction.

**Special evaluation studies** focus on selected thematic issues across sectors or countries, or evaluate an ADB policy or process.

**Impact evaluation studies** evaluate projects and programs using a rigorously defined counterfactual.

**Project/program performance evaluation reports** evaluate the design, implementation, and performance of loan projects and programs. They are prepared about 3 years after project completion.

**Technical assistance performance evaluation reports** evaluate technical assistance operations, usually several technical assistance activities in the same report.

**Annual evaluation reports** provide a summary of evaluation activities and findings in a particular year, and an assessment of portfolio performance.

**Learning curves** are handy, two-page quick references designed to feed findings and recommendations from evaluation to a broader range of clients.
Appendix 4 CATALOGUE OF EVALUATION REPORTS
(as of March 2007)

Number of Evaluated Public Sector Projects/Programs by Country and Sector
(as of 31 December 2006)

<table>
<thead>
<tr>
<th>Country</th>
<th>AG</th>
<th>ED</th>
<th>EN</th>
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Total                | 188| 40 | 113| 70 | 22 | 51 | 5  | 64 | 114| 49 | 716  |

AG = agriculture and natural resources; DMC = developing member country; ED = education; EN = energy; FI = finance; HL = health, nutrition, and social protection; IN = industry and trade; Lao PDR = Lao People’s Democratic Republic; LW = law, economic management, and public policy; MS = multisector; TC = transport and communications; WS = water supply, sanitation, and waste management.

Source: OED.
Appendix 4  **CATALOGUE OF EVALUATION REPORTS**  *(continued)*  
(as of March 2007)

## Country Assistance Program Evaluations

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Source: OED.

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Source: OED.
### Appendix 4 CATALOGUE OF EVALUATION REPORTS (continued)
(as of March 2007)

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(as of March 2007)

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<td>Involvement of Civil Society Organizations in ADB Operations</td>
<td>REG</td>
<td>2006</td>
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<td>The Fisheries Policy</td>
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<td>Urban Sector Strategy and Operations</td>
<td>REG</td>
<td>2006</td>
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<td>Involuntary Resettlement Safeguards</td>
<td>REG</td>
<td>2006</td>
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<td>Environmental Safeguards</td>
<td>REG</td>
<td>2006</td>
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<tr>
<td>Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting</td>
<td>REG</td>
<td>2006</td>
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<tr>
<td>Lessons in Capacity Development: Sectoral Studies</td>
<td>SRI</td>
<td>2006</td>
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<tr>
<td>Indigenous Peoples Safeguards</td>
<td>REG</td>
<td>2007</td>
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Source: OED.
Appendix 5  **HEADS OF EVALUATION**

<table>
<thead>
<tr>
<th>Name</th>
<th>Period</th>
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<tbody>
<tr>
<td>Ernest Ettlinger</td>
<td>1978–1982</td>
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<tr>
<td>Ronald Skeates</td>
<td>1982–1987</td>
</tr>
<tr>
<td>S. Mahboob Alam</td>
<td>1987–1992</td>
</tr>
<tr>
<td>Basudev Dahal</td>
<td>1996–1997</td>
</tr>
<tr>
<td>A. Timothy Peterson</td>
<td>1997–2000</td>
</tr>
<tr>
<td>Vladimir Bohun</td>
<td>2001–2003</td>
</tr>
<tr>
<td>Eisuke Suzuki</td>
<td>2003–2004</td>
</tr>
<tr>
<td>Bruce Murray</td>
<td>2004 to date</td>
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Source: Budget, Personnel, and Management Systems Department.
Appendix 6  HEADS OF AUDIT AND DEVELOPMENT ASSISTANCE COMMITTEES

**Audit Committee Chairs**

<table>
<thead>
<tr>
<th>Name</th>
<th>Years</th>
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</thead>
<tbody>
<tr>
<td>M. R. Khan (Pakistan)</td>
<td>1977–1979</td>
</tr>
<tr>
<td>Bong H. Kay (Korea)</td>
<td>1979–1981</td>
</tr>
<tr>
<td>N. W. Davey (Australia)</td>
<td>1981–1984</td>
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<tr>
<td>G. Ramachandran (India)</td>
<td>1984–1985</td>
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<tr>
<td>N. M. Qureshi (Pakistan)</td>
<td>1985–1989</td>
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<tr>
<td>Jean-Marc Metivier (Canada)</td>
<td>1989–1990</td>
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<tr>
<td>Aitezazuddin Ahmad (Pakistan)</td>
<td>1990–1991</td>
</tr>
<tr>
<td>Heinz Buhler (Germany)</td>
<td>1991–1993</td>
</tr>
<tr>
<td>Anthony F. Burger (Canada)</td>
<td>1993–1994</td>
</tr>
<tr>
<td>Julian Payne (Canada)</td>
<td>1994–1995</td>
</tr>
<tr>
<td>Peter McCawley (Australia)</td>
<td>1995–1996</td>
</tr>
<tr>
<td>Eric Thorn (Australia)</td>
<td>1996–1997</td>
</tr>
<tr>
<td>Julian Payne (Canada)</td>
<td>1997–2001</td>
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</table>

**Development Effectiveness Committee Chairs**

<table>
<thead>
<tr>
<th>Name</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhao Xiaoyu (People’s Republic of China)</td>
<td>2001–2002</td>
</tr>
<tr>
<td>Jusuf Anwar (Indonesia)</td>
<td>2002–2004</td>
</tr>
<tr>
<td>Ashok Saikia (India)</td>
<td>2004–2005</td>
</tr>
<tr>
<td>Agus Haryanto (Indonesia)</td>
<td>2005 to date</td>
</tr>
</tbody>
</table>

Note: The Audit Committee oversaw evaluation activities until the Development Effectiveness Committee was established.

Source: Budget, Personnel, and Management Systems Department.
About the Asian Development Bank

ADB aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than $2 a day. Despite many success stories, the region remains home to two thirds of the world’s poor. ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB’s vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB’s main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. ADB’s annual lending volume is typically about $6 billion, with technical assistance usually totaling about $180 million a year.

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