

MOPAN
2017-18 ASSESSMENTS

Organisational Performance Brief

**Asian Development Bank
(ADB)**

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ADB's performance at a glance

ADB has a clearly articulated strategic framework linked to its mandate.

As a leading multilateral development bank in the increasingly complex Asian development landscape, ADB is facing rapidly rising demand and dynamically evolving priorities on the part of its Developing Member Countries. Accordingly, the Bank is expected to show a high level of agility and the ability to respond. Despite these ongoing challenges, ADB's comparative advantage in financing and knowledge coupled across five core operational areas (infrastructure, environment, regional co-operation and integration, finance sector development and education) is well understood and articulated in Strategy 2020. Strategy 2020 and its cascading results framework help the Bank to support its wider normative frameworks and ultimately to fulfil its mandate. Strategy 2030, which was approved in July 2018, builds on this ten-year strategy and comes into force in 2019.

A "One ADB" approach is likely to help the Bank further adapt to the needs of the region, but its performance of non-sovereign operations remains a concern. There Strategy 2030 was developed based on the findings of annual Development Effectiveness Reviews and the 2014 Midterm Review conducted on Strategy 2020. This new strategy lays out operational priorities to overcome sector-based silos, not only by better integrating sovereign and non-sovereign lending, but also by promoting partnerships with the private sector. This "One ADB" approach places an increased emphasis on providing integrated solutions that combine expertise across the Bank, responding to rising demand for knowledge-intensive products. Developing Member Countries, and middle-income countries in particular, are experiencing rapid improvements in standards of living, increased economic development and better access to international capital markets. Accordingly, the Bank will need to adjust to its clients' changing needs. Initiatives such as "One ADB" are likely to help ADB stay demand-driven and relevant as a development partner in the region. Even so, ADB is currently struggling to attract the potential client base for the non-sovereign portfolio. Recent changes in the region's credit environment may also affect its relevance in the future.

ADB KEY FACTS

MISSION AND MANDATE: ADB's mission is to help achieve a prosperous, inclusive, resilient and sustainable Asia and the Pacific, while sustaining efforts to eradicate extreme poverty and improve the people's quality of life in its Developing Member Countries. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth and regional integration. In partnership with member governments, independent specialists and other financial institutions, ADB is focused on delivering projects in Developing Member Countries that create economic and development impact.

GOVERNANCE: ADB has 68 shareholders including 49 from the Asia and Pacific region. ADB's highest policy-making body is the Board of Governors, which comprises one representative from each member nation. The Governors elect 12 members to form the Board of Directors, which performs its duties full time at ADB headquarters. The Directors supervise ADB's financial statements, approve its administrative budget, and review and approve all policy documents and all loan, equity and technical assistance operations. The ADB President chairs the Board of Directors and heads a management team comprising six Vice-Presidents, who supervise the work of ADB's operational, administrative and knowledge departments.

STRUCTURE: The Bank is headquartered in Manila, Philippines. It has 31 field offices in Asia and the Pacific as well as representative offices in Washington DC, Frankfurt, Tokyo and Sydney. The Bank employs about 3 000 people, representing 60 of its 68 members.

FINANCE: ADB raises funds by issuing bonds on the world's capital markets. The Bank also relies on its members' contributions, retained earnings from their lending operations and the repayment of loans. In addition, the Bank provides loans and grants from a number of special funds. New commitments in 2018 reached USD 21.6 billion in loans and grants, exceeding the 2017 total of USD 19.7 billion. Of the 2018 total, private sector commitments saw a year-on-year growth of 37% to about USD 3.1 billion. ADB private sector operations also mobilised co-financing of USD 7.2 billion. Including official and commercial co-financing and technical assistance, ADB's total commitments in 2018 stood at USD 35.8 billion, representing a 13% increase on 2017.

ADB is set on an extended growth path after its balance sheet reform opened up a variety of opportunities.

Incorporating the equity and lending operations of the Asian Development Fund (ADF) into the Ordinary Capital Resources (OCR) balance sheet has significantly improved ADB's financial standing and lending capacity. ADF is a donor fund that provides concessional lending as well as grants, while OCR loans are close to market conditions. With the backing of its shareholders, ADB merged the equity and lending arm of ADF with the OCR balance sheet on 1 July 2017, tripling the equity of OCR. Whereas ADF remains a donor fund for grants, the new OCR scheme allows borrowing countries eligible for ADF loans to continue enjoying the same terms and conditions of ADF. As a consequence, the merger significantly improved ADB's room for lending and substantially advanced the Bank's operational flexibility amid rapidly changing demand from Developing Member Countries, many of which are experiencing dynamic growth and economic transitions. In 2017, ADB increased commitment and co-financing by 25% on the previous year to a record USD 31.8 billion.

Attention to non-sovereign private sector operations is critical to further the effectiveness of ADB.

The non-sovereign portfolio is a key area of ADB's strategic focus that aims to promote an enabling business environment. The Private Sector Operations Department has grown considerably and now has more than 220 staff members and a dedicated Vice-President. As the Bank shifts its focus from sovereign to non-sovereign operations and increases its efforts to mobilise greater resources for private sector development, the "One ADB" approach to bridge the divide between sovereign and non-sovereign operations has become increasingly crucial. Nevertheless, the performance of non-sovereign operations is low and declining: the disbursement ratio dropped to 32% and failed to reach the annual target in 2017. One reason is a significant rise in the number of approved projects which has led to an increase in the gross undisbursed amount and thereby to a lower disbursement ratio. Another reason is associated with the limited number of staff. Recruitment and retention for the private sector are challenging at resident missions, due to the low level of staff decentralisation in the Private Sector Operations Department. The lack of staff involved in guarantees, A/B syndication loans and risk transfer operations in resident missions is also affecting ADB's operations, a situation which is further aggravated by the absence of a comprehensive IT system to manage the processes involved. Lastly, ADB's non-sovereign lending to the private sector is guided by its private

sector development strategy, improvements to which are underway. ADB is currently revising its private sector operational plan which is fully aligned with the priority areas under Strategy 2030.

The decentralisation process has improved relevance and engagement, bringing the Bank closer to its clients.

The Country Partnership Strategy (CPS) is a package of financing and knowledge targeted at a Developing Member Country to address its specific needs. The ability to deliver such a targeted package is a key aspect of the Bank's comparative advantage. With the increasing emphasis on and demand for knowledge in Developing Member Countries, CPS has been recently revamped to better integrate knowledge management strategies. ADB has established Sector and Thematic Groups to reduce sector-based silos and enhance organisational cohesion. The Bank is also delegating functions and decision-making power to resident missions in Developing Member Countries to negotiate and implement CPS. As a result, more than half of its operational staff currently work at the field level and, according to the 2017 Development Effectiveness Review, resident missions are involved in 90% of sovereign operations. Staff interviews suggest that decentralisation has made resident missions more responsive to changing circumstances and specific needs, and that it has facilitated the timely sharing of technical and knowledge inputs. Overall, ADB has become increasingly systematic at deploying its knowledge assets to meet the needs of Developing Member Countries.

Integrating staffing and country systems into operational growth has been a challenge.

While decentralisation has generally advanced flexibility and boosted business processes, the operational growth resulting from the 2017 ADF/OCR merger has stretched ADB's staff. A significant proportion of additional staffing needs may have to be met through the optimisation of existing staff resources, a view underlined in the 2018 Annual Evaluation Review and widely echoed in staff interviews and survey responses. Attracting staff to resident missions remains a challenge, with resident missions enjoying only limited autonomy in staff deployment. Furthermore, the usage of country procurement and public financial management systems varies by resident mission and department, with no systematic approach as yet in place. The 2017 Development Effectiveness Review, for example, showed that 80% and 40% of sovereign operations were handled through country financial management systems and country procurement systems,

respectively. ADB has taken several steps to address challenges including through procurement reform and the introduction of results-based lending operations. Additionally, the Bank's corporate results framework monitors usage of ADB's public financial management systems. Country systems also exist to safeguard implementation and ensure monitoring although their usage is not tracked.

Balancing a strong internal control environment with speed of implementation is also an ongoing challenge. The Bank has an effective control framework termed the "circle of assurance", which comprises the Office of Anticorruption and Integrity, Risk Management, the Office of the Auditor General, the Ombudsperson and the Accountability Mechanism. In 2017, for example, the Office of Anticorruption and Integrity debarred 52 entities for policy violations. ADB has experienced difficulty, however, in balancing this apparatus with speed of implementation. Although efficiency gains are expected from decentralisation, the Bank's evaluations emphasise that efficient delivery is an area of concern. In 2011-16, implementation delays for sovereign projects averaged 18 months. A project performance rating methodology is used to indicate whether projects are on track and is tracked through the Bank's e-Operations platform. A disbursement ratio is used as an approximate measure of ADB's ability to implement projects at a rate commensurate with the approval rate for new projects. ADB's disbursement performance is mixed, showing improvement for sovereign and results-based lending operations, while the ratio for non-sovereign operations is higher than sovereign, but declining. Changes to project designs and procurement arrangements, in addition to inadequate capacity at the government level, are often cited as challenges slowing implementation. However, the Bank is still perceived as bureaucratic and centralised, and some of its partners noted that ADB's internal procedures were relatively cumbersome and inflexible. At present, various reform initiatives are underway to tackle these internal bottlenecks.

ADB has a sound results-based management system, but needs a clear evaluation policy for lesson learning across the organisation. The Bank has developed a cascading results framework: long-term development outcomes are tracked at the corporate level; development results articulated by CPS are monitored at the country level; and both output and outcome data are generated by Design and Monitoring Frameworks at the project level, with the e-Operations digital platform allowing for

real-time monitoring throughout the project cycle. All sector and thematic strategies have a results framework. The Independent Evaluation Department is characterised by a high degree of structural, operational and budgetary independence. What is more, the Development Effectiveness Review is published annually and used as the foundation for ADB's corporate planning cycle. Nevertheless, the 2017 Annual Evaluation Review concluded that organisation-wide lesson learning from evaluations was falling far short of potential despite such a high-quality monitoring system. During interviews, 20% of staff noted that they are aware of projects that failed to deliver on intended results due to the lack of lesson learning at the Bank. CPS and Design and Monitoring Frameworks are expected to take into account past interventions, but these are neither mandatory nor tracked systematically unlike with some other multilateral organisations. Evidence from staff interviews also suggested that the amount and quality of data entered into e-Operations is variable, which is likewise highlighted as a weakness in ADB's self-evaluation. The Bank has since improved its approach to developing, drafting and tracking evaluation recommendations. However, in order to establish a valuable feedback loop, the evaluation policy needs clear guidance and procedures.

That being said, the results framework incorporates cross-cutting issues in a generally satisfactory manner. For each cross-cutting issue, including gender, environmental sustainability and climate change and good governance, the Bank has a dedicated policy framework, operational plan and results framework to track progress made: a gender-mainstreaming approach is employed at the project level; environmental sustainability is ensured through safeguard implementation; and governance issues are supported by policy-based lending, technical assistance and governance risk assessments. While environmental sustainability and good governance are integrated into all projects, this is not the case with gender as only half of the projects are gender-mainstreamed. ADB's internal survey suggests that more human and financial resources may be necessary to strengthen the integration of gender. On a related note, the present gender imbalance in the workforce is concerning, as female staff are concentrated in operational rather than managerial positions. On the other hand, financing targets are met for both environmental sustainability and good governance. Overall, the performance of these cross-cutting issues is generally satisfactory, with the success rate of good governance through the provision of technical assistance reaching 86% against a target of 80%.

Key findings

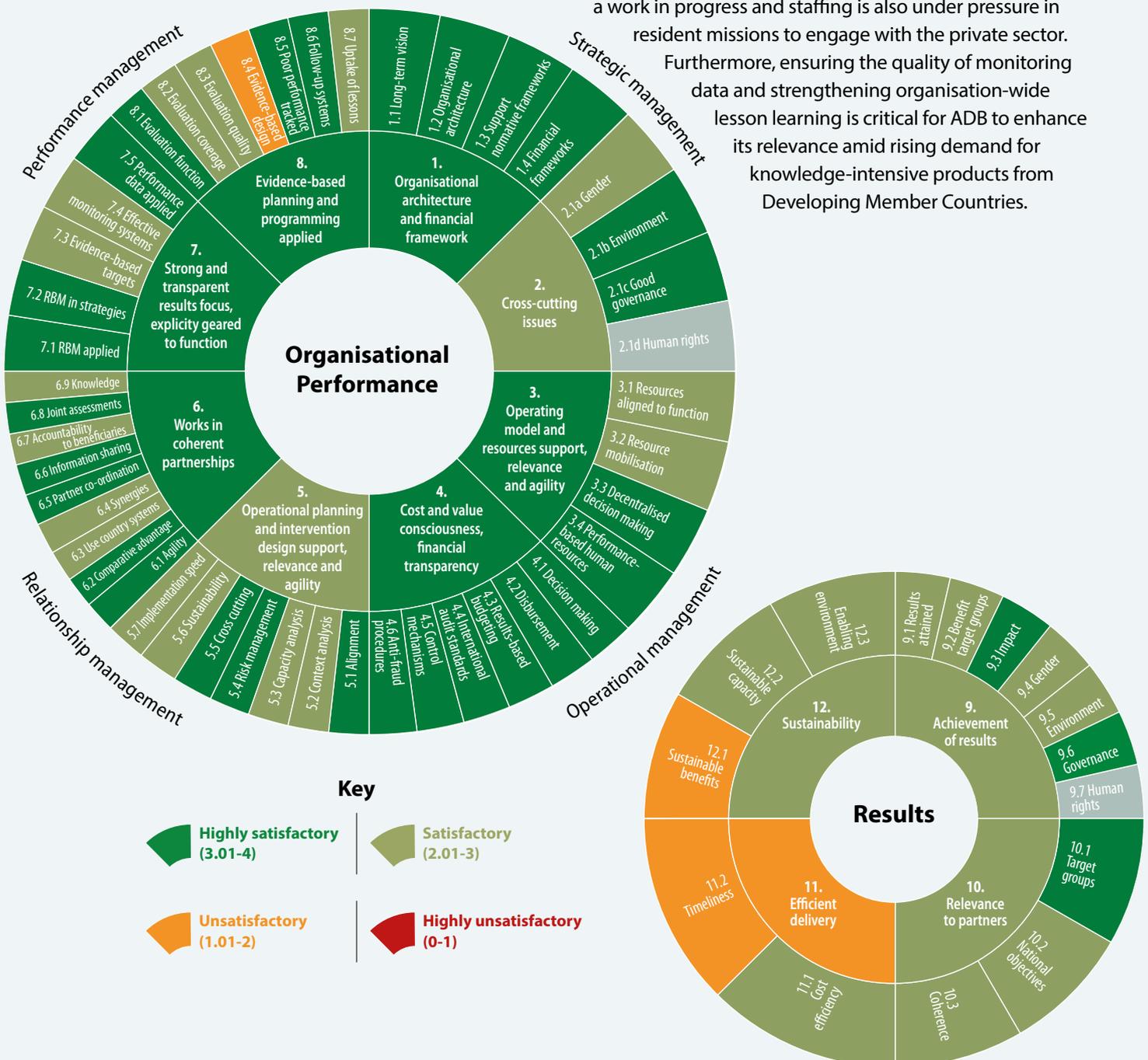
The MOPAN 2017-18 assessment finds that the Asian Development Bank has a clear strategic framework based on its comparative advantage of providing financing and knowledge as a package. Strategy 2030 is expected to succeed Strategy 2020 and aims to bridge sovereign and non-sovereign operations through a “One ADB” approach designed to better respond to the

needs of Developing Member Countries undergoing rapid economic development. The 2017 ADF/OCR merger has also helped the Bank navigate an extended growth path by improving lending capacity and flexibility.

However, ADB is facing difficulties in accommodating such organisational changes and sustaining relevance at the same time. Although decentralisation is bringing the Bank closer to its clients, speed of implementation remains a work in progress and staffing is also under pressure in resident missions to engage with the private sector.

Furthermore, ensuring the quality of monitoring data and strengthening organisation-wide lesson learning is critical for ADB to enhance its relevance amid rising demand for knowledge-intensive products from Developing Member Countries.

PERFORMANCE RATING SUMMARY



About this assessment

The Multilateral Organisation Performance Assessment Network (MOPAN) is a network of 18 countries¹ that share a common interest in assessing the effectiveness of the major multilateral organisations they fund, including UN agencies, international financial institutions and global funds. The Network generates, collects, analyses and presents relevant and credible information on the organisational and development effectiveness of the organisations it assesses. This knowledge base is intended to contribute to organisational learning within and among the organisations, their direct clients and partners, and other stakeholders. Network members use the reports for their own accountability needs and as a source of input for strategic decision-making.

ADB is one of the 14 organisations assessed by MOPAN in 2017-18. This was the fifth MOPAN assessment of ADB. Australia championed this assessment on behalf of the Network.

This brief accompanies the full assessment, published in 2019, which can be found on MOPAN's website at www.mopanonline.org. ADB's management response will be made available on the MOPAN website as well.

The assessment of performance covers the work of the ADB team. It addresses organisational systems, practices and behaviours, as well as results achieved during the period 2016 to mid-2018. It relies on three lines of evidence: a document review, interviews with staff and small groups, and an online partner survey.²

MOPAN's evidence lines for ADB

- Review of 90 documents
- 72 staff interviews / focus groups
- 41 partners surveyed in 4 countries

The MOPAN 3.0 methodology entails a framework of 12 key performance indicators and of micro-indicators. It comprises standards that characterise an effective multilateral organisation. More detail is provided in MOPAN's methodology manual.³

Organisations assessed by MOPAN in 2017-18:

- ADB
- GEF
- IFAD
- OHCHR
- UNESCO
- UNHCR
- WFP
- FAO
- GPE
- IOM
- UN Women
- UNFPA
- UNRWA
- WHO

1: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States – and two observers, New Zealand and the United Arab Emirates.

2: The online survey was conducted among partners of ADB in Bangladesh, Myanmar, Pakistan and Papua New Guinea.

3: Available at www.mopanonline.org