

Corporate
Evaluation Study

Asian Development Bank
DECENTRALIZATION
Progress and Operational Performance



Corporate Evaluation Study

**ASIAN DEVELOPMENT BANK
DECENTRALIZATION
Progress and Operational Performance**

Reference Number: SES:REG 2013-11
Independent Evaluation: CS-1

Independent
Evaluation  ADB

Note: In this report, "\$" refers to US dollars.

Director General	V. Thomas, Independent Evaluation Department (IED)
Officer-in-Charge	H. Hettige, Independent Evaluation Division 2, IED
Team leader	B. T. Nguyen, Senior Evaluation Specialist, IED
Team members	M. Gatti, Principal Evaluation Specialist, IED
	S. Palle Venkata, Evaluation Specialist, IED
	M. O. Nuestro, Evaluation Officer, IED
	J. Mendez-Santos, Senior Evaluation Assistant, IED

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

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, IED does not intend to make any judgment as to the legal or other status of any territory or area.

Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADO	–	Asian Development Outlook
APPR	–	Annual Portfolio Performance Report
BPMSD	–	Budget, Personnel, and Management Systems Department
CAPE	–	country assistance program evaluation
CTL	–	Controller’s Department
CPS	–	country partnership strategy
CWRD	–	Central and West Asia Department
DEfR	–	Development Effectiveness Review
DMC	–	developing member country
EARD	–	East Asia Department
ESW	–	economic and sector work
FCAS	–	fragile and conflict-affected situations
HQ	–	headquarters
IAE	–	internal administrative expenses
IED	–	Independent Evaluation Department
LIC	–	low-income country
MDB	–	multilateral development bank
MDG	–	millennium development goal
MIC	–	middle-income country
OIST	–	Office of Information Systems and Technology
OSFMD	–	Operations Services and Financial Management Department
PAI	–	project administration instruction
PARD	–	Pacific Department
PASS	–	Procurement Accreditation Skills Scheme
PCR	–	program/project completion report
PLCO	–	Pacific Liaison Coordination Office
RSDD	–	Regional and Sustainable Development Department
SAPE	–	sector assistance program evaluation
SARD	–	South Asia Department
SERD	–	Southeast Asia Department
SPSO	–	Pacific Subregional Office
TA	–	technical assistance

Contents

Acknowledgement	i
Foreword	iii
Executive Summary	v
Management Response	xv
Chair's Summary: Development Effectiveness Committee	xvii
Chapter 1: Introduction	
A. Regional Development Context	1
B. Evaluation Scope and Objective	2
C. Methods, Activities, and Limitations	3
Chapter 2: Decentralization Progress	
A. Decentralization Policy Initiatives	7
B. ADB's Decentralization Model	8
C. Lessons from Multilateral Development Banks	16
Chapter 3: Functional Performance and Operational Issues	
A. Performance of Resident Mission Functions	20
B. Operational Issues and Constraints	23
Chapter 4: Performance of ADB Operations	
A. Operational Effectiveness	30
B. Operational Efficiency	35
APPENDIXES:	
1. List of ADB Field Offices (as of June 2013)	44
2. Performance of Operational Effectiveness Indicators, 2012	45
3. Summary Estimation Results	46
4. List of Linked Documents	47
A1: Summary of Resident Mission Policy 2000	
A2: Resident Mission Activities, 2007 and 2012	
B1: Decentralization Objectives, Roles, and Policies of Comparable Agencies	
B2: Delegation of Work to Field Offices in Selected Multilateral Development Banks	
B3: Types of Hubs in Multilateral Development Banks	
C: Previous Reviews of Resident Mission Operations	
D: Performance of Resident Mission Functions	
E: Performance of Operational Effectiveness Indicators	
F1: Regression Analysis of Project Performance	
F2: Loans Processed by Resident Missions with Completion Reports, 2000–2012	

Acknowledgements

This evaluation study was prepared by a team led by Binh T. Nguyen, Senior Evaluation Specialist, Division 2, Independent Evaluation Department (IED), under the guidance of Hemamala Hettige, Senior Advisor, and the overall guidance and direction of Vinod Thomas, Director General. Team members included Marco Gatti, Srinivasan Palle Venkata, Maria Olivia Nuestro, and Jenelyn Mendez-Santos. Walter A. M. Kolkma and Valerie Reppelin-Hill reviewed the paper from within IED. Franklin D. De Guzman proof read the report. Michael Diza designed the cover.

Consultants engaged for the study were Magdalena S. Casuga (data, surveys, and summary responses), Erdene Dorjsuren (field mission, Mongolia), Aigul Dzhaichieva (interpretation, Kyrgyz Republic), Nils Fostvedt (background regional contexts, proof reading preliminary draft), Song Anh Nguyen (field mission, Viet Nam), Sumeet Patil (field mission, India), and Hubert Paulmer (field missions to seven case-study resident missions, oversight the surveys, key informant interviews, and preliminary analysis of survey outcomes).

Edgar A. Cua (Deputy Director General, East Asia Department) and V.B. Tulasidhar (Advisor, Regional and Sustainable Development Department) were the peer reviewers within the Asian Development Bank (ADB). Vinay Bhargava (Independent Consultant) was the external peer reviewer of the report. The team gratefully acknowledges the valuable comments received from them.

The team is grateful to the government officials, staff from development agencies, and various stakeholders for their participation in the surveys and interviews for this evaluation.

The team acknowledges and appreciates ADB staff in the case-study resident missions for their kind support and valuable inputs to this evaluation. The team is thankful for the comments the country directors provided during the ADB Country Directors' Forum in September 2013.

The team acknowledges and appreciates the various ADB staff and members of ADB's management and Board who participated in the surveys and/or gave interviews for this study.

Last, but not least, the team acknowledges and appreciates the comments received from various departments of the ADB. These have greatly improved the quality of the report. IED remains fully responsible for the report.

Foreword

Worldwide practices echo a belief that for a regional or global organization, locational decentralization of some of its work brings net benefits. The gains are seen to come from greater proximity to clients that helps in the design of operations and their delivery. Decentralization also presents financial costs, a potential dilution of the organization's unified strategy, and possible weakening of cross-institution knowledge sharing and access to global knowledge.

Given these benefits and costs, the optimal point of decentralization is rarely clear-cut, even as comparable organizations have settled further on the decentralization path than the Asian Development Bank (ADB). This evaluation does not establish an exact point for the institution—not least for lack of adequate data for the time span covered. Yet, the period 2000–2012 that saw a fourfold increase in resident mission staff gives information on what has and has not worked, suggesting clear areas for improvement.

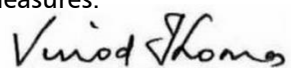
The central criterion for assessing decentralization in this report is its impact on development effectiveness. In this study, as elsewhere, no significant effect was found of team leader location per se on project success rating. At the same time, project performance was found to be positively and significantly correlated with project supervision, borrower's ownership and performance, experience of resident missions, project size, and country's political stability. These findings suggest aspects of decentralization policy that can improve operational effectiveness and efficiency.

First, delegating greater authority to the field for some more of the operational processing and support would seem to pay off—provided adequate investments are made in technical capacity development in resident missions. Currently, about 90% of project processing and 60% of project administration are led from headquarters.

Second, with clients valuing regional and global knowledge and with the knowledge departments having inherent economies of scale, the ADB-wide nature of the knowledge function has great value. But in strengthening it, the two-way interactions in tacit and other knowledge between headquarters and resident missions, including with local think tanks and partner institutions, must be tapped much more.

Third, recommendations on operations and knowledge have cost implications. Some innovations that allow greater delegation such as joint headquarters-resident mission staffing ventures or better national staff deployment would seem to be cost neutral. Relocating international staff positions to the field will likely add costs.

The Midterm Review of Strategy 2020 is an opportune moment to act on the benefits of a further delegation of operational responsibilities to the field and stronger connectivity between headquarters and resident missions in knowledge services. The benefits and costs of delegation or further decentralization can be factored in to ascertain the timing and sequencing of the needed measures.



Vinod Thomas
Director General
Independent Evaluation

Executive Summary

This evaluation is motivated by the changing needs of the Asian Development Bank's (ADB) clients and recent changes in regional development conditions. As ADB reviews how to better implement its Strategy 2020 at midterm, there is the opportunity to learn from its experience in decentralization and understand what improvements are needed for ADB to be more effective as a development institution. The evaluation also responds to the request made by donors to the Asian Development Fund (ADF) at the time of its latest replenishment (ADF XI).

Since 2000, ADB has introduced a number of changes to improve its operations in its developing member countries (DMCs). It started with approval of the resident mission policy in 2000 to expand the resident mission network—aiming to give ADB a stronger presence and country focus in the DMCs. The corporate reorganization of 2002 and the realignment of regional departments in 2006 were the two major structural changes to address internal organizational issues and realign ADB's work processes to be more country focused. The Strategy 2020 also committed ADB to be more responsive to borrowers' interests—to lower transaction costs for project preparation and implementation, reduce documentation requirements, and decentralize decision making to the resident missions.

In 2012, ADB had 24 resident missions, two regional offices (together referred to as resident missions), and an extended mission in Myanmar. About 23% of ADB staff and 35% of ADB active portfolio (\$21 billion) were under resident mission management.

Evaluation Scope and Approach

The evaluation focuses on the performance of ADB's decentralization for quality service delivery and development effectiveness and provides policy recommendations. Due to both time and data constraints, this is not a full-fledged assessment of all facets of decentralization. It does not make a full review of ADB's organizational structure and human resource policy.

Since ADB has not adopted a formal definition of decentralization, the evaluation uses a broad concept of decentralization as *a process of reallocating staff, budgets, activities, responsibilities, and authorities from headquarters to the field offices to increase the effectiveness and efficiency of ADB's services and operations in the DMCs through the preparation and implementation of resource management, country programs, and service and product delivery*. The evaluation covers the activities of 26 resident missions. It does not cover the extended mission in Myanmar and the resident mission in Bhutan, because these started operations only in August 2012 and March 2013, respectively. It does not cover the three representative offices in Europe, Japan, and North America, as they have a different operational focus.

The evaluation has three objectives. First, it reviews ADB's decentralization process in allocating staff, budgets, activities, responsibilities, and authorities between headquarters (HQ) and resident missions. Second, it assesses how the resident missions are performing the functions and activities delegated to them, and discusses issues that constrain ADB's effective operations under the current business model. Third, it

assesses whether further operational effectiveness and efficiency gains can be made, and, if so, how they can be made, given existing resource constraints.

The evaluation used a mixed-methods approach to triangulate qualitative and quantitative data collected from various sources. First, it reviewed relevant corporate policies, development effectiveness reports, past ADB reviews and evaluation studies, and related literature from comparators. Second, it conducted interviews with ADB HQ and resident mission staff, management and Board members, government officials and clients, and development partners. Third, it conducted online perception surveys of ADB HQ staff, resident mission staff, government and client agencies, and development partners. Fourth, it used data and self-assessments provided by resident missions. Fifth, it used administrative and operational data available from ADB databases. Finally, the evaluation team visited 10 countries covered under eight case study field offices in Australia, Azerbaijan, Fiji, India, Kyrgyz Republic, Mongolia, Nepal, and Viet Nam.

Key Findings

The focus here is on the three evaluation objectives—decentralization progress, performance of resident mission functions, and performance of ADB operations—to understand how further operational effectiveness and efficiency gains can be made through decentralization and delegation.

Decentralization Progress

ADB's decentralization to date has facilitated a significant expansion of its presence in the DMCs. From 2000 to 2012, the number of resident missions more than doubled from 13 to 27. Resident mission staff (including out-posted staff and excluding contractual staff) increased more than fourfold from 162 to 682 (from 8% to 23%). Resident mission total expenses increased from \$16.8 million to \$85.8 million (from 9% to 17%). Much of the recent increase was due to the 3-year workforce plan 2010–2012.

Resident missions currently perform all of the functions required in the resident mission policy as well as several additional functions specified in their Board establishment papers. As of end-2012, overall they performed more than twice the number of functions compared with those specified in their Board establishment papers.

There has been progress in expanding the resident mission network and activities in recent years, but the bulk of operations activities and authorities remain in HQ. Among these are about 90% of project processing and 60% of project administration, and most knowledge activities. For example, in 2012, resident missions processed 12% of loans and grants (20) and 16% of technical assistance (TA) operations (32), and administered 41% of loans and grants (355) and 20% of TAs (184).

In addition, authority for major procurements (61% of the contract value signed in 2011), disbursements, and safeguards is also at HQ. As of end-2012, about 77% of staff and 83% of ADB's total expenses were located in HQ. A simple comparison with similar regional multilateral development banks shows that ADB has among the lowest percentage of staff in the field and relatively fewer operational activities and authority delegated to its resident missions.

Performance of Resident Mission Functions

Perception surveys show that resident missions have been effectively performing their functions as specified in the resident mission policy. Yet, there is additional work to be done for ADB to improve country focus and quality of service delivery.

The large majority of respondents from governments and client agencies (88%) reported that the resident missions are “very useful” or “useful” as the first contact point of ADB in the DMCs. The presence of resident missions in the DMCs has helped raise ADB’s profile and country focus. This was also reflected in most country assistance program evaluations (20 of the 27) conducted in 15 countries during 2000–2012.

All the resident missions now take the lead in preparing country partnership strategies (CPSs), country programming, annual country operations business plans, and country portfolio quality management. They also take the responsibility to administer about 40% of the projects, which are delegated to them after about 2 years into implementation. With respect to the activities that resident missions are currently mandated to undertake, they are perceived to be doing well. Clients, who were asked to identify areas wherein resident missions perform well, considered them to be most effective in country programming and country portfolio management and project administration, with 60% and 55% of respondents, respectively, “strongly agreeing” or “agreeing” on them being effective in this role. About 50% of clients considered resident missions to be effective in their project and TA processing role. Knowledge activities received the least positive response—with 36% of government agencies and 26% of ADB staff identifying this as a strong area for resident missions.

Resident missions generally remain in a support role in processing and administering projects and TA. Resident mission staff members participate in HQ missions, providing backup and follow-up support on behalf of HQ staff. According to the evaluation of ADB knowledge products and services, resident missions’ role in knowledge activities is limited, and the knowledge channels between HQ and resident missions are currently weak. The resident missions’ knowledge activities focus on the preparation of *Asian Development Outlook* country chapters and updates. Some larger resident missions produce quarterly economic reports and information briefs, and in some cases, resident mission staff members of project teams prepare sector reviews as inputs during project processing.

During interviews with clients in the eight case study countries, respondents were asked to compare various services of ADB’s resident missions with those of other aid agencies in the country. ADB resident missions were rated highest in the depth of their country knowledge (86.4%). Resident mission’s services in project design and in economic and sector work received the least favorable responses (59.1% and 64.4%, respectively) and were rated between “average” and “good.”

Performance of ADB’s Operations

The 2012 Development Effectiveness Review (DEfR) assessed ADB’s operational effectiveness along six criteria based on 23 indicators. This evaluation considered areas for improvement to understand whether decentralization may be helpful to achieve operational effectiveness targets for ADB. At the criteria level, “quality of completed operations” and “finance transfer and mobilization” both received a *poor* rating for the organization. The first criterion pertains to success rates of ADB operations and CPSs,

and the second to disbursement rates of ADB operations and cofinance mobilization. The criterion “knowledge management” was rated *mixed*.

At the indicator level, ADB met the targets for 15 of the 23 indicators in 2012. Among the eight unmet indicators, important ones were: completed CPSs rated *successful*, completed sovereign and nonsovereign operations rated *successful*, positive perceptions of ADB effectiveness in reducing poverty, disbursement ratios for sovereign and nonsovereign operations, and external perceptions about ADB as an excellent source of knowledge on development issues. It appears that decentralization has a role to play in improving ADB performance in these target areas both at the criteria level and the indicator level.

ADB’s project success rate ranged between 51% and 76% during 2008–2012, compared with the DEfR target of 80%. The evaluation conducted regression analyses using 344 projects that had completion reports during 2000–2012. It found no significant effect of the project team leader location on project performance, as measured in projects’ overall *success, relevance, effectiveness, efficiency, and sustainability*. This is not surprising, as project success is dependent on many other factors. At the same time, the analysis found that ADB’s efforts in monitoring and oversight during project implementation, borrower’s project ownership and performance, experience of the resident mission at approval, project size, as well as country’s political stability have a positive and significant effect on project performance. This finding suggests that ADB can improve its project success with closer implementation monitoring and with design of suitable project size and choice of implementing institutions. It also suggests that the resident mission’s experience can be tapped to improve project success.

Twenty completion reports were available for projects processed by resident missions during 2000–2012. In comparing the success rate of projects processed by resident missions with those processed by HQ staff, seven emergency projects were excluded, since disbursement and other procedures are different for emergency projects. Eleven of 13 (84.6%) projects processed by resident missions were rated *successful*, compared with 192 of 302 (63.6%) projects processed by HQ staff. The small number of projects processed by resident missions is not sufficient to make statistical inferences regarding project success. However, this gives an impetus for revisiting the concern raised in the 2008 resident mission review, which cautioned against project processing in resident missions.

Several factors that led to project success were identified: maintaining active dialogue with the government and other stakeholders; authorizing advance procurement action; simplifying approval procedures for contract awards; and the relationship and trust built with the government that allows ADB staff to discuss design proposals and risks during implementation at an early stage. While these factors are important for all types of projects, they are crucial for public sector management projects, which constituted 8 of the 13 projects processed by resident missions. It is useful to consider processing certain types of projects or programs in resident missions—those for which close and frequent interaction with the country and understanding of its political economy are crucial to the success of the operation.

The evaluation assessed how efficient ADB is in its processes, and whether operational efficiency gains can be made and, if so, how. For this purpose, the evaluation used six indicators for operational process efficiency: project processing time, contract award ratio, contract processing time, disbursement ratio, number of projects with delays at

closing, and number of days of delayed closing. Of these indicators, two had targets for 2012, and the DEfR indicates that they were not met (project processing time: target 16 months, actual 21 months; disbursement ratio: target 23%, actual 18%).

For contracts above \$10 million, ADB targets reducing contracting time to 40 days by 2016. This will require significant improvements in current procurement procedures and practices. In 2011 and 2012, on average, ADB took from about 70 to 370 days to process a contract, and borrowers took from 60 to about 390 days to evaluate bids. It takes time for ADB to seek clarifications from executing agencies on bid evaluation reports.

For countries whose portfolio performance improved during 2007–2012, several specific resident mission activities that contributed to the improvements were cited in the resident mission information provided for this evaluation. They are (i) regular project review missions, monitoring, and follow-ups with executing and implementing agencies; (ii) presence of out-posted procurement specialists and national procurement officers in resident missions; (iii) refinements in procurement plans in harmonization with national procurement practices; (iv) resident missions' preview of withdrawal applications and delegation of initial processing of disbursement documents; and (v) improved project designs with consultation of resident missions and improved implementation after delegation. This suggests that ADB can reduce procurement and disbursement time by giving resident missions more important roles and authority in project implementation. ADB can develop the capacity in resident missions to improve procurement and disbursement activities.

The evaluation also assessed how efficient ADB is in using its staff and finances, and whether ADB can improve its financial efficiency and, if so, how. For this, the evaluation used three financial efficiency indicators: costs per staff (measured by internal administrative expenses per staff), portfolio per staff, and operating unit cost.

The evaluation estimated the costs of delegating project administration from HQ to a resident mission. Calculations based on some specific scenarios for 2012 indicated that, if international staff were transferred to resident missions the costs would increase particularly due to increased staff costs associated with a posting outside of HQ. Instead, if trained national experts were recruited for administering projects, there would be substantial savings from reduced mission and staff costs.

As compared with HQ, during 2007–2012 resident missions had lower costs per staff (between 57% and 67% of HQ), but also a smaller portfolio per staff (between 36% and 64% of HQ). Resident missions had lower operating unit costs than HQ during 2007–2010 (between 73% and 98%), reflecting the higher staff costs in the latter. On the other hand, resident missions had higher unit costs than HQ for 2011 and 2012 (128% and 147%, respectively) as the delegation of portfolio to resident missions did not keep pace with the growth in ADB's overall portfolio.

Operational Issues and Lessons

Perception surveys and interviews of ADB staff, governments, and client agencies highlighted the following issues and constraints to effective ADB services and operations.

Clients considered ADB's operational processes to be complicated and cumbersome. Clients' concerns about ADB's bureaucracy and complicated operation

processes were mirrored in ADB's 2009 Stakeholder Perception Survey and reiterated in ADB's 2012 Stakeholder Perception Survey. In both, ADB's greatest perceived weaknesses were "bureaucratic; inflexible; and slow in project implementation, monitoring, and efficiency." This comes from different departments/units having control over the project cycle. Currently, resident missions are responsible for country strategy, country programming, and country portfolio quality; sector divisions for project processing and project implementation oversight; and sector directors and/or country directors for small procurements (below \$10 million for goods and \$1 million for services), while the Operations Services and Financial Management Department (OSFMD) is responsible for large procurements. The Controller's Department is responsible for disbursements. The Regional and Sustainable Development Department is the final authority for project safeguard categorization and oversight of Category A projects during implementation. OSFMD is attempting ways to improve procurement processes through a procurement accreditation skills scheme and deployment of procurement specialists to regional department offices in HQ under a matrix reporting system.

Project delegation from HQ to resident missions during implementation affects policy dialogue and implementation activities. Projects are typically administered by HQ staff during the first year or two before they are delegated to resident missions (on average, 2.4 years for project loans between 2007 and 2012). Delegating project administration during implementation often breaks the continuity in policy dialogue between ADB and clients due to the change in project team leader. Although issues relating to changes of team leadership are not exclusive to delegated projects, this problem of continuity and policy dialogue becomes even more difficult when team leadership is passed from an HQ team leader to a resident mission team leader. Interviews with governments and agencies confirmed this concern. A 2011 World Bank study also indicated that the extent of project supervision and project task manager quality matter significantly for project performance. A 2012 Inter-American Development Bank study found a positive effect of the project team leader's location on the disbursement performance of projects approved since 2009.

Operational approaches vary little across regions and individual DMCs. While ADB has different sizes and types of resident missions, functionally they are quite similar in delegated authority and assignment of sector specialists. The region's development environment has changed significantly over the past decade, and ADB's clients include a diverse array of countries at different development stages with different development needs and priorities. These include low-income countries (LICs), which continue to need concessional aid, but with adjustments to traditional support packages. There are also fragile and conflict-affected situations (FCAS), which require support with special designs including financing instruments and the business process. At the same time, some countries have become middle-income countries (MICs). In some MICs local skills and talents are available, and stakeholders are increasingly sophisticated and competent. In some large MICs, clients seek stronger regional and global knowledge sharing, and stronger HQ-resident mission interactions, including with local think tanks and partner institutions, are needed to produce just-in-time knowledge products. Given the increasing heterogeneity of DMCs, there is a need for a differentiated approach to increase country focus. Out-posting of staff to work with one or more DMCs in a region is being tried; this can be increased on the basis of a monitoring of the costs and benefits.

Staff in resident missions have concerns about career progression and differentiation in the assignment of responsibility. Attracting and retaining experts

and talented staff in the resident missions remain a challenge. First, ADB needs a systematic process for international staff to rotate from resident missions back to HQ, reducing their apprehension about the career implications of resident mission postings. Unlike in some other multilateral development banks, ADB does not have a system of rewarding resident mission postings as career growth opportunities. Second, national staff members do not feel fully recognized as technical experts of their fields. They also have limited career progression because of position level bandwidth and limited training opportunities. Third, the resident mission national staff members are not effectively empowered to use their technical capacity. Much more technical responsibility and authority can be given to them. Other development partners have found that they can give technical responsibilities to national staff more at par with international staff.

Resident missions have concerns about information technology. ADB has made substantial progress in the use of information technology. Currently 100% of resident missions have videoconference facilities and access to online information and resources from HQ. However, resident mission staff say that eOperations could have more professional and user-friendly formats and interfaces and need to take into account the specific time required for uploading project data. The feedback from resident missions is that eTrip has been designed based on HQ travel arrangements and does not reflect in-country travel needs and conditions. Some problems get aggravated due to network connectivity or poor end-user computing infrastructure. Several of these issues can be addressed through change management by raising awareness to enable staff to make smoother transitions from traditional systems. Others are expected to be resolved through development of a DMC portal, wireless connections to resident missions and hub training.

Recommendations

ADB's decentralization has to date facilitated a significant expansion of the resident mission network in the DMCs. This has helped raise ADB's profile and country focus. For greater operational effectiveness and efficiency, ADB may consider moving to the next phase of decentralization to empower resident missions with more core business activities, responsibilities, and authority.

For greater country focus, the evaluation envisages an integrated approach to decentralization with varying degrees of delegation of activities and authority across resident missions and different corporate units. New approaches may mean increased or reduced cost or just transfer of the location where the costs are incurred. To be effective, the costs and benefits of a new approach need to be monitored carefully.

The evaluation recommends that regional departments take a differentiated approach to decentralizing operations to meet the diverse regional development contexts, demands, and priorities of LICs, FCAS, and MICs. Direct operations support departments will need to adopt different approaches and schemes to increasingly delegate functions and activities to regional departments in HQ and to resident missions while retaining their corporate quality-standard oversight and fiduciary risk-control functions. Knowledge departments with inherent economies of scale will have to strengthen knowledge channels across the institution with more HQ-resident mission interactions and resident mission engagement in knowledge activities for better identification, generation, and sharing of knowledge.

Strengthen the technical capacity of resident missions and delegate more operational responsibility to them, in particular project and TA processing and administration. For this, resident missions need to attract sector specialists, especially for sectors in which ADB is the lead development partner. For cost effectiveness considerations, national experts in countries where such skills are available may be placed in resident missions as vacancies open up. Some staff positions that are vacant in HQ could be moved to resident missions, especially where portfolios are large, while giving more recognition and operational responsibility to experienced resident mission national staff. In addition, ADB may refine its human resource policy to provide more incentives for international staff to rotate between HQ and resident missions as career progression steps, and give national staff more technical responsibilities with more career opportunities.

Differentiate the types of resident missions to enable ADB operations and business processes to be more relevant and responsive to different types of countries, development contexts, and operational priorities. Below are three options. While some of these measures are already being used in some cases, the evaluation recommends that ADB use them more, as applicable.

- (i) For areas far from HQ (e.g., the Pacific, Central and West Asia), to be able to respond quickly to DMC needs and priorities and to save travel time and costs, ADB can consider regional hubs (real and virtual) to house selected sector specialists from key sectors, and procurement, disbursement, and safeguard specialists with regional responsibilities, instead of locating them mostly in HQ, as is currently the case.
- (ii) For smaller, less developed, and geographically scattered DMCs (e.g., Pacific islands, FCAS), to increase ADB presence for more timely response to local needs and effective oversight of project implementation, while meeting reasonable cost efficiency and productivity requirements, ADB needs to extend the number of joint offices with other development partners, or to open satellite offices with a reporting line to a regional office or to a larger resident mission in the vicinity.
- (iii) For other DMCs with a large geographical area and a large portfolio (e.g., India, Indonesia, Pakistan, People's Republic of China), ADB may consider extending its local presence to other locations, in addition to the main resident mission office, to improve oversight and supervision of ongoing projects or to coordinate assistance in emergency situations or in case of natural disasters.

Delegate direct operational support functions to regional departments or resident missions by increasing their capacity to undertake these functions. For resident missions with significant portfolios, the direct operations support departments should increasingly delegate their activities and responsibilities (procurement, disbursement, and safeguards) to the regional departments, which are responsible for the successes of their operations. This may be done by out-posting staff and/or transferring authority to resident missions or regional hubs or by placing dedicated staff with support functions under the management of each region. Using a risk-based approach, the capacity and authority of such staff may be enhanced by extending opportunities for training. A gradual approach with close monitoring would be cost effective and would enable delegation of projects to resident missions much earlier than is currently done.

Associated fiduciary risks should be considered carefully, and more oversight mechanisms to maintain corporate standards need to be put in place.

Increase HQ-resident mission connectivity and coordination and resident missions' participation in knowledge activities. Resident missions are ideal for identifying local knowledge demand and also for sharing knowledge products and services across DMCs. However, as found in this evaluation and also highlighted in the 2012 evaluation of knowledge products and services, the knowledge channels between ADB HQ and resident missions are currently weak, because resident missions are often not sufficiently involved. Two options for strengthening knowledge services are highlighted:

- (i) Increase resident mission participation in the communities of practice and give resident missions a larger role in partnering with local think tanks and in coordinating joint knowledge activities with in-country partners to avoid duplication of knowledge efforts and to fill critical knowledge gaps in the DMCs.
- (ii) Increase the 2-way interactions between HQ and resident missions and internal partnerships across knowledge departments, operations departments, and resident missions to maintain a connection with current real-time sector and thematic knowledge activities and to facilitate knowledge production and use among HQ, development partners, and other resident missions.

Management Response

On 7 November 2013, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management.

I. General Comments

1. We welcome the Corporate Evaluation Study on Asian Development Bank (ADB) Decentralization Progress and Operational Performance (the Study). The timing of the Study is appropriate as ADB is conducting a midterm review of Strategy 2020, its long-term strategic framework. A key objective of this review is to explore ways in which ADB can further enhance its relevance and responsiveness to its clients.

2. We recognize the complexity of the topic that the Study attempts to analyze. We appreciate that the Study takes on board a number of our earlier comments provided during the interdepartmental review process, in particular with respect to the model of close Headquarter (HQ) and Resident Mission (RM) collaboration on programming, design, implementation and monitoring and evaluation of operations.

3. The Study recognizes that ADB's decentralization to date has facilitated a significant expansion of its presence in its developing member countries (DMCs). It notes that RMs currently perform all of the functions required in the RM Policy as well as several additional functions specified in their Board establishment papers.

4. The study finds anecdotal evidence that suggests a correlation between decentralization and operational effectiveness and efficiency, but is not able to establish a firm causality. Indeed, analysis presented in the study found no significant effect of the project team leader location on project performance. Furthermore, consideration needs to be given to the cost implications of any further decentralization. The experiences of other international financial institutions have also shown that decentralization can be quite costly.

II. Specific Comments on the Recommendations

5. **Recommendation 1 – Strengthen the technical capacity of RMs and delegate more operational responsibility to them, in particular project and technical assistance processing and administration.** We agree with the intent of the recommendation to ensure sufficient sector specialist presence to meet country sector priorities and portfolio support needs. This pertains not only to the number of staff located in RMs, but more importantly, their capacity and responsibilities. However, budgetary implications also need to be carefully assessed. As the Study indicates, shifting staff positions from ADB HQ to RMs may result in additional costs, which under the current budget-constrained environment might not be feasible.

6. In any event, several regional departments (RDs) are already implementing this recommendation through outposting of HQ sector division staff to RMs, as well as hiring in RMs of international and national sector specialists for sector and thematic areas as determined by the focus of the Country Partnership Strategy (CPS) as well as specific portfolio performance requirements.

7. We believe that there could be benefits from further delegation of processing and implementation of projects. However, ADB is a relatively small institution, and sector specialists generally work on more than one country. Transferring sector specialists to RMs may result in further fragmentation of expertise and loss of synergies across the board.

8. **Recommendation 2 – Differentiate the types of RMs to enable ADB operations and business processes to be more relevant and responsive to different types of countries, development contexts, and operational priorities.** We agree. Regional hubs, such as our Pacific Liaison and Coordination Office in Sydney have been established as feasible and are being explored in a number of RDs. Extended missions to further strengthen country presence have been established in the past as such needs arose (e.g. in the wake of natural disasters).

9. **Recommendation 3 – Delegate direct operational support functions to RDs or RMs by increasing their capacity to undertake these functions.** We agree in principle. Procurement, disbursement and safeguards are areas where quick feedback is often required by DMCs, and RMs could play an important role in addressing these issues. We also would like to note that the Operations Services and Financial Management Department has placed four of its procurement staff to the front offices in the RDs, who provide upstream support and help coordinate procurement issues on a day to day basis.

10. However, caution needs to be exercised in cases where the RD's HQ sector specialists, who often cover several DMCs, are needed to manage a set of complex projects or a particular aspect of projects such as safeguards. The decision to delegate such function to RMs needs to be made on a case by case basis in line with the mix of expertise needed at HQ and in RMs to better manage project preparation and implementation of portfolios.

11. Further decentralization of support department functions should also be explored with due consideration of balancing costs and benefits and after taking into account technical features of different services particularly under evolving IT environment. For example, delegation of disbursement function to RMs to achieve better client service has gradually been expanded since 2000 with due consideration of fiduciary control requirements and operational efficiency. Further improvement of efficiency and client service in disbursement operation could be sought when the new IT system for disbursement is rolled out, which will enable the borrowers to submit withdrawal applications electronically to ADB.

12. **Recommendation 4 – Increase HQ-resident mission connectivity and coordination and RMs' participation in knowledge activities.** We agree that practical means need to be sought to better link RM staff to HQ-based Communities of Practice and other HQ knowledge activities.

13. It needs to be recognized that RMs are increasingly coordinating more knowledge management activities at the country level through the preparation of Country Knowledge Plans based on CPS. They are also actively being involved in the preparation of country related and thematic knowledge products as well as knowledge sharing and dissemination at the country level, including for knowledge embedded in projects.

Chair's Summary: Development Effectiveness Committee

1. Development Effectiveness Committee (DEC) discussed the evaluation report on ADB's decentralization which pointed out that the bulk of ADB's activities and decision making authority are centralized in headquarters (HQ) in comparison with similar regional development banks. The evaluation found no direct linkage between the team leader location and project success rating. However, the report found clear links between project performance and the quality of ADB project supervision, borrower ownership and performance, experience of resident missions (RMs), project size and country's political stability. Also, RM staff and stakeholders revealed several areas where RM involvement contributed to improved project processing and implementation. Management generally agreed with the recommendations, with some reservations on (i) the extent of outpostting operational support staff to RMs; (ii) the presence of sector specialists in the field; (iii) follow-up supervision and aspects of disbursement; and (iv) costs associated to decentralization.

2. **Goal of decentralization.** DEC welcomed the evaluation report stressing the usefulness of a historical perspective of ADB's organizational development. While members noted ADB's progress in situating more RMs and increasing field office staff, they also inquired about the goal of ADB's decentralization process, and whether there was a policy or target from which to measure progress. Management responded that the goal was to improve ADB's country focus, although it was recognized that the current regional department structure contributed to the perception of ADB being composed by a group of silos or five small regional banks. DEC, IED and Management agreed that the midterm review of Strategy 2020 would be a good opportunity to address these concerns and to clarify how decentralization could further contribute to stronger portfolio outcomes. DEC members were of the view that if decentralization helps ADB achieve better development results, then a continued effort should be made to strengthen it.

3. **Delegating authority and decision making.** DEC members stressed that decentralization is not just about moving people to the field but also about increasing the scope of responsibility and accountability for RMs. Members agreed that RMs should have a greater role in project and program implementation and monitoring. DEC flagged the observation that while staffing and the number of RMs have increased, ADB has not gone far enough in delegating its portfolio with the bulk of project processing and administration and knowledge work remaining HQ centered. Management agreed that more authority is needed on the ground and that certain tasks are already delegated and that the element of trust must be addressed further. In addition, it was noted that the diversity of tasks assigned to RMs (relationship management, team management, programming, outreach, project management, disbursements, processing, and research, among others) is a complex challenge given the constrained staff resources. A DEC member observed that 50% of RM tasks involved assisting HQ staff on mission and noted that this may not be the best use of limited staff resources. DEC members were of the view that there is scope to improve RM capacity for procurement, disbursement,

safeguards, and knowledge, while noting existing Management efforts such as the procurement accreditation skills scheme and CWRD's joint venture model.

4. **Outposting of staff and greater use of technology.** Recognizing the cost implications of operations and knowledge activities, DEC members inquired about the status of outposting HQ staff. Management clarified that the decision to outpost instead of allocate staff to an RM came from the regional hub concept, following the three year transformation exercise. The regional hub concept provided flexibility to adjust staffing based on the portfolio of the country concerned while allowing sector specialists to work in more than one country. Management mentioned that a number of staff from non-regional departments such as OSFMD, PSOD, OGC and RSDD were outposted to RMs, although there is now greater pressure to have a lean structure in RMs and reduce costs related to staff redeployment. DEC members encouraged Management to maximize the use of video conferencing facilities and information technology systems to reduce costs, as well as engaging in partnerships with local think tanks.

5. **Field office experience.** Some DEC members stressed that field experience should be part of ADB's career development, especially if staff would like to progress to more senior positions. Management mentioned that it is moving toward the direction of requiring field office experience for operational staff before they are promoted to senior positions. This requirement has not been formalized and there are plans to consider more staff incentives to entice them to work in RMs. Staff are generally concerned that moving to RMs makes it more difficult for them to return to HQ. DEC agreed to refer this issue to the Human Resources Committee for possible discussion. A DEC member also encouraged BPMSD to make timely appointments and avoid gaps, especially for senior positions in RMs.

6. **Downward trend on portfolio delegation.** DEC members cited the decline on portfolio administered by RMs in 2011 and 2012, and expressed concerns about waning interest on decentralization and the fact that projects are only delegated two years after processing. A DEC member shared his experience from a bilateral organization where project implementation is immediately delegated to the RM after approval except in exceptional circumstances (i.e. complex or politically sensitive projects). Management assured DEC that decentralization is still in full course but there are extenuating circumstances which often make it tougher to delegate projects immediately to the RM. However, Management recognized that there is scope for improvement in deregulating business processes by cutting down on bureaucracy without sacrificing checks and balances.

7. **Concluding remarks.** DEC members supported IED's recommendation to revisit the RM policy and urged Management and IED to explore a more efficient way to evaluate decentralization performance. DEC members likewise recognized that there is no "one size fits all" model for decentralization and urged Management to pursue different approaches to meet different development contexts or to explore pilot countries in determining the most effective way to decentralize business processes. DEC also noted that development effectiveness should not be framed solely within the lens of HQ-RM relations.

CHAPTER 1

Introduction

1. This independent evaluation study is conducted by the Independent Evaluation Department (IED) of the Asian Development Bank (ADB). It is motivated by the changing needs of the ADB's clients and recent changes in regional development conditions. It also responds to the 2012 request of donors to the Asian Development Fund (ADF) at the time of its latest replenishment (ADF XI).

A. Regional Development Context

2. The developing Asia and Pacific region in which ADB operates has changed significantly over the past decade. Driven by continuing economic growth, the region has become economically much wealthier with higher gross domestic product per capita and lower poverty incidence levels. However, the region's major challenge continues to be reducing poverty and reaching the Millennium Development Goals (MDGs), as the region still has over 800 million people living on less than \$1.25 a day and progress on many non-income poverty indicators remains insufficient.

3. The region now faces new and evolving development challenges, including rising income inequality, weak governance and institutional capacity, and increasing pressures on the environment. ADB's clients now include a diverse array of countries at different development stages with different development needs and priorities. Low-income countries (LICs), while continuing to need concessional aid, require adjustments to the traditional support packages. Fragile and conflict-affected situations (FCAS) require support with special designs including financing instruments and the business process. At the same time, some countries have become middle-income countries (MICs). In some large MICs, governments and clients are increasingly competent and demand more sophisticated services including cutting-edge knowledge and timely policy advice.

4. To be relevant and responsive, development agencies have increasingly become agents for change, working in partnership to provide individual countries with more tailor-made support to address their particular priorities and areas of concern for maximum development effectiveness. Project success requires increased stakeholder involvement, local participation, and ownership of a development strategy and individual projects. Experience from various organizations shows that field offices help improve country focus, responsiveness to local needs, and the speed of decision making. Multilateral development banks (MDBs) and other aid agencies have sharpened their strategic focus and adopted changes to their business processes and operational approaches including the location of resources, responsibility, and authority. Many MDBs have taken steps to decentralize their operations over the past 10–15 years (Figure 1).

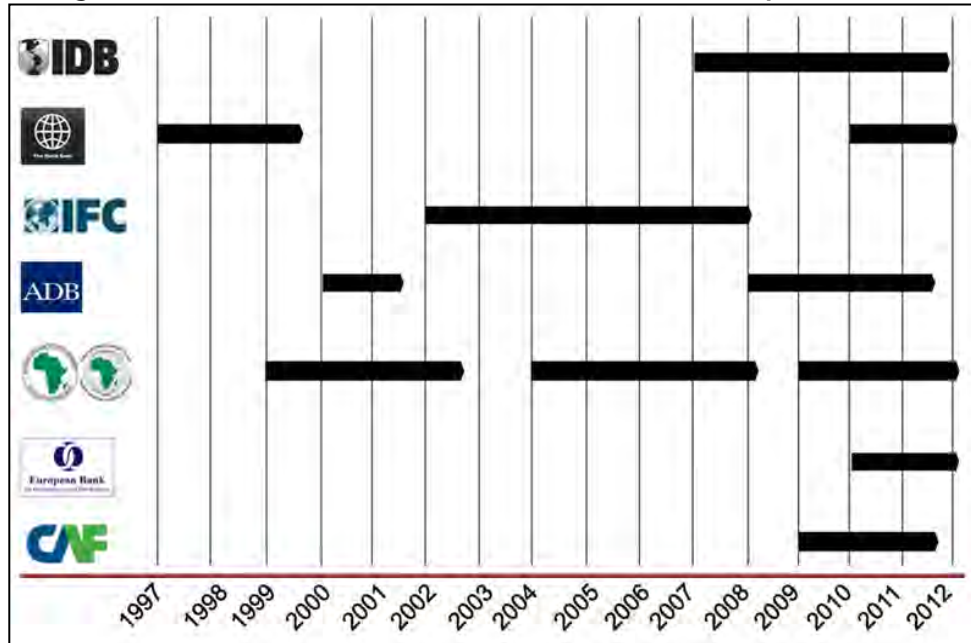
5. In order to overcome internal weaknesses and to increase synergies among ADB activities, ADB's Strategy 2020 committed ADB to improving its institutional structure

ADB's clients now include a diverse array of countries at different development stages with different development needs and priorities

Many MDBs have taken steps to decentralize their operations over the past 10–15 years

and organizational arrangements.¹ Strategy 2020 committed ADB to be more responsive to the borrowers' interests by lowering transaction costs for project preparation and implementation, reducing documentation requirements, and decentralizing decision making to the resident missions.

Figure 1: Decentralization Process in Multilateral Development Banks



ADB = Asian Development Bank; AfDB = African Development Bank, CAF = Development Bank of Latin America; EBRD = European Bank for Reconstruction and Development, IFC = International Finance Corporation; IDB = Inter-American Development Bank, WB = World Bank.

Source: Dalberg. 2012. *Decentralization Experiences at Multilateral Development Banks: Summary of Findings for Contributors to Dalberg's Research*. Powerpoint presentation.

The evaluation focuses on the performance of ADB's decentralization to date for quality service delivery and development effectiveness

B. Evaluation Scope and Objective

6. The evaluation focuses on the performance of ADB's decentralization to date for quality service delivery and development effectiveness and to provide policy recommendations for ADB. Due to both time and data constraints, this is not a full-fledged assessment of all facets of decentralization. It does not make a full review of ADB's organizational structure and human resource policy.

7. Since ADB has not adopted a formal definition of decentralization, the evaluation uses a broad concept of decentralization as *a process of reallocating staff, budgets, activities, responsibilities, and authorities from headquarters (HQ) to the field offices for ADB's effective services and operations in the developing member countries (DMCs) through the preparation and implementation of resource management, country programs, and service and product delivery.*²

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila. p. 25.

² This definition builds upon the following:

- S. G. Cheema and D. A. Rondinelli. 1983. *Decentralization and Development: Policy Implementation in Developing Countries*. Beverly Hills.
- African Development Bank. 2008. *Evaluation of the Decentralization Strategy and Process in the African Development Bank*. Tunis.

8. The evaluation has three objectives. First, it reviews ADB's decentralization process in allocating staff, budgets, activities, responsibilities, and authorities between HQ and resident missions. Second, it assesses how the resident missions are performing the functions and activities delegated to them, and discusses issues that constraint ADB's effective operations under the current business model. Third, it assesses whether further operational effectiveness and efficiency gains can be made, and, if so, how they can be made, given the existing resource constraints.

9. As of end 2012, ADB had 24 resident missions, 2 regional offices in the Pacific, 1 extended mission in Myanmar, and 3 representative offices in Europe, Japan, and North America.³ A list of ADB's current field offices and their staff composition are in Appendix 1. This evaluation covers activities of 24 resident missions and 2 regional offices (together referred to as resident missions in this report). It does not include the activities of the Bhutan Resident Mission and the extended mission in Myanmar, because these started operation only in March 2013 and August 2012, respectively. It also does not include activities of the three representative offices in Europe, Japan, and North America, as they have a different operational focus.

This evaluation covers activities of 24 resident missions and 2 regional offices

C. Methods, Activities, and Limitations

10. **Evaluation Method.** The evaluation uses a mixed-methods approach to triangulate qualitative and quantitative data collected from various sources. It takes stock of ADB's policies since 2000 that have contributed to ADB's current decentralization model. It reviews existing reports and evaluation studies: country assistance program evaluations (CAPEs), sector assistance program evaluations (SAPEs), project/program completion reports (PCRs), PCR validation reports, and project/program performance evaluation reports. It draws on the findings of IED's 2013 Annual Evaluation Review, ADB's Development Effectiveness Reviews (DEfRs), Annual Portfolio Performance Reports (APPRs), review of ADB's 2002 reorganization after one year, reviews of resident mission activities in 2002 and 2008, and independent evaluation completed in 2007.⁴

11. Assessments of resident mission performance are based on self-assessments and data provided by the resident missions, and responses to online perception surveys

- World Bank. 2008. *Decentralization in Client Countries: An Evaluation of World Bank Support*. Washington, D.C.

³ In addition, ADB co-operates with the World Bank nine development coordination offices in the Pacific (Cook Islands, Federated States of Micronesia, Kiribati, Palau, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, and Vanuatu). ADB either pays for the space in some cases or for the employees in others, but has no staff in these offices. ADB also opened a new resident mission in Bhutan in March 2013.

⁴ IED. 2013. *Annual Report. 2013 Annual Evaluation Review*. Manila: ADB.
 ADB. 2013. *Development Effectiveness Review: 2012 Report*. Manila.
 ADB. 2012. *Development Effectiveness Review: 2011 Report*. Manila.
 ADB. 2012. *Annual Portfolio Performance Report*. Manila.
 ADB. 2011. *Annual Portfolio Performance Report*. Manila.
 ADB. 2008. *Review of Resident Mission Operations*. Manila.
 IED. 2007. *Resident Mission Policy and Related Operations: Delivering Services to Clients*. Manila: ADB.
 ADB. 2003. *Implementation of the Reorganization of the Asian Development Bank. A Review of Progress after One Year*. Manila.
 ADB. 2002. *Review of Progress in Implementation of the Resident Mission Policy*. Manila.

and interviews of ADB staff, governments and clients, and development partners.⁵ Of the 26 resident missions covered in this evaluation, 25 provided information templates.⁶ Of the 2,012 stakeholders to whom the questionnaires were sent through the instrument Survey Monkey, 406 (20.2%) responded (Table 1). Semi-structured interviews were conducted with 45 ADB HQ staff, 63 resident mission staff, 119 government staff and clients, and 54 development partners, to provide ideas on how client orientation and country focus can be improved. Finally, the evaluation also draws on the discussions of its findings during the ADB's Country Directors' Forum held in September 2013.⁷

Table 1: Perception Survey Response Rates

Survey Respondents	Total Targeted	Total Responded	Response Rate (%)
ADB HQ Staff ^a	906	214	23.6
ADB RM Staff ^b	395	131	33.2
Government Agencies ^c	570	56	9.8
Development Partners ^d	141	5	3.5
Total	2,012	406	20.2

ADB = Asian Development Bank, HQ = headquarters, RM = resident mission.

^a ADB HQ staff include international and national staff from 5 regional departments; Budget, Personnel, and Management Systems Department; Controller's Department; Office of the General Counsel; Operations Services and Financial Management Department; Strategy and Policy Department; Regional and Sustainable Development Department.

^b ADB RM staff include all international and national staff in resident missions.

^c Government agencies are contact persons in government ministries, project executing and implementing agencies with email addresses, generated from ADB's eOperations or were provided by resident missions.

^d Development partners are aid agencies with contact emails available from IED's 2007 evaluation or were provided by resident missions or their websites.

Source: The evaluation team.

Evaluation used eight case study countries to supplement information from other sources

12. Assessments of ADB's operational effectiveness and efficiency are based on various ADB administrative and operational databases and the information templates resident missions provided. In assessing factors influencing project success rate, the evaluation uses Probit and Ordered Probit regression analyses based on IED's data on 344 completed projects approved since 2000 with PCRs prepared up to 2012. In addition, the evaluation also reviews the sample of 20 completed projects that were processed and administered by resident missions during 2000–2012.

13. **Case Study Resident Missions.** The evaluation uses eight case study resident missions to provide supplementary on-the-ground views and assessments of resident mission operations. The case study resident missions were selected to reflect a relative balance between the functions they performed, type of office (i.e., country, regional, liaison and coordination, and joint-venture), geographic coverage of the five operational regions, and development contexts in which they operate (i.e., country income level, portfolio size, financing sources, and financing modalities). The eight case study resident missions are Azerbaijan, India, the Kyrgyz Republic, Mongolia, Nepal, Pacific Liaison and Coordination Office (PLCO), Pacific Subregional Office (SPSO), and Viet Nam. Together, the eight case study resident missions represent about one-third of the total resident mission staff and one-third of the total resident mission portfolio (Table 2). During the country visits to PLCO and SPSO, the evaluation team also visited

⁵ Resident mission information template, perception survey questionnaires, and interview guides are available upon request.

⁶ Except the Pacific Subregional Office in Suva, Fiji (SPSO).

⁷ ADB Country Directors' Forum. 23–25 September 2013. Manila.

Solomon Islands (covered by PLCO) and Tuvalu (covered by SPSO), making 10 the total number of countries visited.

Table 2: Case study Resident Missions (as of December 2012)

Resident Mission	Start of Operation	Number of Staff				Portfolio (\$ millions)
		IS	NS	AS	Total	
Azerbaijan	Nov 2004	1	4	1	6	1,185.07
India	Dec 1992	11	29	31	71	10,492.80
Kyrgyz Republic	Apr 2000	2	5	5	12	270.80
Mongolia	Aug 2001	3	8	5	16	365.60
Nepal	Nov 1989	4	17	15	36	1,235.91
PLCO	Aug 2005	3	6	5	14	143.38
SPSO	Jun 2004	5	8	10	23	251.11
Viet Nam	Feb 1997	7	17	15	39	7,800.89
Total		36	94	87	217	21,745.56
Percent to RM Total		31.0	34.6	33.9	33.6	36.3

AS = administrative staff; IS = international staff, NS = national staff; PLCO = Pacific Liaison and Coordination Office in Sydney, Australia; RM = resident mission; SPSO = Pacific Subregional Office in Suva, Fiji.

Source: The evaluation team compilation from Budget, Personnel, and Management Systems Department administrative data and Operations Services and Financial Management Department portfolio data.

14. In each case study country visit, the evaluation team met with ADB's country director and/or deputy country director, international, national, and administrative staff; officials from relevant government line ministries and executing and implementing agencies; and key development partners. For each group, a semi-structured interview guide was used to conduct interviews.⁸ In total, the evaluation team met and interviewed 236 persons (Table 3).

Table 3: Persons Met during Field Missions

Resident Mission	RM Staff	Government Staff	Development Partners	Total
Azerbaijan	5	6	5	16
India	9	6	6	21
Kyrgyz Republic	4	16	4	24
Mongolia	10	10	5	25
Nepal	14	18	8	40
PLCO [†]	8	8	21	37
SPSO [†]	7	17	3	27
Viet Nam	6	38	2	46
Total	63	119	54	236

PLCO = Pacific Liaison Office and Coordination Office in Sydney, Australia; RM = resident mission; SPSO = Pacific Subregional Office in Suva, Fiji.

[†] During the visit to PLCO, the evaluation team also visited Solomon Islands. The meetings in Australia were with PLCO director and staff and development partners, and in Solomon Islands with government agencies and development partners. During the visit to SPSO, the evaluation team also visited Tuvalu. The meetings in Fiji were with SPSO director and staff, government agencies and development partners, and in Tuvalu only with government agencies.

Source: The evaluation team.

15. **Limitations.** ADB's ultimate business objective is to improve the development effectiveness of its operations in the DMCs. As such, the evaluation ideally should assess the effect of ADB's decentralization on development effectiveness. However, the evaluation does not have sufficient information to attribute with precision

⁸ Interview guides were prepared for each category of interviewees: resident mission country director/deputy director, resident mission staff, government and clients agencies, and development partners.

The evaluation is limited to assessing the performance of ADB's core business—operations activities

development progress in the DMCs (e.g., reduction in poverty, progress in achieving MDGs) to ADB's operations and to the presence or absence of ADB's decentralization. The first limitation is: the evaluation is limited to assessing the performance of ADB's core business—operations activities, on the presumption that by improving its operations performance, ADB can increase its contribution to country outcomes and overall development effectiveness.

16. The level of decentralization can be considered optimal when the marginal costs of decentralization equals its marginal benefits.⁹ There is no way to measure all the development benefits, and ADB does not have sufficient information on staff time and detailed data on costs of every activity its various units are undertaking. The second limitation is: the evaluation cannot precisely establish the optimal point of decentralization for ADB.

17. **Structure of the Report.** Following this introduction, Chapter 2 presents ADB's decentralization policy initiatives and discusses the ADB's decentralization model and progress made to date. It focuses on the allocation of staff, budgets, activities, responsibilities, and authorities between HQ and resident missions. Chapter 3 presents an assessment of the performance of resident mission functions and activities, and discusses operational issues that constrain ADB's effective service and product delivery. Chapter 4 discusses the performance of ADB's operations to show how ADB's core business performs under the current decentralization model and whether ADB can improve and, if so, how. The executive summary provided in the beginning of the report summarizes the report and presents the evaluation's recommendations.

18. The evaluation has 4 appendixes. Appendix 1 is a list current ADB field offices and their staff composition. Appendix 2 shows the performance of operational effectiveness indicators as of 2012. Appendix 3 is a summary estimation results of project performance based on Probit and Ordered Probit regression analyses. Appendix 4 contains 10 linked documents referred to in various places in this report, with their hyperlinks.

⁹ In other words, if investing an additional dollar to further decentralization produces more than one-dollar in benefits, ADB should continue to decentralize. Conversely, if investing an additional dollar produces less than a dollar in benefits, ADB should decrease decentralization. The optimality is established when one additional dollar invested produces one-dollar in benefits.

Decentralization Progress

19. This chapter discusses ADB's decentralization process. It takes stock of major policy initiatives since 2000 that have contributed to ADB's decentralization process. It then discusses the key features of the current decentralization model regarding the allocation of staff, budgets, activities, responsibilities, and operations authorities in HQ and resident missions. At the end, the chapter presents key lessons and common decentralization experiences from comparable MDBs, to give a sense of where ADB stands in decentralization vis-à-vis other institutions.

Resident mission policy aimed for ADB's stronger presence and more effective and efficient operations

A. Decentralization Policy Initiatives

20. Since 2000, ADB has made a number of policy and structural changes to improve its operations in its DMCs. It began with the approval of the resident mission policy in 2000, aiming to expand the resident mission network to give ADB stronger presence and more effective and efficient operations in the DMCs. The resident mission policy states "The resident mission provides the primary operational interface between ADB and the host DMC and strives to maximize the efficiency, effectiveness, and impacts of ADB operations in the DMC."¹⁰ A summary of the resident mission policy is in Appendix 4, Linked Document A1.

21. In 2002, ADB implemented a corporate reorganization to address internal organizational issues, taking into account the then new development environment and the fact that ADB had "transformed itself from what was essentially a project financier to a full-fledged development institution."¹¹ The main features of the reorganization were to redesign ADB's operational business processes into five regional departments to increase country focus; to establish the Regional and Sustainable Development Department (RSDD) as the sector and thematic center of knowledge for ADB; and to define the roles and responsibilities of the other non-operational departments.¹² The reorganization was followed by a realignment of the regional department country coverage in 2006 to further enhance ADB's operational effectiveness "by balancing portfolio sizes, improving regional department's country focus, and strengthening the synergy between country and regional operation."¹³

The 2002 reorganization redesigned ADB's operational business processes into five regional departments to increase country focus

22. The reorganization proposal indicated an assessment at an early stage to show how well the new organizational structure responds to the changes made and what additional changes would be needed. The review of the reorganization conducted after one year suggested some actions to be taken but other aspects will need separate and more detailed consideration, including the staff complement and incentive structure. However, a detailed review of the 2002 reorganization has not been done.

¹⁰ ADB. 2000. *Resident Mission Policy*. Manila. p. 21.

¹¹ ADB. 2001. *Reorganization of the Asian Development Bank*. Manila. p. 2. The reorganization became effective on 1 January 2002.

¹² Ibid.

¹³ ADB. 2006. *Realignment of Regional Departments*. Board of Directors. Manila.

Recently, ADB adopted additional policy measures to decentralize its operations by strengthening its resident missions

23. More recently, ADB has adopted additional policy measures to decentralize its operations by strengthening its resident mission network. In 2009, the Budget, Personnel, and Management Systems Department (BPMSD) introduced a dual reporting mechanism for out-posting staff from HQ to resident missions.¹⁴ Also in 2009, BPMSD included a three-year staffing plan with 500 additional positions in the corporate's 2010–2012 Work Program and Budget Framework.¹⁵ In 2010, BPMSD introduced a new corporate human resource framework and action plan.¹⁶

24. Various departments issued operational guidelines for project delegation from HQ to resident missions. For example, in 2008, Controller's Department (CTL) issued guidelines for delegation of loan disbursement functions to resident missions. In 2009, Central and West Asia Department (CWRD) introduced the joint venture approach to its business processes to formalize joint HQ-resident mission operation teams. In 2012, Operations Services and Financial Management Department (OSFMD) revised its project administration instruction (PAI) with defined functions and rules of the procurement committee and delegation of procurement to resident missions. Table 4 shows a list of the major decentralization-related policy initiatives ADB has taken since 2000.

Table 4: Decentralization-Related Policy Initiatives

No.	Policies and Measures	Date Issued	Type of Document
1	Resident Mission Policy	Feb-00	Corporate Policy
2	ADB Reorganization	Sep-01	Corporate Policy [†]
3	Realignment of Regional Departments	Apr-06	Corporate Policy
4	Guidelines for Delegation of Loan Disbursement Function to RMs	Jul-08	CTL Guidelines
5	Reorganization for a New Joint Venture Approach	Jun-09	CWRD Memo
6	Work Arrangement for PS and NOs in RMs	Dec-09	BPMSD Memo
7	Human Resource Function Strategic Framework and Action Plan	Apr-10	Corporate Policy
8	Functions and Rules of the Procurement Committee	Apr-12	Project Administration Instructions (revised)
9	Guidelines for Project Delegation from HQ to RM	Various	RD Guidelines (EARD, SARD, SERD)
10	Work Program and Budget Framework (2010–2012, 2011–2013, 2012–2014)	Various	3-year rolling operational plans prepared by BPMSD

ADB = Asian Development Bank; BPMSD = Budget, Personnel, and Management Systems Department; CTL = Controller's Department; CWRD = Central and West Asia Department; EARD = East Asia Department; HQ = headquarters; NO = national officer; PARD = Pacific Department; PS = professional staff; RD = regional department; RM = resident mission; SARD = South Asia Department; SERD = Southeast Asia Department.

[†] The reorganization policy became effective on 1 January 2002.

Source: The evaluation team compilation.

B. ADB's Decentralization Model

25. ADB's decentralization model can be visually presented as in Figure 2. ADB delivers its sovereign operations to the DMCs through five regional departments: East

¹⁴ ADB. 2009. *Work arrangement for professional staff and national officers in resident missions*. BPMSD memo to heads of departments/offices (18 December 2009).

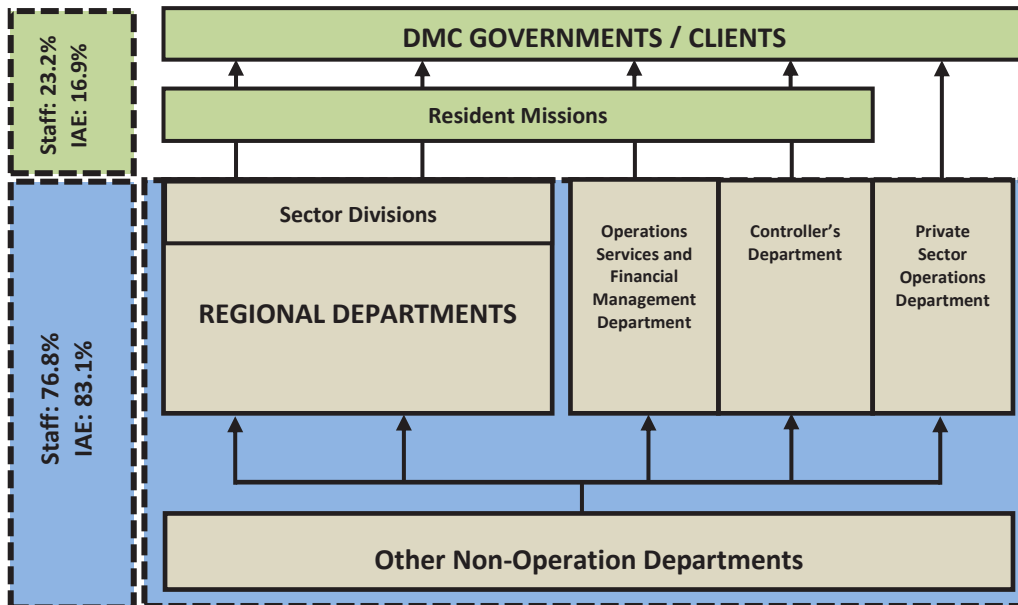
¹⁵ ADB. 2009. *Work Program and Budget Framework 2010–2012*. Manila. The planned 500 positions included 180 professional staff, 180 national officers, and 140 technical analysts and administrative assistants (p. 39).

¹⁶ ADB. 2010. *Human Resource Function Strategic Framework and Action Plan*. Manila.

Asia (EARD), CWRD, Pacific (PARC), South Asia (SARD), and Southeast Asia (SERD). ADB delivers its non-sovereign operations through the Private Sector Operations Department. Resident missions function as the frontline interface between ADB and the host DMCs, responsible for country matters. As of end 2012, about 77% of ADB staff and 83% of ADB's expenses were located in HQ, and the other 23% of staff and 17% of expenses in the resident missions. Below is a more detailed discussion of the allocation of activities, responsibilities, and authorities in resident missions and HQ.

In 2012, 77% staff and 83% expenses were located in HQ

Figure 2: ADB's Decentralization Model (As of end 2012)



DMC = developing member country, IAE = internal administrative expenses (excluding expenses of Board of Governors and Board of Directors).

Source: The evaluation team.

1. Resident Missions

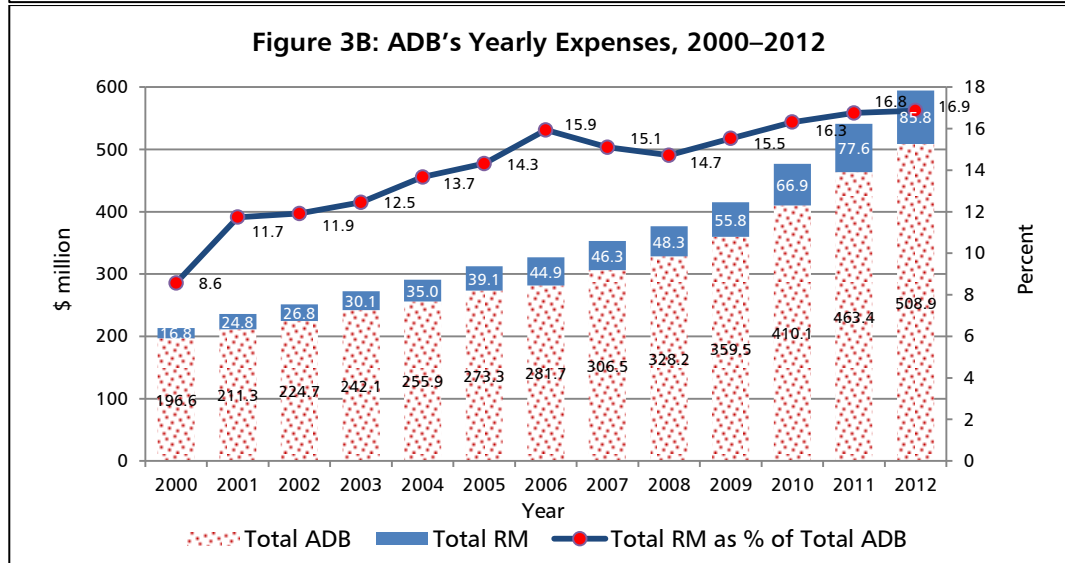
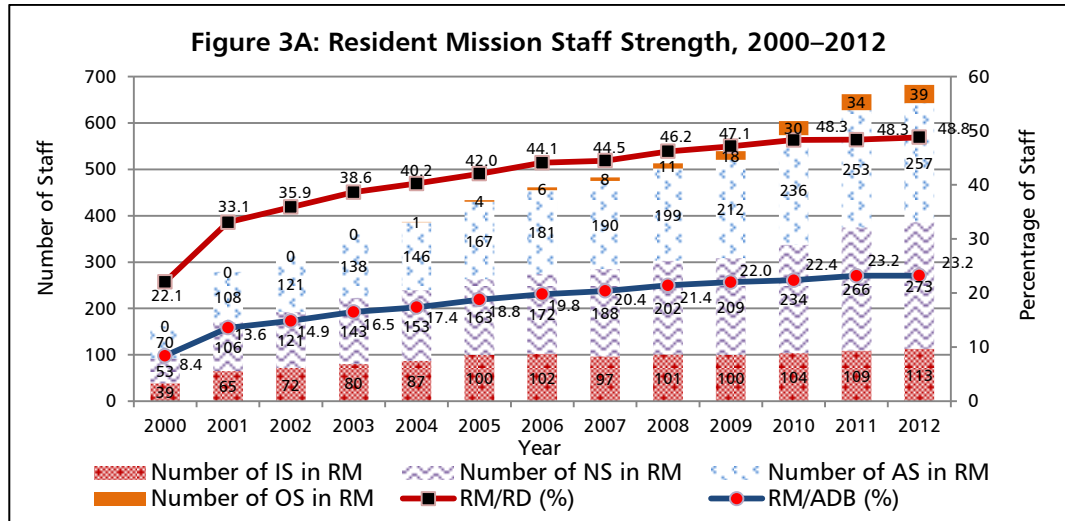
26. In 2000, ADB had 13 resident missions and 3 representative offices. As of end 2012, ADB had 24 resident missions, 2 regional offices, 1 extended mission, and 3 representative offices. While upgrading and expansion of resident missions adds substantially to the capital expenditure of these offices, this study considers such expenses sunk costs and focuses on the staff composition and the delegation of activities and authority to resident missions.

27. **Resident Mission Staff.** Figure 3A shows the resident mission staff strength annually between 2000 and 2012. During this period, the number of staff in resident missions increased fourfold from 162 to 682, representing 8.4% and 23.2% of ADB total staff, respectively.¹⁷ The share of resident mission international and national staff was less than 25% of the regional department international and national staff in 2000, and rose to nearly 50% by 2012. ADB met the target for overall staff allocation in resident missions for 2012 (23%) and slightly exceeded the share of resident mission operation staff as percent of operational staff in regional departments (target: 48%,

Between 2000-2012 number of resident mission staff increased fourfold

¹⁷ ADB staff data do not include young professionals, members of Board of Directors, contractual staff, and consultants.

actual: 49%).¹⁸ Over time, the percentage of international staff in resident missions has stayed between 21% and 24%. By June 2013, of the 696 staff in resident missions (including 41 out-posted staff), 152 (21.8%) were international staff (Appendix 1).¹⁹



ADB = Asian Development Bank, AS = administrative staff, IAE = internal administrative expenses, IS = international staff, NS = national staff, OS = out-posted staff, RD = regional department, RM = resident mission.

Percent of RM/RD staff are total (IS+NS) in RM over (IS+NS) in RD, not including staff in the private sector operations department.

Percent of RM/ADB staff are total staff (IS+NS+AS+OS) in resident missions over ADB's total staff, not including young professionals, members of Board of Directors, and contractual staff.

Total ADB IAE are excluding expenses for the Board of Governors and Board of Directors budget categories.

Total RM IAE are excluding costs of contractual staff and out-posted staff in RMs.

Source: Budget, Personnel, and Management Systems Department data.

¹⁸ The operation staff target is defined as the ratio of total international staff and national staff in the resident missions over the total international staff and national staff in the five regional departments (not including staff of the private sector operations department).

¹⁹ In addition, the resident missions also employ contractual staff. Based on the information provided by 25 resident missions, about 300 of them were employed in 2012.

28. **Resident Mission Expenses.** Figure 3B shows ADB's annual internal administrative expenses (IAE) during 2000–2012. Over the period, resident missions' IAE increased about fivefold, from \$16.8 million to \$85.8 million. This represents nearly a doubling of the resident mission share of ADB's total IAE from 8.6% to 16.9%.

During the review period, resident missions' internal administrative expenses increased five fold

29. **Resident Mission Activities.** Under the resident mission policy, resident missions are the first points of contact in the host DMCs and country director is the focal point for country-related matters. Resident missions perform standard and specific functions as specified in the resident mission policy. Standard functions are functions a resident mission must perform as ADB's principal representative in the host country. They are: (i) government, civil society, and private sector relations; (ii) policy dialogue and support; (iii) country reporting; and (iv) external relations and information dissemination. Specific functions are functions that more directly relate to the delivery and implementation of ADB's products in the host country. Resident missions are expected to perform specific functions to the extent suitable to their capacity and ADB's operations in the concerned host countries. They are: (i) country programming in many cases; (ii) project and technical assistance (TA) processing in some cases; (iii) portfolio management and project administration of delegated projects; and (iv) economic and sector work (ESW) in some cases.

30. In addition, resident missions also perform other functions that are not specified in the resident mission policy but are in either their Board establishment papers or other ADB documents and requirements. These other functions include providing support to HQ missions, conducting local capacity building for government agencies and local partners, promoting and participating in subregional cooperation activities, monitoring and evaluating projects, participating in knowledge activities, and supporting and participating in private sector operations. Appendix 4, Linked Document A2 provides a detailed list of activities the resident missions are undertaking.

2. Operations Activities

31. Under the current business setup, ADB's operations activities (project processing and administration) are managed under the combined leadership of country directors and sector directors and the oversight of their respective regional directors general. Resident missions perform the functions as described in paras. 29–30. Sector directors are responsible for most of the project processing and administration of a substantial portion of project implemented in their respective sectors. Regional directors general are ultimately responsible for the overall portfolio quality and project performance oversight of their respective regional department.

During 2000-2012 resident missions processed about 9% of ADB projects

32. **Project and TA Processing.** Almost all the processing activities are led by sector divisions based in HQ and the role of resident missions is often limited to supporting HQ missions.²⁰ During 2000–2012, resident missions processed 90 projects (8.9% of ADB total). Table 5 shows a snapshot of the level of resident missions' engagement in project and TA processing and administration. In 2012, resident

²⁰ In recent years, some resident missions also lead project processing.

missions processed about 12% of projects (8 loans and 12 grants),²¹ and 16% of TAs (32).²² These shares increased respectively from 2000.

Table 5: Project and TA Processing and Administration
(Snapshot 2000 and 2012)

Item [†]	2000 ^a		2012 ^b	
	Number	Percent of ADB Total	Number	Percent of ADB Total
Projects processed by RMs	5	7	20	12
TAs processed by RMs	6	2	32	16
Projects administered by RMs	67	15	355	41
TAs administered by RMs	65	6	184	20

[†] Projects are public sector projects and include loans and grants.

ADB = Asian Development Bank, RM = resident mission, TA = technical assistance.

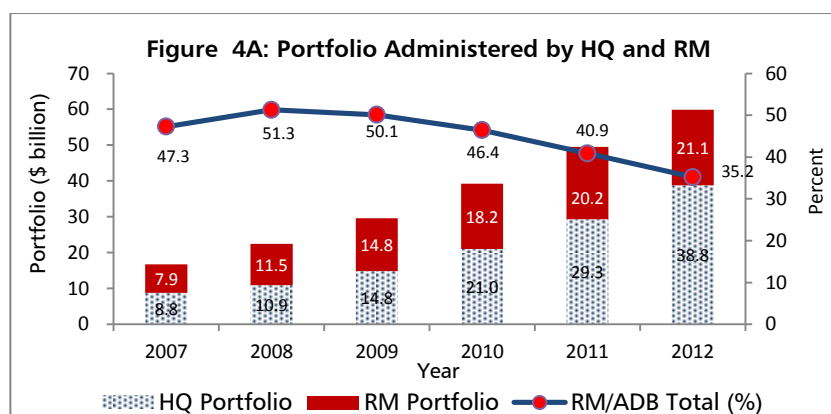
Sources:

^a ADB. 2008. Review of Resident Missions' Operations. Manila.

^b Operations Services and Financial Management Department data.

During the review period ADB portfolio increased by 257% and portfolio under resident mission administration increased by 167%

33. **Project and TA Administration.** As shown in Table 5, in 2012 resident missions administered 41% of projects (loans and grants) and 20% of TAs.²³ Figure 4A shows the yearly distribution of ADB's sovereign operation portfolio of all loans, grants, and TA projects administered by HQ and resident missions during 2007–2012. ADB's total portfolio rose from \$16.8 billion in 2007 to \$59.9 billion in 2012, an overall increase of 257%. At the same time, the portfolio administered by resident missions increased from \$7.9 billion to \$21.1 billion.²⁴ This represents an increase of 167%, much lower than the increase of the total portfolio (resident mission/total growth ratio = 0.65). The proportion of portfolio administered by resident missions increased from 47.3% in 2007 to 51.3% in 2008 and then steadily dropped to 35.2% in 2012.



ADB = Asian Development Bank, HQ = headquarters, RM = resident mission,
Source: ADB Operations Services and Financial Management Department data.

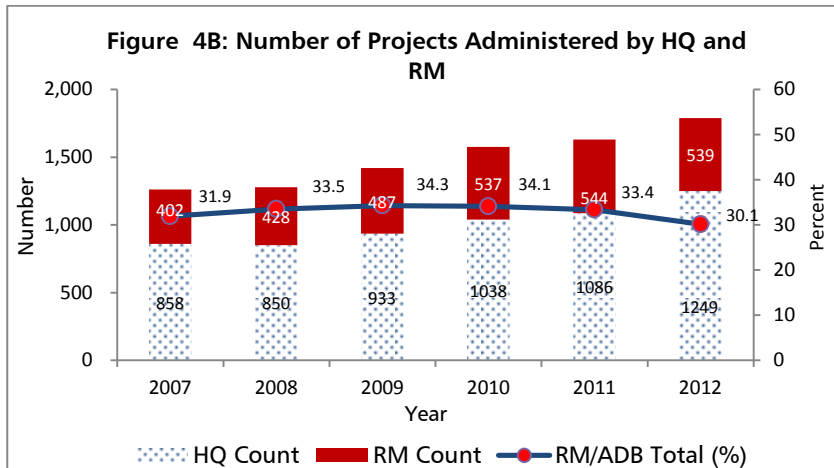
²¹ The 8 loans included 4 project loans (Loan 2927-INO, Loan 2928-INO, Loan 2977-SRI, and Loan 2982-VIE), 3 program loans (Loan 2946-COO, Loan 2942-INO, and Loan 2871-INO), and 1 special implementation assistance loan (Loan 2852-CAM). The 12 grants included 7 special implementation assistance grants, 3 project grants, and 2 program grants.

²² These included 23 capacity development TAs, 5 policy advisory TAs, and 4 project preparatory TAs.

²³ Some larger resident missions administer more than 50% of the country portfolio (e.g., People's Republic of China Resident Mission).

²⁴ From June 2009 when CWRD introduced the joint-venture approach, its portfolio data are reported as HQ-administered. While the total resident mission portfolio would be higher than reported since then, the difference would be small in amount because CWRD portfolio increase constituted a small part of total ADB portfolio.

34. Figure 4B shows the number of loans, grants, and TA projects administered by HQ and resident missions during 2007–2012. ADB’s total number of operations increased from 1,260 in 2007 to 1,788 in 2012, an overall increase of 42%. At the same time, the number of projects administered by resident missions increased from 402 in 2007 to 539 in 2012, an increase of 34%. Relative to ADB total, the number of operations administered by resident missions was 32% in 2007, rose above 34% in 2009, and then gradually dropped to 30% in 2012.



ADB = Asian Development Bank, HQ = headquarters, RM = resident mission, Source: ADB Operations Services and Financial Management Department data.

35. Table 6 summarizes the change in staff strength, IAEs, and portfolio under administration for resident missions and ADB overall during 2007–2012. As shown in the table, resident missions grew faster than ADB overall in staff strength (41% vs. 24%) and IAEs (85% vs. 66%). At the same time, resident mission-administered portfolio grew less than that of ADB overall (167% vs. 257%).

Staff strength in resident missions grew faster than ADB overall staff strength

Table 6: Change in Staff, Expenses, and Portfolio, 2007–2012

Item	2007		2012		Change 2007–2012 (%)	
	ADB	RM	ADB	RM	ADB	RM
Number of Staff	2,370	483	2,936	682	23.9	41.2
IAE (\$ million)	306.5	46.3	508.9	85.8	66.0	85.3
Portfolio (\$ billion)	16.8	7.9	59.9	21.1	256.5	167.1

ADB = Asian Development Bank, IAE = internal administrative expenses, RM = resident mission. Sources: The evaluation team computation from Budget, Personnel, and Management Systems Department data on staff and expenses and from Operations Services and Financial Management Department data on portfolio.

3. Direct Operations Support Activities

36. **Procurement.** According to ADB’s operations manual, sector directors and country directors have approval authority for up to \$10 million for procurement of goods and up to \$1 million for procurement of consulting services on projects under their administration.²⁵ Otherwise, project procurement is managed centrally by the

²⁵ ADB. 2012. Functions and Rules of the Procurement Committee. *Project Administration Instructions*. PAI 3.11. Manila (Section J, para. 28).

OSFMD in headquarters. Following BPMSD's 2009 memo on out-posting staff to resident missions (footnote 14), OSFMD started out-posting procurement specialists to support resident mission staff on procurement implementation. Currently, OSFMD has three staff posted in three resident missions with larger portfolios (India, People's Republic of China [PRC], and Viet Nam). In 2012, OSFMD introduced the Procurement Accreditation Skills Scheme (PASS) to strengthen regional departments' staff capacity on consultant recruitment and executing agency procurement oversight to reduce associated risks, increase project implementation quality, and compliance with guidelines and procedures in the PAIs by borrowers and ADB's own staff (Box 1). Beginning 2014, PASS-accredited staff will assist in the review of consultant recruitment and procurement transactions undertaken by regional departments in accordance with ADB's guidelines, procedures, and the PAIs.

Box 1: Improving Procurement in Resident Missions

Responding to the project implementation working group's finding that procurement needed to be strengthened to accelerate processing and reduce risk for the Asian Development Bank (ADB):

- expanded training of national procurement officers;
- sent ADB procurement specialists on extended missions to support resident mission staff on procurement implementation; and
- undertook special missions and review sessions to help resident missions address procurement implementation problems.

These and other measures contributed to a 20% drop in noncompliance and accelerated processing with reduced procurement risk. In 2011, ADB staff piloted the PASS, which offers two options: consultant recruitment and executing agency procurement oversight. The scheme will be rolled out for all ADB staff in 2012.

Source: ADB. 2012. *Development Effectiveness Review. 2011 Report*. Manila. p. 64

37. In 2013, OSFMD introduced a new scheme of staff deployment to place international staff from OSFMD in the five regional department front offices. These staff report both to OSFMD and the hosting regional department. The purpose is to give the regional departments the option to use the procurement staff to the most needed procurement work in their region. The local support to executing and implementing agencies for procurement related issues are to be provided by the national staff responsible for procurement work in the resident missions. This scheme attempts to balance the costs and the benefits of country focus. It should be reviewed after some years of implementing to see whether the procurement delays which have for long been a concern of clients are being adequately addressed.

38. **Disbursement.** By 2012, CTL had delegated disbursement functions to seven resident missions (27%) with larger portfolios (Bangladesh, India, Indonesia, Pakistan, PRC, Sri Lanka, and Viet Nam).²⁶ These resident missions review, process withdrawal applications, and send payment instructions to CTL for final approval and release of payments. For the other 19 resident missions with no delegated disbursement functions, resident mission staff pre-screen withdrawal applications to check the completeness of information and supporting documents and then forward them to CTL for approval and disbursement.

²⁶ The number of resident missions with delegated loan disbursement was 3 (23%) in 2000 and 6 (26%) in 2007.

39. **Safeguard Oversight.** The project team is responsible for safeguarding review procedures.²⁷ RSDD is the final authority of project safeguard categorization and oversight of Category A projects during implementation. During the project identification stage, the project team prepares and submits the initial checklists and project categorization results through the sector division director to the chief compliance officer in RSDD for final approval. During the project implementation stage, regional departments are responsible for safeguard oversight of projects under Categories B and C. The project team ensures that the borrower or client submits periodic environment, resettlement, and indigenous peoples monitoring reports. Resident missions staff members of the project team review these reports and forward them to the safeguards specialist in the project team for endorsement and final approval.

4. Knowledge Activities

40. ADB Institute, RSDD, IED, the Economics and Research Department, and the Office of Regional Economic Integration produce the bulk of ADB's knowledge products. The Department of External Relations plays an important role in the preparation, packaging, and sharing knowledge products and also generates some knowledge products, such as the thematic Development Asia series and Impact Stories based on inputs from operations departments. The five regional departments including their resident missions and Private Sector Operations Department are expected to provide support for knowledge demand identification through their hands-on field knowledge and front-line knowledge sharing through lending and nonlending operations and related processes.²⁸ Resident missions take the lead in preparing country chapters for the Asian Development Outlook (ADO) and ADO updates. Some larger resident missions also produce periodic economic briefs. In some cases, resident mission staff members of project teams prepare sector reviews as inputs during project processing.

41. As highlighted in IED's 2012 evaluation of knowledge products and services, the knowledge channels between ADB HQ and resident missions are currently weak (Box 2).²⁹ Resident missions can act as good conduits for communicating country needs and to ensure that knowledge work is demand led. Resident missions are also ideal for sharing knowledge products and services across DMCs on a just-in-time basis. However, overall, ADB's knowledge activities are largely centralized with almost 100% of major knowledge products produced in HQ. Resident missions play a limited role in the communities of practice in the generation of sector and thematic knowledge based on country experiences and in sharing knowledge across sectors, departments, and regions.

Resident missions are ideal for sharing knowledge products and services across developing member countries

Box 2: Key Findings of the 2012 Knowledge Products and Services Evaluation

Knowledge Identification: The majority of knowledge products in the resident missions and offices are primarily supply driven and some important audiences (such as beneficiaries and communities) are insufficiently catered to.

Knowledge Sharing: The proliferation of uncoordinated knowledge sharing events has put a

²⁷ ADB. 2010. Safeguard Review Procedures. *Operations Manual*. OM F1/OP. Manila.

²⁸ In 2013, ADB approved document "Knowledge Asia from Ideas to Impacts. Knowledge Management Directions and Action Plan (2013–2015): Supporting "Finance ++" at the Asian Development Bank."

²⁹ IED. 2012. *Special Evaluation Study on ADB's Knowledge Products and Services*. Manila: ADB.

strain on some resident missions and made it difficult to leverage on specific knowledge products and services (KPS) relevant to their country operations.

Policy Dialogue: One of the constraints that detract the impact of Asian Development Bank's (ADB's) KPS is that not all resident missions are able to engage in the necessary high-level policy dialogue with senior government officials to identify clients' knowledge needs and to share KPS.

Internal Knowledge Channels: Internal communities of practice are the main entities in ADB through which sectoral and thematic information is shared across regional departments and other departments. Resident mission staff should be encouraged and incentivized to fully participate in the communities of practice.

External Knowledge Channels: An important challenge for ADB is to further strengthen the channels of knowledge between ADB (comprising both headquarters and resident missions) and developing member country clients. ADB has been providing most KPS in a supply-side approach, often not recognizing the needs at the developing member country level and not using resident missions to leverage knowledge exchange. Efforts to create an enabling environment to better produce, share, and manage knowledge at the country level should be fostered.

Source: IED. 2012. *Special Evaluation Study on ADB's Knowledge Products and Services*. Manila: ADB.

C. Lessons from Multilateral Development Banks

42. Decentralization is more than moving people. It involves moving staff closer to the field; developing an organizational structure of country offices and sectors; and establishing a corporate system of responsibilities and authority for country offices, operational processes, fiduciary management, among others. The review of literature on experiences of other MDBs provides useful lessons for ADB to build upon. Appendix 4, Linked Document B1 outlines the policy objectives of four comparable MDBs—African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), and the World Bank. Below are main observations.

43. **Benefits and Costs.** According to a study by Dalberg in 2012,³⁰ MDBs' evidence suggests that decentralization has delivered on some of the anticipated benefits, but decentralization of staff does also incur costs (Box 3). In one case where the costs and benefits were measured, long-term benefits appeared to outweigh the costs.

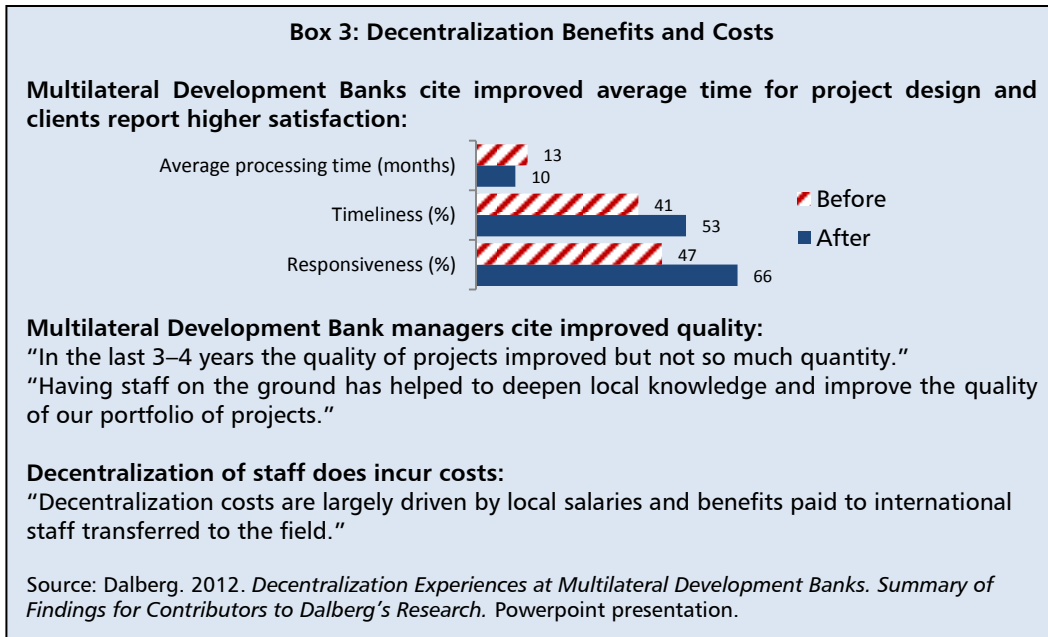
44. MDBs believe that (i) development requires building local capacity and this necessitates in-country presence; (ii) local presence improves country knowledge and facilitates better alignment and coordination, increasing project quality and development effectiveness; and (iii) closer proximity to governments and clients leads to understand their needs, helping improve client service and operational effectiveness. There are also tradeoffs of decentralization, such as (i) moving international staff to field offices can increase costs; (ii) dispersing sector specialists risk undermining cross-institution knowledge sharing; and (iii) cultural silos can emerge when people are in many different locations.

45. **Staff Allocation in Field Offices.** Figure 5 shows the staff location in field offices in various MDBs. With 23% of staff located in resident missions, ADB has among

ADB has among the lowest field office staff level among the other multilateral development banks

³⁰ Dalberg. 2012. *Decentralization Experiences at Multilateral Development Banks. Summary of Findings for Contributors to Dalberg's Research*. Powerpoint presentation.

the lowest field office staff level and is well below the average among all the other MDBs (36%). In terms of specialists, ADB only places sector specialists in countries with large portfolios and is also well below the level of other MDBs, such as IDB (41%), World Bank in Latin America (40%), AfDB (32% in country offices and 7% in regional service centers), and EBRD and International Finance Corporation (IFC)—both with over 50%.



46. **Delegation of Work.** As indicated in Appendix 4, Linked Document B2, AfDB had an average work delegation level of 11% in 2009,³¹ while IDB had a delegation level of 41% as of end 2012.³² By comparison, as of end 2012, ADB had an overall 35% of its total portfolio delegated to resident missions for administration (Figure 4A). This comprised 41% of its loan and grant portfolio and about 20% of its TA portfolio administered by resident missions. Relatively, lower share of TA delegation compared to loans and grants. More detailed data were collected on portfolio delegation from EBRD’s and the World Bank’s offices in the eight case study countries. Of the three MDBs with data, ADB’s average portfolio per resident mission staff (\$27.2 million) is much smaller than that of EBRD (\$83.3 million) and the World Bank (\$58.7 million).

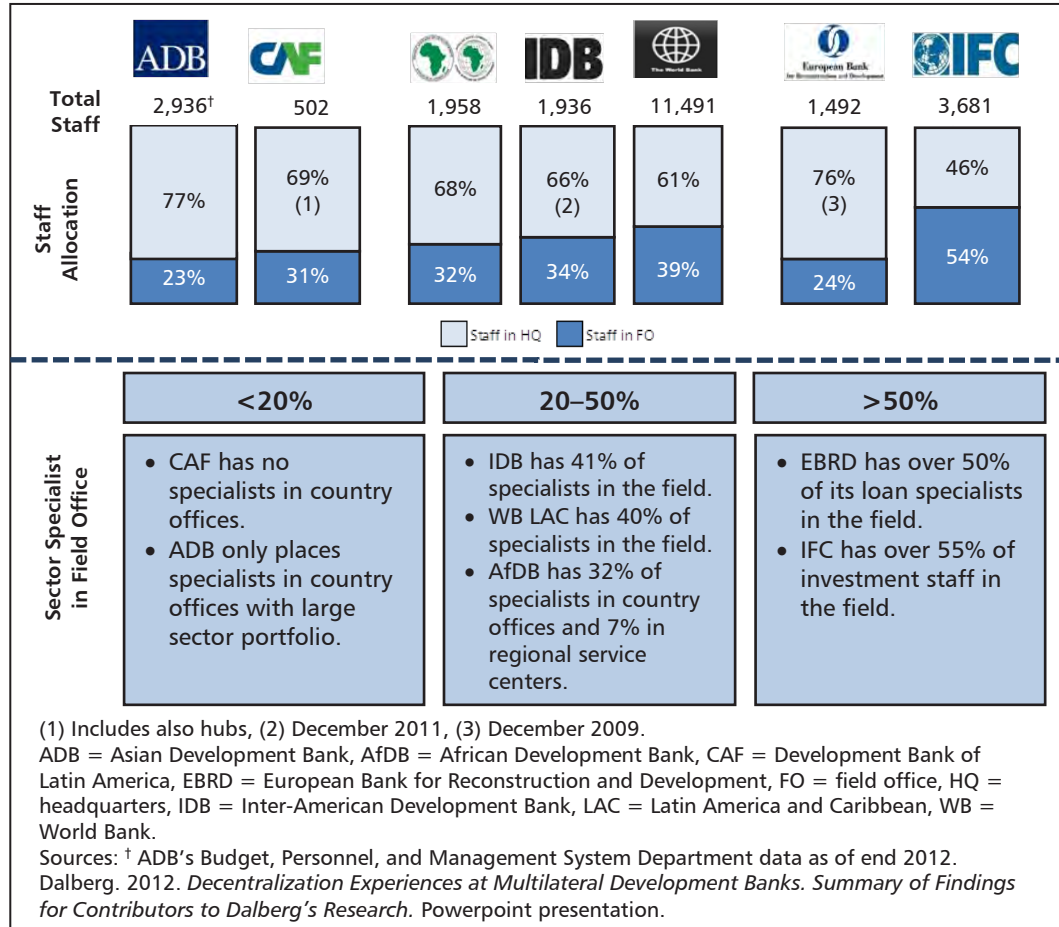
47. **Delegation of Authority.** Based on the publicly available data, in the World Bank, delegation of authority to country directors was the main element of the 1997 reorganization that adopted a matrix structure and decentralized staff, budgets, activities, and authority. World Bank’s country directors prepare the CPSs and control the budgets to implement these strategies. EBRD’s delegation of authority to country directors depends on the scale of the country office. If the country office is large, many

³¹ Data refers to the field office average in 2009 across the following three activities: (i) project preparation (9%), (ii) project supervision (15%), and (iii) project completion (10%).

³² IDB considers project execution to be 100% devolved to the country offices, because they have adopted a matrix approach and the country office is involved in the implementation of every project. However, the percentage of project team leaders located in country offices that have a direct reporting line to the country representative is only 41%.

decisions are taken locally. Also, more resources and authority are delegated for those offices that are more remote. AfDB’s delegation of authority is managed via its Delegation of Authority Matrix (DAM), and the 2011 decentralization roadmap proposed more delegation of authority with a revised DAM and with reforms in the management of procurement and fiduciary safeguards.³³ IDB has adopted a matrix structure with country representatives in charge of country strategies and programs and sector directors in charge of project work which is similar to ADB. However, unlike in ADB, IDB’s budgetary authority rests with the country representatives who allocate budgets to the sector directors from their country resource envelopes.

Figure 5: Staff Allocation in Multilateral Development Banks



48. **Types of Field Office.** MDBs have adopted various models of decentralization and in addition to country offices. Some MDBs have established hubs in different forms and have deployed staff there to serve countries (Appendix 4, Linked Document B3). For example, AfDB recently established two pilot regional resources centers in Nairobi, Kenya, and Pretoria, South Africa which houses sector, procurement, financial management, and safeguards experts. EBRD places technical staff in a regional technical hub from which the surrounding countries can draw upon sector experts, when needed, for the projects that the country offices are processing or implementing. Although the World Bank’s sector specialists are largely based in the country offices, at times they also serve as sector specialists for neighboring countries.

³³ AfDB. 2011. *Decentralization Roadmap*. Tunis.

49. **Common Lessons.** Each MDB is unique and has a different organizational culture and corporate objectives. While there may be commonalities in experience, there is no common decentralization model that is applicable to all the organizations. However, five general lessons can be drawn about the design and implementation of decentralization programs as shown below.³⁴

- (i) Decentralization usually requires multiple iterations to optimize structures. For example, the World Bank’s decentralization efforts were done in two iterations (1997–1999 and 2010–2012) and AfDB’s efforts in three iterations (see Figure 1).
- (ii) “One size does not fit all”. Different MDBs have made different choices, and some have made different choices in different regions. For example, World Bank and IDB have chosen to implement a decentralization model based on their organizations’ matrix structure (see para. 48).
- (iii) Key decentralization parameters for MDBs include (a) reporting lines of specialist staff, (b) roles of country managers and sector chiefs in project approvals, and (c) control of project design and supervision budgets.
- (iv) “People issues”, e.g., incentives for people to move, changes in reporting lines, etc., must be carefully managed.
- (v) Decentralization should be done in a way so as to not impede the flow of knowledge and expertise between the center of the organization and the field offices. This lesson is drawn mainly from World Bank’s decentralization experience.

³⁴ These lessons are drawn from Dalberg. 2012. *Decentralization Experiences at Multilateral Development Banks: Summary of findings for contributors to Dalberg’s research*. Powerpoint presentation; and World Bank. 2012. *The Matrix System at Work: An Evaluation of the World Bank’s Organizational Effectiveness*. Washington D.C.

CHAPTER 3

Functional Performance and Operational Issues

50. This chapter discusses how resident missions are performing the functions delegated to them. It then discusses operational issues that constrain ADB's effective services and operations under the current business model. The discussion on resident mission functions (paras. 29-30) are based on the responses, data, and interviews gathered from various sources for the study (paras. 11-13). The study also draws on the key findings of existing reviews and evaluations of resident mission functions (Appendix 4, Linked Document C).

A. Performance of Resident Mission Functions

1. Results from Perception Surveys

Resident missions are leading in the preparation of CPSs, country programming, and country portfolio review

51. Table 7A shows the functions the resident missions are undertaking (details are in Appendix 4, Linked Document A2). All the 25 resident missions that provided information are currently taking the lead in all the standard functions. They are also leading in the preparation of CPSs, country programming, and country portfolio review. On the other hand, while more engaged in project and TA processing and administration in 2012 than in 2007 and 2000, resident missions generally play a support role in operational activities. Resident mission national staff participates in HQ missions and provide backup and follow-up support on behalf of HQ staff. Resident missions lead economic and sector work in the preparation of ADO country chapters and ADO updates. Some larger resident missions also produce quarterly economic reports and knowledge briefs. In some cases, resident mission staff members of project teams prepare sector reviews as inputs during project processing.

Table 7A: Share of Resident Mission Undertaking Functions
(% unless shown otherwise)

Functions	2000 ^a	2007 ^b	2012 ^c	
			Percent	Role
Standard Functions				
(i) Government, civil society, and private sector relations	100	100	100	L
(ii) Policy dialogue and support	100	100	100	L
(iii) Country reporting	100	100	100	L
(iv) Aid coordination	69	100	100	L
(v) External relations and information dissemination	...	100	95	L
Specific Functions				
(i) Country programming	43	91	100	L
(ii) Project and TA processing	50	82	95	S

Functions	2000 ^a	2007 ^b	2012 ^c	
			Percent	Role
(iii) Portfolio management and project administration				
- Country portfolio review	100	100	100	L
- General loan/grant administration	71	86	95	S, L [†]
- General TA administration	79	91	95	S, L [†]
- Project disbursement processing	50	59	86	S
- Consultant recruitment	71	95	100	S, L [†]
- Procurement of goods and works	64	73	95	S, L [†]
(iv) Economic, sector and analytical work	50	82	100	S, L [‡]

... = data not available.

[†] Lead in delegated projects.

[‡] Lead Asian Development Outlook country chapters and updates.

HQ = headquarters, L = Lead, RM = resident mission, S = Support, TA = technical assistance.

Sources:

^a Inferred from the qualitative discussion in ADB. 2002. *Review of Progress in Implementation of the Resident Mission Policy*. Manila. Pp. 3–8.

^b IED. 2007. *Resident Mission Policy and Related Operations. Delivering Services to Clients*. Manila: ADB.

^c The evaluation team compilation based on the information templates provided by 25 resident missions.

52. All the 25 resident missions are performing more functions than mandated in their establishment papers (compliance of 207%)³⁵ and more than in 2007 (62% more). Among the other functions, project monitoring and evaluation, knowledge management, and participating in private sector operations are the newly added functions, being performed by 22, 22, and 19 resident missions, respectively as shown in Table 7B.

Table 7B: Resident Missions Undertaking Other Functions

Other Functions	Number of RM Establishment Papers Cited	Number of RMs Performing the Function	Percentage of RM staff Performing the Function (n = 107)
Support to HQ missions	15	22	53.4
Local capacity building	3	21	39.8
Promote subregional cooperation	9	20	16.1
Monitoring and evaluation	0	22	29.7
Knowledge management	0	22	44.9
Participating in private sector operations	3	19	16.1

HQ = headquarters, RM = resident mission.

Source: The evaluation team compilation based on the information templates provided by 25 resident missions.

53. The paragraphs below summarize the performance assessment of each resident mission function. A more detailed discussion is in Appendix 4, Linked Document D.³⁶

³⁵ Compliance is defined as the conformity of resident mission to the establishment paper functions. For instance, if the resident mission is performing all the 8 functions stated in the establishment paper the compliance is 100%, and if it is performing 10 as compared to 8 stated in the establishment paper then the compliance is 125%.

³⁶ Summary results of the perception surveys are available upon request.

Resident missions are performing more functions than mandated in their establishment papers and more than in 2007

Resident missions generally play a support role in processing and administering projects and in technical assistances

54. **Standard Functions.** Perception surveys show that resident missions have been effectively performing the standard functions as specified in the resident mission policy. Resident missions act as the primary interface and help raise ADB's visibility and profile in the host DMCs. Of the 56 respondents from governments and client agencies, 88% reported that the resident missions are "very useful" or "useful" as the first contact point of ADB in the DMCs. The usefulness and relevance of resident missions was also reflected in 20 of the 27 CAPEs conducted in 15 countries during 2000–2012. This finding is consistent with the 2007 independent evaluation and 2008 ADB review on resident missions.

55. **Specific Functions.** About 60% of 162 ADB staff and government respondents to the perception surveys stated that they agreed that resident missions were effective in performing country programming activities. Effectiveness of portfolio management and project administration was reflected in about 55% of respondents and effectiveness of project and TA processing in about 50%. For ESW, about 36% of government agencies and 26% of ADB staff perceived them to be effective.

56. With regard to operations activities, resident missions generally play a support role in processing and administering projects and TAs, despite their close proximity to governments and client agencies and knowledge of local conditions and systems. The role of resident missions in knowledge production and sharing is also limited, as reflected in the low percentage reported. The knowledge channels between HQ and resident missions are currently weak, as highlighted in IED's 2012 evaluation of knowledge products and services. These findings are also consistent with 2007 independent evaluation and 2008 review.

The role of resident missions in knowledge production and sharing is also limited

57. **Other Functions.** Overall, the primary operational focus of most resident missions is on country programming and portfolio management, and in general resident missions play support roles in all these other functions. Of all the 6 other functions, resident mission staff viewed support to HQ missions as a big part of their functions with 53.4% of resident mission staff respondents involved directly in this function. In the perception surveys, 51.4% of HQ staff rated resident mission support of HQ missions as very good or good and another 19.8% rated their services as average.³⁷ On the other hand, sub-regional programs that link national and regional priorities are processed and administered from HQ.³⁸ This was reflected by 16.1% of resident mission staff indicating that they undertake or promote subregional cooperation. Likewise, 16.1% of resident mission staff indicated that participating in private sector operations work as part of their functions.

2. Case Study Countries

58. During the interviews with government and client agencies in the eight case study countries, the respondents were asked to compare resident missions with other aid agencies in responsiveness and service delivery on scale from 1 to 5 (from very poor to very good). The summary results are in Table 8. Services are ordered from the highest percentage to lowest percentage of "good" and "very good" responses.

³⁷ About 20% of the 162 respondents indicated no opinion.

³⁸ Examples include Central Asia, Regional Economic Cooperation (CAREC) program; Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area (BIMP-EAGA); Greater Mekong Subregion (GMS) program; Indonesia, Malaysia, Thailand Growth Triangle (IMT-GT); and South Asia Subregional Economic Cooperation (SASEC).

Table 8: Summary Results of Interviews
(Good and Very Good)

Service Delivery Criteria	Percent (n=71)	Score
1. Depth of knowledge on and understanding of country's economic, political and social situations, and development needs and priorities	86.4	4.5
2. General client orientation and responsiveness	83.7	4.3
3. Following up outstanding issues with the government and liaising with HQ	80.0	4.4
4. Solving problems on programming matters, project processing, and project administration	77.3	4.2
5. Disseminating policies and procedures	75.6	4.2
6. Facilitating stakeholder participation	73.3	4.2
7. Providing other information, support, and advice	72.7	4.3
8. Facilitating project processing	66.7	4.1
9. Quality/timeliness of informal knowledge services (e.g., sector policy consultation)	66.7	4.1
10. Quality/timeliness of knowledge products (e.g., economic, thematic and sector work)	64.4	4.2
11. Project design	59.1	4.0

Numbers are rounded up.

ADB = Asian Development Bank, HQ = headquarters, RM = resident mission.

Source: Compiled by the evaluation team from field interviews with governments and client agencies.

59. Most respondents (80% and above) viewed resident mission's country knowledge, responsiveness, and helping clients understanding issues as good or very good (items 1–3). These were followed by resident mission's services in solving program and project problems, disseminating policies, facilitating stakeholder participation, and providing support and advice (items 4–7). Resident mission's services in facilitating project processing and informal knowledge services received about two thirds of good and very good responses (items 8–9). Resident missions' services in providing quality and timely knowledge products and in project design had less than two thirds of respondents rating good or very good (items 10–11).

60. The relatively low favorable rating on knowledge products is consistent with findings on the quality of ESW, both in this evaluation (para. 41) and in previous reviews of resident mission knowledge activities.

61. According to the interviews, the most important reason for the relatively lower scores for role in project design is the long time that project processing takes. Often this makes project activities irrelevant at the time the loan becomes effective. Clients also complained about the lengthy procedures for changes in project scope during implementation. Note that the last four items (8–11) are key operational services and they all received lower scores relatively to the other services (1–7). These lower scores have important implications on ADB's products and services in the DMCs.

B. Operational Issues and Constraints

62. This section highlights major operational issues and constraints to ADB's effective service and product delivery under the current business model. When applicable, it also discusses new ways that some units of ADB are trying to improve.

Most respondents viewed resident mission's country knowledge, responsiveness, and helping clients as good or very good

Resident missions' services in knowledge products and in project design received less than two thirds of respondents rating good or very good

The purpose is to draw attention to these issues and discuss plausible ways of addressing them.

1. Clients considered ADB's operational processes to be complicated and cumbersome

Surveys and interviews indicated ADB current structure of operational responsibilities and authorities to be complicated and cumbersome

63. Under ADB's current business setup, regional directors general are ultimately accountable for project performance oversight and the overall portfolio quality of their respective regional department. Resident missions are the first points of contact in the host DMCs and country directors are the focal points for country-related matters. Sector directors are responsible for project processing and oversight of operations in their sectors (except for the relatively small number of projects and TA processed by or delegated to resident missions for administration, Table 5). Sector directors and country directors (for delegated projects) are responsible for procurements of goods below \$10 million and services below \$1 million. OSFMD is responsible for procurements of goods from \$10 million and services from \$1 million. CTL is responsible for disbursement. RSDD is the final approving authority of project safeguard categorization prepared by project teams during the project design stage and oversees the compliance of Category A projects during implementation.

64. Governments and clients in the perception surveys and interviews indicated that they considered ADB's current structure of operational responsibilities and authorities to be complicated and cumbersome. Although governments and clients have to interact with either the resident mission or sector division, the processing of project activities is done in many different units. While the contact point for the client is one unit—because it is handled by many different departments—the process becomes unwieldy. The focal point for the project ends up just being a conduit for channelling the project through different stages. Although technically the regional department is responsible for the performance of the project, it is at times unable to prioritize time sensitive projects because other departments may take time to attend to crucial steps of implementation. For example, procurement specialists in OSFMD review large procurements, disbursement specialists in CTL review disbursements, and safeguards specialists in regional departments or sometimes RSDD review complicated Category A projects. There are some new ideas being implemented to give the regional departments more control over procurement process timing (paras. 36-37).

65. The lack of operational decision-making authority in resident missions was also highlighted during discussions with development partners in the case study countries. The concern about ADB's complicated operational process was also mirrored in ADB's 2009 stakeholder perception survey that ADB was bureaucratic, inflexible, and slow.³⁹ The 2012 stakeholder perception survey also lists ADB's greatest weaknesses as "bureaucratic; inflexible; slow; government relations; and project implementation, monitoring, and efficiency."⁴⁰ In general, stakeholders interviewed are in favor of delegating more responsibility and authority on operations activities to resident missions.

2. Transfer of project administration and leadership during implementation affects policy dialogue and implementation activities

³⁹ ADB. 2010. *ADB Perception Survey: Multinational Survey of Stakeholders 2009*. Manila.

⁴⁰ ADB. 2013. *ADB Perception Survey: Multinational Survey of Stakeholders 2012*. Manila.

66. Delegated projects were typically administered by HQ staff during the first year or two before they were delegated to resident missions.⁴¹ The main drawback of delegating project administration to resident missions during implementation is that this often disrupts the continuity in policy dialogue with the executing and implementing agencies, due to the change in project team leader. Although it is recognized that issues relating to changes of team leadership are not exclusive to delegated projects and that they vary across resident missions and regional departments, this problem of continuity and policy dialogue becomes even more difficult when team leadership is passed from an HQ team leader to a resident mission team leader. Interviews with government and client agencies in the case study countries reconfirmed that this was an important issue. In the case study countries, the World Bank is increasingly avoiding this discontinuity problem by seeking to keep the same processing and implementing task team leaders throughout the project cycle. A 2011 World Bank study also indicated that project task manager quality matters significantly for the project performance.⁴² A 2012 Inter-American Development Bank study found positive effect of project team leader's location on disbursement performance of projects approved after 2009.⁴³

Delegating administration to resident missions during implementation often disrupts the continuity of policy dialogue

67. A related issue is when international staff rotate from resident missions to HQ, often replacement takes a long time, as filling up vacancies are not pre-planned. While this issue of vacant staff positions for long durations is not specific to resident missions, its effect is more apparent due to the small number of staff members in some resident missions. It also means that the clients may not have an effective counterpart who has overlapped with the previous staff to undertake proper handover procedures and to learn the intricacies a specific project.

3. Operational approaches vary little across regions and individual DMCs

68. The evaluation found that operational approaches vary little across regional departments and resident missions, despite the vast differences in the development contexts across sub-regions and individual DMCs. While ADB has different sizes and types of resident missions, functionally they are quite similar in delegated authority and assignment of sector specialists. Of ADB's 26 resident missions covered in this evaluation, 24 are resident missions each covering operations in a single country and two are regional offices (PLCO and SPSO) each covering operations in more than one country. The two regional offices do not have country offices reporting to them, they basically function as a resident mission to more than one country. Like other resident missions, both regional offices are involved in standard and specific functions of a resident mission. The joint venture approach introduced by CWRD in 2009 formalizes the joint team work between HQ and resident missions—rather than the delegated/non-delegated approach of the other regional departments. During interviews, CWRD's staff in HQ and resident missions remarked that decentralization was not applicable to CWRD because under the joint venture approach, project teams include staff from both HQ and resident missions. However, the evaluation found that the joint venture approach in practice is not substantively different from the others. In

Operational approaches vary little across regional departments and resident missions

⁴¹ During 2007–2012, projects were delegated on average 2.4 years after project approval.

⁴² Denizer, C., D. Kaufman, A. Kraay. 2011. *Good Countries or Good Projects? Macro and Micro Correlates of World Bank Project Performance*. Policy Research Working Paper 5646. World Bank.

⁴³ Alvarez C., J. Bueso-Merriam, R. Stucchi. 2012. *So You Think You Know What Drives Disbursements at the IDB? Think, Think Again*. Technical Notes. No. IDB-TN-479. Inter-American Development Bank.

either case, project teams include staff from both HQ and the concerned resident missions and most of the time team leaders are based in HQ.

69. Secondly, over the last decade some DMCs have become MICs. In some MICs, local skills and talents are available and stakeholders are increasingly sophisticated and competent. These countries require different services and products from ADB and want more decentralization of staff relevant to their needs at the resident missions. In some large MICs, clients seek stronger knowledge work, and stronger HQ-resident mission interaction is needed to bring just in time knowledge products. Given the increasing heterogeneity of DMCs, there is a need for a differentiated approach to increase country focus and client satisfaction. The corner-stones of ADB's 2002 reorganization as well as Strategy 2020 were country focus and client satisfaction.

70. Box 4 shows two types of regional hubs to provide technical and administrative support to resident missions in the region covered.

Box 4: Regional Technical and Administrative Hubs

Real Hubs. These regional hubs would be situated either as stand-alone offices or in the larger resident missions in a region. They would house sector experts (e.g., from regional departments and the Private Sector Operations Department) to support project operations, while the regional administrative hubs would consist of other experts (e.g., from non-operational departments such as Economics and Research Department, Controller's Department, Office of the General Counsel, Operations Services and Financial Management Department, and Regional and Sustainable Development Department) to support mainly non-core areas. Staff in stand-alone regional hubs would report to the regional hub directors, while staff in regional hubs situated in larger resident missions would have dual reporting lines to their country directors and their respective sector directors in headquarters. This model assumes that resident missions would take the lead for all of the standard and specific functions, and a large number of the other non-core functions. This model generally corresponds with an approach currently pursued by the World Bank to complement their substantive decentralization to in-country offices.

Virtual Hubs. Under this model, a team of sector specialists would be located in the resident mission with the largest portfolio of their sector in the region. They would lead the operations in the resident mission where they are based as well as in other resident missions in the region. They might move to another resident mission if the sector portfolio there would overtake sustainably that in which they are located. With this arrangement, regional technical hubs could in effect be moving around as virtual regional hubs rather than staying physically put. Each regional department might have different types of virtual regional technical hubs, depending on the portfolios in the countries of their regions. For instance, a road technical hub could be established in one resident mission, while an energy technical hub could be located in another. Some of the ADB regional departments are in fact about to start experimenting with elements of such a model of regional technical hubs.

Source: Adapted and further developed from IED. 2007. *Special Evaluation Study. Resident Mission Policy and Related Operations: Delivering Services to Clients*. Manila: ADB.

4. Staffing issues

71. Attracting and retaining experts and talents in the resident missions to provide effective development service to the DMC clients has been challenging. The main issues are highlighted in paragraphs below.

72. **Lack of an effective incentive mechanism for international staff to move to resident missions.** Discussions in HQ and the case study resident missions indicated that most of the growth in resident mission staff has come from new recruitment rather than staff transfer from HQ to resident missions. Not many senior-level sector specialists have moved from HQ to resident missions. At the recent Country Directors' Forum, several country directors expressed difficulties in getting international staff applicants from HQ to fill vacancies (footnote 7). This problem is especially acute for smaller resident missions or resident missions in countries with difficulties (e.g., Cambodia, Afghanistan). The key reason is that there is no systematic process to rotate international staff from resident missions back to HQ, causing apprehension among staff about the career implications of resident mission postings. Also, ADB's current human resource policy does not reward or recognize resident mission postings as career growth opportunities. This issue is being considered under the evolving human resource practices.

73. National staff and administrative staff in resident missions have limited career progression opportunities. First, it is due to the limited staff level bandwidth. ADB's staff promotion is vacancy based. Regional department staff positions are approved in HQ, and in principle positions are transferable between HQ and the resident missions within a regional department. However, in practice, positions have been moved from HQ to resident missions in only a few cases. Second, training opportunities are also limited. Strengthening resident mission includes increasing staff capacity there. The responses to the perception surveys and interviews with resident mission staff showed that, in spite of recent increases in the number of staff undergoing training, training opportunities have been limited for resident mission national and administrative staff due to work load and timing issues, and training is only available in house.

74. **National staff's technical role in resident missions is not adequately recognized.** There is a perception about the differentiation between international and national staff with much more technical responsibility and authority being given to the former than the latter. The interviews with development partners such as the World Bank, United Nations Development Programme (UNDP), and Department for International Development (DFID) in the case study countries showed that their national staffs are treated more on par with their international staff. In ADB, recognition and delegation of authority to national and administrative staff in resident missions are not systematically institutionalized. Interviews with ADB staff in HQ and resident missions and governments and client agencies in the case countries often revealed that national staff in resident missions carry out project implementation administration activities (e.g., resettlement issues for social safeguards, providing guidelines on project implementation processes to executing and implementing agencies) more effectively than international staff because they know the language and local institutions and contexts. As ADB pays competitively in the local labor markets, that ADB's national staff are not fully empowered and used up to their technical capabilities implies an inefficient use of national staff resources.

75. **Out-posting staff in resident missions.** Since 2004, ADB started out-posting staff to resident missions. The number of out-posted staff steadily increased over time and took off from 18 to 30 in 2010 after BPMSD issued the memo on out-posting staff (footnote 14). As of June 2013, 41 international staffs from HQ were out-posted in resident missions (Appendix 1). Resident missions generally find the mechanism can work and welcome out-posted staff, especially from direct support departments such as OSFMD and CTL. However, two main concerns were raised. First, policy is not totally clear to some country directors or even regional directors general. They view the

mechanism adopted somewhat ad-hoc. For them, it seems to be a convenient way to transfer international staff to resident missions without solving the incentive issues. Some country directors are not clear how to supervise the out-posted staff's work when the project is not delegated to their resident missions. And second, some resident missions find having out-posted staff working on non-delegated projects an added burden. They need to provide office space and administrative support, but do not see the benefits.

5. Information technology issues

eOperations could have more professional and user-friendly formats and interfaces

76. Advancements in information technology along with upgraded infrastructure such as expanded bandwidth has resulted in much improved communication between resident missions and HQ through emails, telephones, and video conferences. As of May 2013, 100% of resident missions that provided information templates to this evaluation had videoconference facilities and access to online information and resources from HQ.⁴⁴ However, staff found that eOperations could have more professional and user-friendly formats and interfaces and need to take into account the specific time required for uploading project data. Regarding eTrip, the general perception and feedback from the resident missions is that the system has been designed for HQ travel arrangements and does not reflect country-specific travel needs and available facilities, causing undue delays and difficulties in using the system by the resident missions.

eTrip does not reflect country-specific travel needs and available facilities

77. Office of Information Systems and Technology (OIST) is updating some of the applications to address performance issues. For issues arising from lack of or limited awareness of information technology applications, hub trainings organized by OIST to train resident mission staff on new systems have been helpful and more such trainings are planned. Some of the problems can be addressed through change management by enabling staff for smoother transition from manual to electronic systems. ADB is in the process of increasing the internet bandwidth for selected resident missions. An automated system of withdrawal applications for disbursements is due for roll out in 2014.

78. The following are some of the future developments envisaged as a part of the recently approved Information Systems and Technology Strategy (ISTS III). The development of a portal for DMCs will enable them to interact with ADB electronically. Executing agency specific portfolio, disbursements and other information will be made available to the DMCs through this portal. Selected resident missions will be wireless-enabled, allowing staff and visitors to access the internet and ADB information. Resident mission staff will be able to get their own mobile devices hooked up to ADB messaging systems. Location independent access to information will be possible allowing resident mission travelling staff, and other authorized users to access information from any location.

C. Improvement Suggestions from Perception Surveys

79. The perception surveys for HQ staff, resident mission staff, and government and client agencies asked the respondents to list up to five suggestions to improve ADB's services in the DMCs.

⁴⁴ Resident mission information templates, 2013. In 2007, 90% of resident missions (21 of 23) had videoconference facilities (IED. 2007. *Resident Mission Policy and Related Operations. Delivering Services to Clients*. Manila: ADB.).

80. Table 9 shows the three suggestions most frequently mentioned by the respondents. Those who did not make one of the suggestions shown below may have had another suggestion, but did not suggest the opposite idea. For example, 33.3% of government respondents suggested improving “delegation of authority to resident missions”. This does not mean that the other 66.6% suggested not to delegate—they just made a different suggestion for improving ADB services to DMCs.

Table 9: Percent of Respondents Making the Suggestion

Suggestions	HQ Staff (n=43)	RM Staff (n=67)	Government (n=21)
RM staffing	86.0	62.7	23.8
Delegation of authority to RMs	65.1	59.7	33.3
Communication between HQ and RMs	44.2	11.9	42.9

ADB = Asian Development Bank, HQ = headquarters, RM = resident mission.

Source: The evaluation team compilation from perception surveys conducted for this study.

81. **First, improve resident mission staffing.** This suggestion was flagged as one key area where ADB could improve its service in the DMCs (86.0% of HQ staff, 62.7% of resident mission staff, and 23.8% of government respondents made this suggestion). Needed staffing improvements identified in the perception surveys and during interviews included a better process for rotating HQ and resident mission staff, career opportunities for national and administrative staff in resident missions (e.g., possibilities for promotion of national staff to international staff, short-term postings to other resident missions, and external training opportunities), and shifting of positions from HQ to resident missions.

82. **Second, delegate more authority to resident missions.** This was suggested by 65.1% of HQ staff, 59.7% of resident mission staff, and 33.3% of government respondents. Interestingly, this suggestion came out second most frequently in all the three groups of respondents. Delegation of project procurement authority to resident missions to increase speed of ADB’s response was most frequently mentioned among the suggestions from governments and clients. Delegation of authority for staffing and budgeting matters was most frequently mentioned among the suggestions from resident staff.

83. **Third, improve HQ-resident mission communications.** The need to improve communications between HQ and resident missions was suggested by 44.2% of HQ staff, 11.9% of resident mission staff, and 42.9% of government respondents. Improvement in communication between HQ and resident missions was most frequently suggested by the government respondents (42.9% versus 33.3% and 23.8% for each of the other two suggestions). For resident mission respondents, increased communication between HQ and resident missions was seen as to increase knowledge integration between HQ and resident missions and to equip resident missions to respond better to clients on HQ-administered projects. For government respondents, improved communication between HQ and resident missions on non-delegated projects was seen as to make speedier and more effective interactions between ADB and the government and client agencies. This was also confirmed during interviews with resident mission staff. The importance of increasing the delegation of operational authority to resident missions was also emphasized in almost all HQ interviews with staff and management.

Perception survey suggested to improve resident mission staffing, delegate more authority to resident missions, and improve 2-way communication

CHAPTER 4

Performance of ADB Operations

84. This chapter analyzes the performance of ADB's operations, trying to tease out where in the process and what activities ADB can do better to improve its overall operational performance. The discussion focuses on indicators of operational effectiveness and efficiency used in ADB's results framework and DEFRs.⁴⁵ The analysis is based on the aggregated indicators for ADB overall, and, when data allow, disaggregated indicators for the performance of operations administered centrally in HQ and those administered by resident missions.

A. Operational Effectiveness

1. Overall Operational Effectiveness

85. In the results framework, ADB's operational effectiveness is measured in six criteria: (i) quality of completed operations, (ii) quality at entry and portfolio performance, (iii) finance transfer and mobilization, (iv) financing for Strategy 2020 priorities, (v) knowledge management, and (vi) partnerships. These criteria are assessed based on 23 indicators. Table 10 presents a summary performance scorecard for 2012, as reported in DEFR 2012.⁴⁶ The performance of each indicator for 2012 is in Appendix 2, and their performance during 2008–2012 is in Appendix 4, Linked Document E.

Table 10: Summary Operational Effectiveness Performance Scorecard, 2012

Criteria	Number of Targets Achieved /	
	Total	Rating
(i) Quality of Completed Operations	1/5	 poor
(ii) Quality at Entry and Portfolio Performance	4/5	 good
(iii) Finance Transfer and Mobilization	1/3	 poor
(iv) Financing Strategy 2020 Priorities	5/5	 good
(v) Knowledge Management	1/2	 mixed
(vi) Partnerships	3/3	 good
TOTAL	15/23	

Source: ADB Development Effectiveness Review. 2012 Report.

86. At the criteria level, "quality of completed operations" and "finance transfer and mobilization" both received a *poor* rating for the organization. The first criterion pertains to success rates of ADB completed operations and CPSs, and the second to

⁴⁵ ADB. 2008. *ADB Results Framework*. Manila.

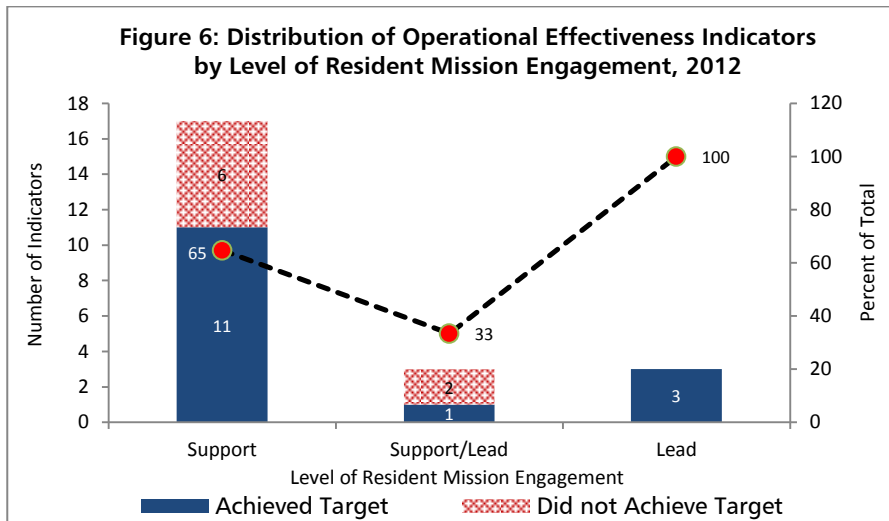
⁴⁶ ADB. 2013. *Development Effectiveness Review. 2012 Report*. Manila. p. ix.

disbursement rates of ADB operations and co-financing mobilization. The criterion “knowledge management” was rated *mixed*.

87. At the indicator level, ADB met the targets for 15 of the 23 indicators in 2012. Among the eight unmet indicators, important ones are: completed CPSs rated *successful*, completed sovereign and non-sovereign operations rated *successful*, positive perceptions of ADB effectiveness in reducing poverty, disbursement ratios for both sovereign and non-sovereign operations, and external perceptions about ADB as an excellent source of knowledge on development issues.

ADB met 15 out of 23 operational effectiveness targets in 2012

88. Figure 6 presents the distribution of the 23 indicators by the level of resident mission engagement in the concerned activities as reported in the resident mission information templates provided for this evaluation. Of the 23 indicators, HQ take the lead role in activities associated with 17 indicators, resident missions take the lead role in activities associated with 3 indicators, while either HQ or resident missions lead or support in activities associated with the remaining 3 indicators. Of the 17 indicators where HQ led, 11 indicators (65%) met their targets and 6 indicators (35%) did not. All the three indicators where resident missions took the lead met their targets (100%).



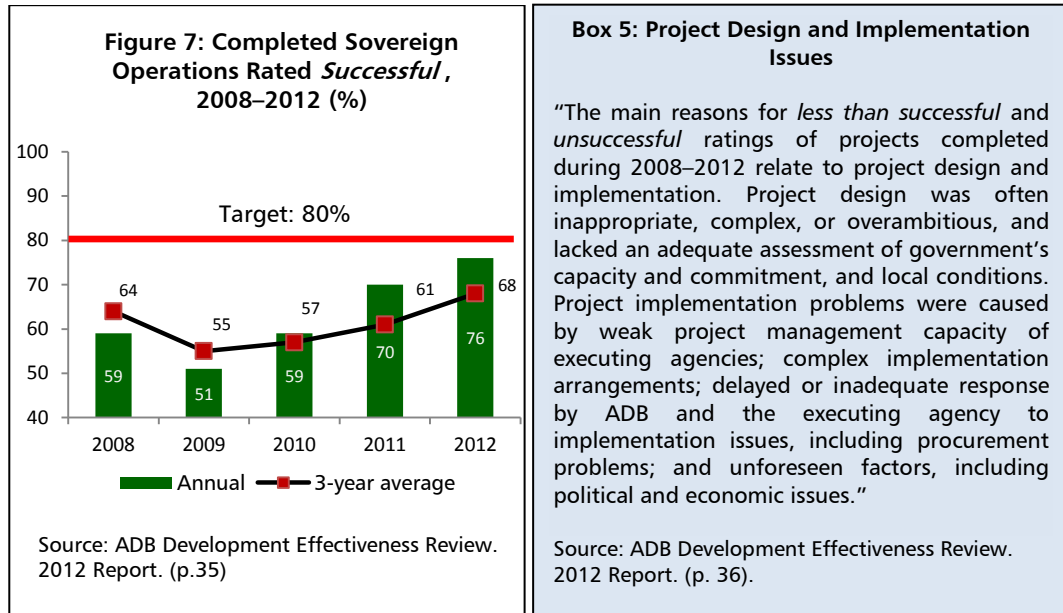
Sources: The number of operational effectiveness indicators was taken from ADB Development Effectiveness Review, 2012 Report. The level of resident mission engagement was taken from the information templates provided by the resident missions.

2. Project Success Rate

89. A key result indicator for ADB operations is the project success rate. Although the project success rate improved steadily between 2009 and 2012, it nevertheless remains below the DEfR 80% target. Figure 7 shows the annual success rate and 3-year average success rate. As of 2012, the annual success rate was 76%. By sector of operation, with the exception of health and transport sector projects that exceeded the target of 80%, all other sectors did not meet the target between 2009 and 2012.⁴⁷

Project success rate improved steadily from 2009, yet remained below 80% target

⁴⁷ ADB. 2013. *Development Effectiveness Review: 2012 Report*. Manila. Pp. 35–37. Health (94%) and transport (83%) exceeded the target of 80%. Multi-sector (78%), finance (44%), education (52%), water (59%), and industry and trade (59%) were below the target.



Box 5: Project Design and Implementation Issues

“The main reasons for *less than successful* and *unsuccessful* ratings of projects completed during 2008–2012 relate to project design and implementation. Project design was often inappropriate, complex, or overambitious, and lacked an adequate assessment of government’s capacity and commitment, and local conditions. Project implementation problems were caused by weak project management capacity of executing agencies; complex implementation arrangements; delayed or inadequate response by ADB and the executing agency to implementation issues, including procurement problems; and unforeseen factors, including political and economic issues.”

Source: ADB Development Effectiveness Review. 2012 Report. (p. 36).

Several studies found four broad reasons for weaknesses in project design, implementation, and supervision

90. **Project design and implementation are key to project success.** While project success depends on various factors, the 2012 DEfR emphasized issues relating to project design and implementation (Box 5). Three recent IED studies and a review by ADB’s project implementation working group found four broad reasons for weaknesses in project design, implementation, and supervision.⁴⁸ They are (i) inadequate due diligence during project processing; (ii) inadequate capacity, skills, and incentives for project implementation, both in ADB and the DMCs; (iii) insufficient attention and/or ineffective supervision during project implementation; and (iv) complex rules and procedures. Interviews with Board members conducted for this evaluation also pointed out that ADB puts more effort into loan approvals and not as much into implementation. ADB’s 2009 stakeholder perception surveys indicated and reiterated in ADB’s 2012 stakeholder perception survey the perception that ADB is bureaucratic, slow to make decisions, and needs to improve its project execution and monitoring (footnotes 39, 40).

91. **Regression analyses of project success factors.** Table 11 shows the performance ratings of a sample of 344 completed projects approved since 2000 and for which PCRs were prepared by end 2012.⁴⁹ Overall, 66.8% of projects were rated *highly successful* or *successful*. Success rates for projects delegated to resident missions and for those administered by HQ were 67.2% and 66.7%, respectively. The proportion of projects rated *unsuccessful* accounted for less than 10% of the total number of projects. As a reference, in the case of the World Bank, the share of projects rated moderately satisfactory or better was 78% during 2006–2008 and 70% during 2009–2011.⁵⁰ A 2011 World Bank study shows that project task manager quality matters significantly for the project performance (footnote 42).

⁴⁸ IED. 2008. *Special Evaluation Study: Project Performance and the Project Cycle*. Manila: ADB
 IED. 2008. *Special Evaluation Study: Midterm Review Process*. Manila: ADB
 IED. 2009. *2009 Annual Report on 2008 Portfolio Performance*. Manila: ADB
 ADB. 2010. *Good Project Implementation Practice*. Report of the Project Implementation Working Group. Manila.

⁴⁹ IED database of completed projects.

⁵⁰ There is no separate calculation of success rates for delegated and non-delegated projects because the World Bank uses a matrix operation approach.

Table 11: Success Rate of Completed Projects, 2000–2012 (%)

Project Category [†]	Highly Successful	Successful	Partly Successful	Unsuccessful
Delegated projects (n = 125)	4.0	63.2	25.6	7.2
Non-delegated projects (n = 219)	6.4	60.3	24.2	9.1
Overall (n = 344)	5.5	61.3	24.7	8.4

Chi-square test for distributional differences between delegated and non-delegated projects:
Chi-square = 1.35, p-value = 0.72.

[†] A project is delegated if its team leader is located in the resident mission. And a project is non-delegated if its team leader is located in headquarters.

Source: The evaluation team computation based on IED's database of completed projects.

92. The evaluation did Ordered Probit and Probit regression analyses of factors contributing to project success, controlling for various project characteristics. These were: ADB's HQ and resident mission involvement, resident mission's experience, borrower's performance, and other exogenous variables, such as the host country's macroeconomic performance and political stability. In total, 16 explanatory variables were used. Summary estimation results are in Appendix 3 and details about the regression analyses are in Appendix 4, Linked Document F1.

93. It was found that, on average, the nature of delegated projects was no different from that of non-delegated projects. For example, they were similar in size and complexity and the distribution of projects across the overall performance rating scale was not statistically different, as indicated by the Chi-square test for a distribution difference (Chi-square = 1.52, p-value = 0.72). The distribution of projects across the ratings for the four evaluation criteria *relevance*, *effectiveness*, *efficiency*, and *sustainability* was also not statistically significantly different for the two types of projects.

94. The analysis indicated that delegation of a project to a resident mission (i.e., team leader location) does not have a significant effect on project performance measured in overall success rating or ratings for individual evaluation criteria such as relevance, effectiveness, efficiency, and sustainability. Irrespective of whether a project is delegated or not, the coefficient estimates were positive and statistically significant in both Ordered Probit and Probit models for ADB's and the borrower's performance during implementation, project cost, resident mission's experience, and the host country's political stability.

95. Project success was found to depend on how effectively ADB monitors implementation progress, as well as on the extent of government's ownership of the project and how effectively the executing agencies implement it. This reconfirms the findings in other evaluations that project success depends on implementation (para. 90). Larger projects having a higher success rate may be an indication that the government takes better care of large projects through greater allocation of financial and human resources and better project supervision. The staff member's understanding of the client country and resident mission's rapport with various stakeholders are likely to improve with the age of the resident mission, which is likely to result in better project performance. See Box 6 for an illustration of the role of ADB and government in project implementation.

The analysis indicated team leader location does not have a significant effect on project success rating

Coefficient estimates were positive and significant for ADB and Borrower performance, project costs, resident mission experience, and country political stability

Box 6: ADB and Borrower Performance - Primary Drivers of Project Success**Gansu Clean Energy Development Project (Loan 2032): Rated *highly successful*^a**

ADB performance was rated *satisfactory*. Responsibility for project administration was delegated to the resident mission six months after the loan became effective. This improved communication between ADB and the executing agency (EA) and implementing agency (IA) and project issues were resolved more quickly and efficiently. ADB provided timely support and close supervision of the project during implementation through review of progress reports; regular communications; site visits; and meetings with the borrower, EA, and IA.

Government performance was rated *highly satisfactory*. Throughout its implementation the project received support from the borrower and EA with timely provision of counterpart funds. The government showed strong ownership by taking initiative in solving problems in the preparation of design documents, the timely delivery of equipment, and in dealing with accidents; and in managing the financing of increased project costs.

Rural Finance Project (Loan 1848): Rated *unsatisfactory*^b

ADB performance was rated *unsatisfactory*. The project design did not take into account the greater need for capacity building and the longer time required for setting up legislative and supervisory frameworks. Project supervision missions were infrequent and of insufficient duration. ADB failed to explore alternatives before terminating the loan leading to considerable waste of resources that were expended by the government and ADB in formulating, processing, and implementing this project.

Borrower performance was rated *partly satisfactory*. Delays occurred in the selection of consultants and in making reimbursement claims. By agreeing to the premature cancellation of the project the government missed an opportunity to resolve the weaknesses of the savings and credit cooperatives system and facilitate the development of a sustainable rural financial system.

Sources:

^a ADB. 2010. *People's Republic of China: Gansu Clean Energy Development Project. Validation Report*. Independent Evaluation Department, Asian Development Bank.

^b ADB. 2010. *Mongolia: Rural Finance Project. Validation Report*. Independent Evaluation Department, Asian Development Bank.

High success of resident mission processed projects suggests ADB may revisit resident mission policy on responsibility of project processing

96. **Review of completed projects processed by resident missions.** During 2000–2012 resident missions processed 90 projects (8.9% of ADB total). A review of the completion reports available found that 13 had completion or validation reports, of which 11 (85%) were rated *successful* compared to 192 of 302 projects (64%) that were processed by HQ staff during the same period.⁵¹ These 13 projects processed by resident missions varied in terms of the projects costs, duration, number of components, as well as in terms of experience of resident missions as indicated by the age of resident missions at approval. Two of them were multi sector projects and 11 were public sector management projects (see Appendix 4, Linked Document F2).

97. The small number of projects processed by resident missions is not sufficient to make statistical inferences regarding project success. At the same time, the high success rate of projects processed by resident missions (85%) suggests that ADB may revisit the resident mission policy's proposal that "project processing continue to be responsibility of headquarters"⁵²—a point reiterated in the 2008 review.

⁵¹ Emergency projects are excluded.

⁵² ADB. 2000. Resident Mission Policy. Manila. p. 28.

98. On the basis of project completion and validation reports, several factors that led to project success were identified. These are: (i) maintaining active dialogue with the government and other stakeholders; (ii) authorizing advance procurement action; (iii) recommending simplified approval procedures for contract awards; and (iv) the relationship and trust built with the government that allows ADB staff to discuss design proposals and risks associated with implementation at an early stage (Box 7). These factors suggest that there are possible operational effectiveness gains to be made for increased project success rate by encouraging selected resident missions to process more projects.

Box 7: Factors Behind Successful Performance of Projects Processed by Resident Missions

Loan 2305: Second Development Policy Support Program (DPSP-2)

“Both DPSP-2 and DPSP-3 were harmonized with support provided by the World Bank and the Government of Japan. Consultations took place regularly and led to joint missions in which all three development partners participated. Furthermore, both programs were decentralized to the Indonesia Resident Mission, which allowed for closer interaction with the Government.”

Loan 2228: Development Policy Support Program

“ADB staff members involved in DPSP design were successful in building relationships of trust and cooperation with the Government. As a result, design proposals and risks to implementation were discussed at an early stage in a frank manner, in a spirit of mutual responsibility for the success of the Program. This process was facilitated by broad continuity in the high-level government counterparts assigned to program discussions. This team met on a bimonthly basis to discuss and monitor progress in the reforms incorporated in the DPL-2/DPSP design.”

Sources: The evaluation team extractions from the concerned project completion reports.

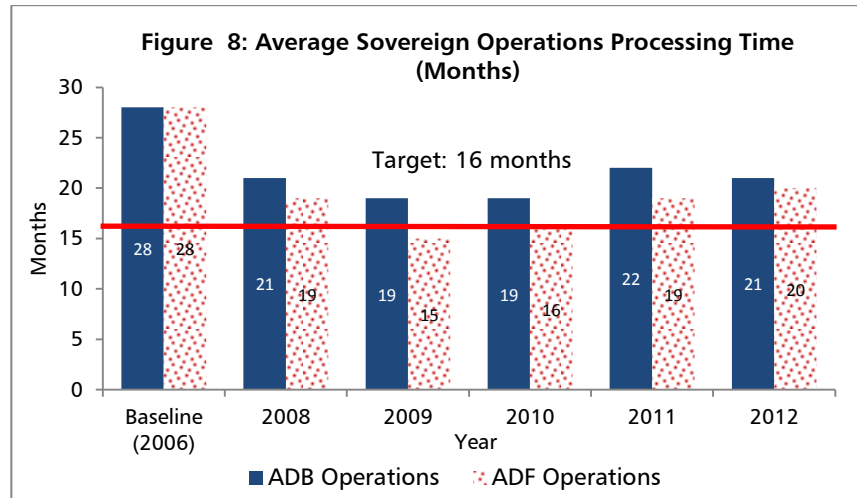
B. Operational Efficiency

1. Project Processing Time

99. Figure 8 shows the average processing time (in months) of ADB sovereign operations and ADF operations during 2008–2012. The average processing time of ADB operations and ADF operations over the period was lower than the baseline of 28 months in 2006. However, the average processing time of ADB operations remained consistently above the target of 16 months. The average processing time of ADF operations is slightly better generally, and it met the target in 2009 and 2010.

100. As discussed earlier, the majority of ADB’s operations (loans, grants, and TA projects) are processed by sector specialists based in HQ (Table 5). The resident mission staff usually acts as in-country contact points and participates as mission members. Government and client agencies in interviews for this evaluation appreciated ADB’s support of development in their respective countries. However, they highlighted concerns about the time ADB takes to process a project up to approval. While governments also add to delays at their end due to their own processes and procedures, they were of the opinion that ADB, has as yet, not been taking full advantage of resident missions’ close proximity and knowledge of local contexts and systems in the DMCs. They were also of the opinion that delegating more authority to the resident missions and providing appropriate staff support, such as posting sector specialists in the DMC, as the World Bank and other development partners do, would speed up the processes and decision making in ADB (see improvement suggestions in Chapter 3).

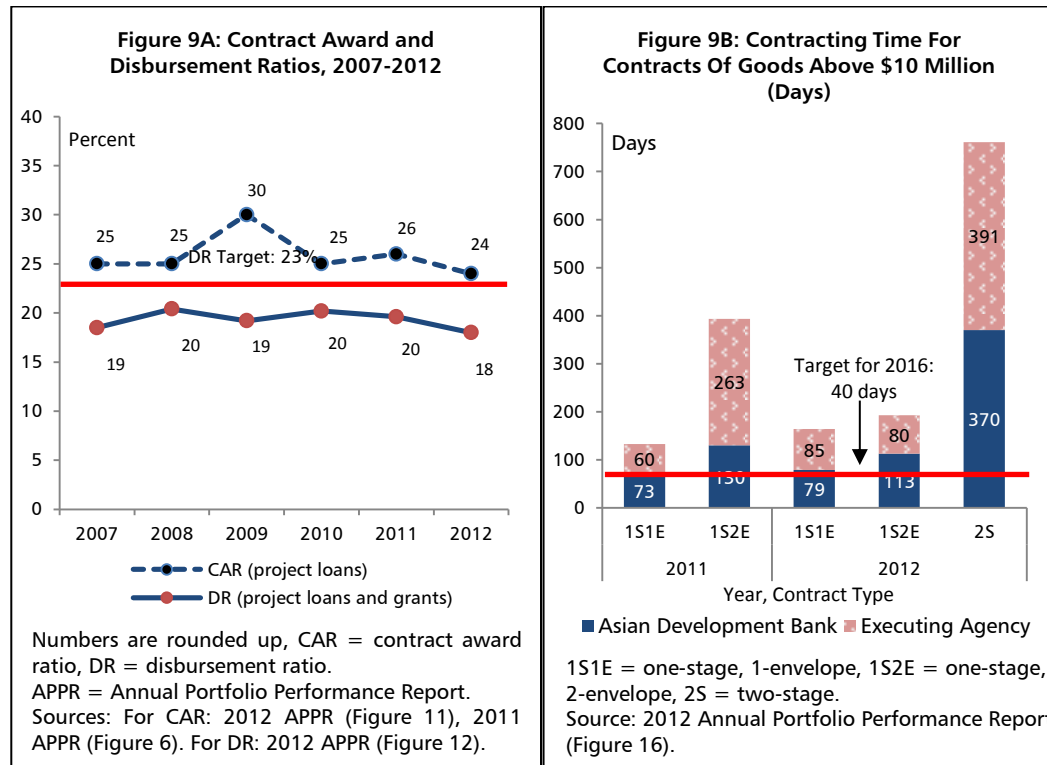
Average processing time of ADB operations remained consistently above the target of 16 months



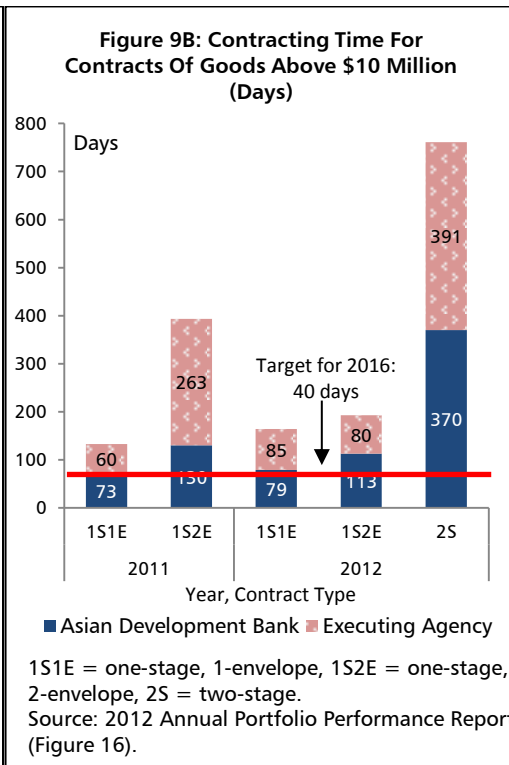
ADB = Asian Development Bank, ADF = Asian Development Fund.
 Source: ADB Development Effectiveness Review: 2012 Report.

2. Contract Awards

101. **Contract Award Ratios.**⁵³ Figure 9A shows the ADB overall contract award ratios of project loans during 2007–2012 taken from 2012 APPR (Figure 11) and 2011 APPR (Figure 6).



Numbers are rounded up, CAR = contract award ratio, DR = disbursement ratio.
 APPR = Annual Portfolio Performance Report.
 Sources: For CAR: 2012 APPR (Figure 11), 2011 APPR (Figure 6). For DR: 2012 APPR (Figure 12).



1S1E = one-stage, 1-envelope, 1S2E = one-stage, 2-envelope, 2S = two-stage.
 Source: 2012 Annual Portfolio Performance Report (Figure 16).

⁵³ Contract award ratio is defined as the ratio of contract awarded or the actual commitment during the year over the value available for contract or commitment awards at the beginning of the year. ADB. 2012. *2011 Annual Portfolio Performance Report*. Manila. p. 10.

102. **Contract Processing Time.** Figure 9B shows the average number of days for ADB and executing agencies to process contracts of goods above \$10 million using different international competitive bidding procedures in 2011 and 2012. In 2011 and 2012, the average time ADB took to process a contract ranged from 73 to 370 days, depending on the procurement procedures, and that for executing agencies ranged from 60 to 391 days. In 2011, contracts above \$10 million accounted for 61% of the total contract value signed.⁵⁴ The long contracting time was caused by the excessive time the executing agencies took to evaluate technical proposals and by ADB seeking clarifications from executing agencies on the bid evaluation reports. The DEfR target is 40 days by 2016.⁵⁵

103. **Resident missions' activities contributing to improving contract awards.** Of the 14 resident missions that provided information on their contract award ratios for this evaluation, 12 cited that contract award ratios improved over time. The main reasons of improvement resulting from resident mission activities cited are: (i) regular project review missions and close monitoring and advice to executing and implementing agencies on project implementation aspects; (ii) reduction in the time needed to review procurement documents due to out-posted procurement specialists and recruitment of procurement officers in resident missions; (iii) refinements to procurement plan to harmonize with national procurement practices while maintaining consistency with ADB procurement guidelines; and (iv) improved project designs with consultation of the resident mission staff and improved implementation after delegation of the project (e.g., Loan 1849, Loan 1767, Loan 1711, and Loan 1910).⁵⁶

3. Disbursement Ratios⁵⁷

104. Figure 9A shows disbursement ratios of project loans and grants during 2007–2012 (2012 APPR, Figure 12). ADB's overall disbursement ratios were consistently below the 2012 target of 23% (the red horizontal line) for sovereign operations.⁵⁸

105. **Resident missions' activities contributing to improving disbursements.** Of the 16 resident missions that provided information on their disbursements for this evaluation, 12 cited that disbursements improved over time. Several major reasons were cited as the reasons for the improvement. These were: (i) resident mission's preview of withdrawal applications helped more effectively respond and update executing agencies on new procedures; identify issues in consultation with government; and minimize errors and returns, reduce delays; (ii) resident mission's regular project review missions, close monitoring, and follow-up actions; (iii) delegation of initial processing of disbursement documents to resident missions (screening and uploading in e-Star to streamline procedures) reduced time from 15 to 5 days; (iv) opening of the resident mission helped improve contract awards and disbursements due to improved project designs with the consultation of the resident mission staff and

Resident mission activities contributing to improving contract awards were identified

Overall disbursement ratios were consistently below the 2012 target of 23% for sovereign operations

⁵⁴ In 2011, 97% of 5,540 signed contracts were less than \$10 million, accounting for 39% of the total value (\$3.7 billion). (ADB. 2012. *2011 Annual Portfolio Performance Report*. Manila. Para. 17).

⁵⁵ ADB. 2012. *Review of ADB Results Framework*. Manila. p. viii.

⁵⁶ Resident mission information templates 2013. Comments on improvements in contract award ratio, resulting from specific resident mission activities.

⁵⁷ The disbursement ratio is defined as the ratio of total disbursements in a given year (period) to the net loan and grant amount available at the beginning of the year (period), plus loans and grants that have become effective during the year (period) less cancellations made during the year (period). ADB. 2013. *Development Effectiveness Review. 2012 Report*. Manila. p. 44.

⁵⁸ ADB. 2008. *ADB Results Framework*. Manila (Appendix 1).

improved implementation after delegation of the project (e.g., Loan 1849, Loan 1767, Loan 1711, and Loan 1910); and (v) OSFMD efforts to provide hub training for executing agencies and resident mission staff (e.g., Thailand Resident Mission), and project officers' attention to timely processing of imprest account replenishment.⁵⁹

4. Closing Delays

106. **Number of delayed closures.** Table 12 shows the closures of loans, grants, and TA projects over the period 2007–2012, by portfolio administered by resident mission, HQ, and ADB overall. Over the period, of the total of 2,271 loans, grants, and TA projects closed, the number of resident mission administered projects and TA projects closed was 499 (about 22%), including 70 loans (14% of 514 loans closed), 57 grants (64% of 89 grants closed), and 372 TA projects (22% of 1,668 TAs closed). Both resident mission administered loans and HQ-administered loans had the same proportion of loan closing delays (70%). However, resident mission administered grants and resident mission administered TA projects had a higher proportion of closing delays (79% and 95%) as compared to HQ-administered grants and TA projects (59% and 92%). Overall, the total resident mission administered portfolio (loans, grants, and TA projects) closed between 2007 and 2012 had a higher proportion of delays (90%) than the total HQ-administered portfolio closed (86%). The ADB overall portfolio had 70%, 72%, and 93% of delayed closures for loans, grants, and TA projects, respectively, and 87% for all combined.

Table 12: Portfolio Closures, 2007–2012

Portfolio	Loans	Grants	TAs	Total
RM Administered				
- Number of closures	70	57	372	499
- Number of delayed closures	49	45	355	449
- % of delayed closures	70	79	95	90
HQ Administered				
- Number of closures	444	32	1,296	1,772
- Number of delayed closures	312	19	1,189	1,520
- % of delayed closures	70	59	92	86
ADB Overall				
- Number of closures	514	89	1,668	2,271
- Number of delayed closures	361	64	1,544	1,969
- % of delayed closures	70	72	93	87

ADB = Asian Development Bank, HQ = headquarters, RM = resident mission, TA = technical assistance.
Source: Operations Services and Financial Management Department data.

107. **Number of days of delayed closures.** The evaluation also computed the average closing days for every year between 2007 and 2012 (Table 13). In general, the closing delays of resident mission-administered loans and grants were lower than HQ-administered loans and grants, but resident mission-administered TA projects had more delays than HQ-administered TA projects. With the exception of 2012, resident mission administered loans always had lower average closing delays than HQ-administered loans, ranging from 9% (2011) to 64% (2008), and 23% for the period as a whole. Although between 2007 and 2009 resident mission administered grants had higher average closing delays than HQ-administered grants, in the last 3 years (2010–2012) it was considerably lower (27% to 56% lower). For the period as a whole, resident mission-administered grants had 30% lower closing delays than HQ-administered

⁵⁹ Resident mission information templates, 2013. Comments on improvements in disbursement ratio, resulting from specific resident mission activities.

grants. Resident mission-administered TA projects in general have shown a trend of higher closing delays than HQ-administered ones.

Table 13: Average Closing Delays, 2007–2012
(Days unless shown otherwise)

Item	2007	2008	2009	2010	2011	2012	2007-2012
Loans							
RM administered	162	97	164	191	173	283	180
HQ administered	228	269	228	289	190	199	235
ADB overall	224	259	213	272	187	207	228
RM – HQ	(66)	(172)	(64)	(98)	(17)	84	(55)
RM – ADB	(62)	(162)	(49)	(81)	(14)	76	(47)
RM (lower)/higher than HQ (%)	(29)	(64)	(28)	(34)	(9)	42	(23)
Grants							
RM administered	135	97	604	157	226	218	229
HQ administered	0	29	0	359	309	360	329
ADB overall	135	74	604	202	243	289	259
RM – HQ	135	68	604	(202)	(83)	(142)	(100)
RM – ADB	0	23	0	(45)	(17)	(71)	(30)
RM (lower)/higher than HQ (%)	na	234	na	(56)	(27)	(39)	(30)
Technical Assistance							
RM administered	262	230	239	271	250	267	251
HQ administered	282	177	170	201	218	186	210
ADB overall	278	190	190	216	225	203	219
RM – HQ	(20)	53	69	70	32	81	41
RM – ADB	(16)	40	49	55	25	64	32
RM (lower)/higher than HQ (%)	(7)	30	41	35	15	44	20

() negative number, na = not applicable.

ADB = Asian Development Bank, HQ = headquarters, RM = resident mission.

RM (lower)/higher than HQ is computed as $100 \times (\text{RM}-\text{HQ})/\text{HQ}$ (%).

Source: Operations Services and Financial Management Department data.

5. Financial Efficiency Indicators

108. The purpose of this section is to see how ADB is using its resources (staff and finances) in delivering services and operations and to see if there is room for ADB to improve. For this, the evaluation uses three financial efficiency indicators: total IAE per staff (\$ thousands), portfolio per staff (\$ millions), and operating unit cost (\$ thousands per \$1 million portfolio).⁶⁰

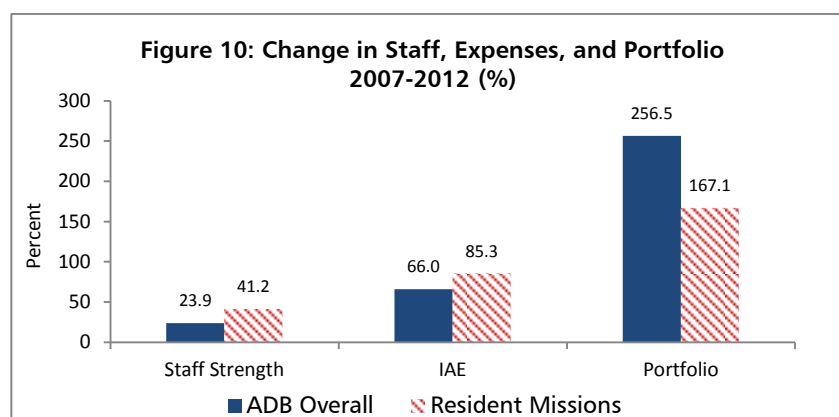
109. In this analysis, staff refers to ADB staff in the five regional departments (international, national, administrative, and out-posted), excluding contractual staff and staff consultants. IAEs as defined by ADB include operational expenses and

⁶⁰ IAE per staff shows how much ADB spends per staff to run its operations. It is derived as the total IAE divided by the number of staff and measured in \$ thousands. Portfolio per staff shows on average how big a portfolio a staff is handling. It is derived by the portfolio size divided by the number of staff and measured in \$ millions. Operating unit cost shows how much it costs ADB to run operations. It is derived as the total operational expenses divided by the portfolio size and measured in \$ thousands per \$1 million portfolio.

administrative expenses.⁶¹ Portfolio data include loans, grants, and TA projects administered by HQ and resident missions separately by regional department.

110. Figure 10 summarizes the change in staff strength, total expenses, and portfolio administration during 2007–2012, for ADB overall and for resident missions (data in Table 6). The expansion of resident missions in staff and IAE exceeded ADB's overall growth. However, portfolio delegation to resident missions did not keep pace with the growth of ADB's overall portfolio. Over the period, resident mission administered portfolio grew at 167%, while that of ADB overall 256.5%.

Portfolio delegation to resident missions did not keep pace with the growth of ADB's overall portfolio



ADB = Asian Development Bank, IAE = internal administrative expenses.

Source: The evaluation team computation from Budget, Personnel, and Management Systems Department data on staff and expenses and from Operations Services and Financial Management Department data on portfolio.

111. Table 14 summarizes the three financial efficiency indicators for HQ and resident mission operations during 2007–2012.

Table 14: Financial Efficiency Indicators, 2007–2012

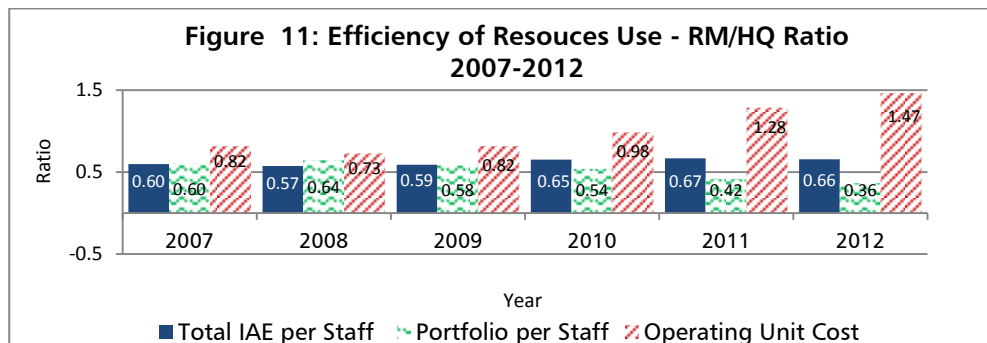
Item	2007	2008	2009	2010	2011	2012	Change 2007–2012 (%)
A. Total Internal Administrative Expenses per Staff (\$'000)							
HQ	160.89	168.35	174.41	173.64	183.03	195.57	21.56
RM	96.25	96.40	102.80	113.38	122.42	128.12	33.11
RM/HQ	0.60	0.57	0.59	0.65	0.67	0.66	1.54
B. Portfolio per Staff (\$ million)							
HQ	27.26	35.78	47.03	57.27	76.72	87.01	219.14
RM	16.49	23.03	27.43	30.91	31.94	31.51	91.15
RM/HQ	0.60	0.64	0.58	0.54	0.42	0.36	0.42
C. Operating Unit Cost (\$'000 per \$ million portfolio)							
HQ	59.00	47.05	37.08	30.32	23.86	22.48	(61.91)
RM	48.20	34.24	30.24	29.86	30.65	32.96	(31.62)
RM/HQ	0.82	0.73	0.82	0.98	1.28	1.47	0.51

() = negative, HQ = headquarters, RM = resident mission.

Source: The evaluation team computation based on Budget, Personnel, and Management Systems Department data on staff and budget and Operations Services and Financial Management Department data on portfolio.

⁶¹ Operational expenses include staff salaries and benefits and costs for staff development, reallocation, consultant, business travel, and representation). Large items of administrative expenses include office occupancy, depreciation, contractual services, communications, equipment, and insurance.

112. Figure 11 gives a visual presentation. Three features emerge from this data.



HQ = headquarters, IAE = internal administrative expenses, RM = resident mission.

Source: The evaluation team computation from Budget, Personnel, and Management Systems Department data on staff and expenses and from Operations Services and Financial Management Department data on portfolio.

113. First, the resident mission/HQ ratio for IAE per staff stayed fairly stable between 0.57–0.66 during 2007–2012. The relatively lower IAE per resident mission staff comes mainly from savings in staff costs and travel costs. ADB's staff costs account for about 80% of the total operational expenses, and business travels about 8%.⁶² Resident missions' lower staff costs are due to lower market wages for national staff relative to international staff. Being in the country, resident mission staff have lower travel costs compared to HQ staff, who need to travel from Manila to DMCs frequently.

114. For illustration purposes, the evaluation computed possible cost differences per year based on some realistic data of 2012 for two alternatives to the base case when project administration is led by a sector specialist in HQ: (i) project administration is carried out by national staff in a resident mission; and (ii) project administration is carried out by international staff in a resident mission. The first alternative yielded total cost savings between 32% and 89% of base case costs, depending on the country and the level of national staff assumed. The second alternative resulted in a net cost increase between 12.5% and 118%, depending on the resident mission and the level of international staff assumed. In both cases, the savings in mission costs were relatively marginal, varying from 2% to 6% among the countries.

115. Second, the resident mission/HQ ratio for portfolio per staff decreased between 2007 and 2012. Table 14, shows that between 2007 and 2012, the portfolio per HQ staff increased 220% from \$27 million to \$87 million, while that per resident mission staff increased 91% from \$16.5 million to \$31.5. As can be seen in Figure 4A, the resident mission/ADB total portfolio decreased from 47% in 2007 to 35% in 2012.

116. Third, resident missions had lower operating unit costs than HQ during 2007–2010 (between 73% and 98%), reflecting the higher staff costs in the latter. On the other hand, resident missions had higher unit costs than HQ for 2011 and 2012 (128% and 147%, respectively) as the delegation of portfolio to resident missions did not keep pace with the growth in ADB's overall portfolio as discussed in Chapter 2 and shown again in Figure 10.

During 2007–2012, relatively to headquarters, resident missions had lower costs per staff and smaller portfolio per staff.

Resident missions' operating unit costs became higher than headquarters in 2011–2012 as portfolio delegation did not keep pace with the overall portfolio growth

⁶² ADB. 2012. *Budget of the Asian Development Bank for 2013*. Manila. p. 60.

Appendixes

APPENDIX 1: LIST OF ADB FIELD OFFICES (as of June 2013)

No.	Resident Missions	Start of Operation	IS	NS	AS	Total RM Staff	OS	Total Staff in RM
East Asia Department								
1	Mongolia Resident Mission (MNRM)	Aug-01	3	8	7	18	2	20
2	PRC Resident Mission (PRCM)	Jun-00	8	26	22	56	7	63
Central and West Asia Department								
3	Afghanistan Resident Mission (AFRM)	Jan-02	5	11	12	28		28
4	Armenia Resident Mission (ARRM)	Nov-08	1	4	2	7		7
5	Azerbaijan Resident Mission (AZRM)	Nov-04	1	4	1	6		6
6	Georgia Resident Mission (GRM)	Jul-09	1	4	2	7		7
7	Kazakhstan Resident Mission (KARM)	Jan-98	2	6	6	14	4	18
8	Kyrgyz Resident Mission (KYRM)	Apr-00	2	5	7	14		14
9	Pakistan Resident Mission (PRM)	Jul-89	5	20	17	42	1	43
10	Tajikistan Resident Mission (TJRM)	Nov-03	2	4	10	16		16
11	Turkmenistan Resident Mission (TKRM)	Feb-10	1	3	1	5		5
12	Uzbekistan Resident Mission (URM)	Jan-98	5	9	8	22		22
Pacific Department								
13	Pacific Liaison and Coordination Office (PLCO)	Aug-05	3	6	5	14	3	17
14	Papua New Guinea Resident Mission (PNRM)	Oct-03	4	4	7	15		15
15	Special Office in Timor-Leste (SOTL)	Feb-00	1	4	2	7	1	8
16	South Pacific Subregional Office (SPSO)	Jun-04	5	8	11	24		24
South Asia Department								
17	Bangladesh Resident Mission (BRM)	Jul-82	8	21	25	54	1	55
18	Bhutan Resident Mission (BHRM)	Mar-13		1	1	2		2
19	India Resident Mission (INRM)	Dec-92	10	29	31	70	5	75
20	Nepal Resident Mission (NRM)	Nov-89	4	17	16	37	1	38
21	Sri Lanka Resident Mission (SLRM)	Oct-97	4	15	14	33		33
South East Asia Department								
22	Cambodia Resident Mission (CARM)	Dec-96	6	10	11	27		27
23	Indonesia Resident Mission (IRM)	Jul-87	6	18	15	39	3	42
24	Lao Resident Mission (LRM)	May-00	4	10	10	24	2	26
25	Philippines Country Office (PHCO)	Nov-00	4	5	4	13		13
26	Thailand Resident Mission (TRM)	Jan-05	6	5	5	16	3	19
27	Viet Nam Resident Mission (VRM)	Feb-97	7	17	16	40	8	48
28	Extended Mission to Myanmar (EMMYA)	Aug-12	3		2	5		5
Total			111	274	270	655	41	696
Representative Offices								
1	European Representative Office (ERO)	Feb-96	2	1	2	5		10
2	Japanese Representative Office (JRO)	Feb-96	2	1	2	5		10
3	North American Representative Office (NARO)	Feb-95	2	1	2	5		10

Numbers of staff are actual filled staff.

AS = administrative staff, IS = international staff, NS = national staff, OS = out-posted staff.

This list does not include the 9 development coordination offices that ADB co-operates with the World Bank in the Pacific (Cook Islands, Federated States of Micronesia, Kiribati, Palau, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, and Vanuatu).

Source: Budget, Personnel, and Management Systems Department data.

APPENDIX 2: PERFORMANCE OF OPERATIONAL EFFECTIVENESS INDICATORS, 2012

Operational Effectiveness Indicators	Achieve Target ^a		Level of RM Engagement ^b
	ADB Operations	ADF Operations	
I. Quality of Completed Operations	poor	poor	
1. Completed CPSs rated <i>successful</i>	0	0	S/L
2. Completed sovereign operations rated <i>successful</i>	0	0	S
3. Completed nonsovereign operations rated <i>successful</i>	0	na	S
4. Completed TA projects rated <i>successful</i>	1	1	S
5. Positive perceptions of ADB effectiveness in reducing poverty	0	0	S/L
II. Quality at Entry and Portfolio Performance	good	good	
6. Quality at entry of CPSs rated <i>satisfactory</i>	1	1	L
7. Quality at entry of sovereign projects rated <i>satisfactory</i>	1	0	S
8. Quality at entry of nonsovereign projects rated <i>satisfactory</i>	0	na	S
9. Performance of sovereign operations during implementation rated <i>satisfactory</i>	1	1	S
10. Average time from approval to first disbursement in sovereign projects	1	0	S
III. Finance Transfer and Mobilization	poor	mixed	
11. Overall disbursement ratio for sovereign operations	0	0	S
12. Overall disbursement ratio for nonsovereign operations	0	na	S
13. DVA cofinancing relative to ADB financing approved annually	1	1	S/L
IV. Financing for Strategy 2020 Priorities	good	good	
14. Financing for Strategy 2020 core operational areas	1	1	S
15. Project supporting private sector development	1	1	S
16. Project supporting regional cooperation and integration	1	1	S
17. Project supporting environmental sustainability	1	1	S
18. Project with gender mainstreaming	1	0	S
V. Knowledge Management	mixed	mixed	
19. Annual MAKE survey assessment rating	1	1	S
20. ADB perceived externally as excellent source of knowledge on development issues	0	0	S
VI. Partnerships	good	good	
21. Sovereign operations with CSO participation	1	1	L
22. New program-based approaches approved	1	1	S
23. CPS and CPR missions conducted jointly with at least one other development partner	1	1	L

ADB = Asian Development Bank, ADF = Asian Development Fund, CPR = country portfolio review, CPS = Country Partnership Strategy, CSO = civil society organization, DVA = direct value-added, MAKE = Most Admired Knowledge Enterprises, na = not applicable, RM = resident mission, TA = technical assistance.

Achieve target: 1 = Achieved, 0 = Did not achieve.

Level of RM engagement: L = lead, S/L = support or lead, S = support.

Sources:

^a ADB. 2013. Development Effectiveness Review, 2012 report. Manila.

^b The evaluation team compilation based on the information templates provided by the resident missions.

APPENDIX 3: SUMMARY ESTIMATION RESULTS

Explanatory Variables	Overall Success		Relevance		Effectiveness		Efficiency		Sustainability	
	OP	P	OP	P	OP	P	OP	P	OP	P
Delegation to RM	-	-	-	-	-	-	-	-	-	-
ADB's performance	**	**	-	-	***	***	**	-	**	***
Borrower's performance	***	***	***	***	***	***	***	***	***	***
Loan type	-	(**)	(**)	-	(**)	(**)	-	(**)	**	-
Project cost	***	***	-	*	***	**	**	**	**	**
Project duration	-	-	-	-	-	-	-	-	-	-
Number of project components	-	-	-	-	-	-	-	-	-	-
Person days of missions	-	-	**	-	-	-	-	**	-	*
Implementation delays	-	-	-	-	-	-	-	-	(**)	-
Lead time to loan effectiveness	-	-	-	-	-	-	(**)	(**)	-	-
Cost overruns	-	-	-	-	(**)	-	-	-	-	-
Age of RM at the time of approval	**	**	**	-	*	-	**	*	**	**
Inflation rate	-	-	-	-	-	-	-	-	-	-
Political stability (governance score)	**	**	**	**	**	*	**	**	***	***

(-) = the coefficient is negative, - = the coefficient is not statistically significant, * = significant at 10%, ** = significant at 5%, *** = significant at 1%, OP = Ordered Probit, P = Probit.

Source: The evaluation team estimates based on Independent Evaluation Department database of completed projects.

APPENDIX 4: LIST OF LINKED DOCUMENTS

- A1: Summary of Resident Mission Policy 2000**
<http://www.adb.org/sites/default/files/A1-Summary-of-RM-Policy-2000.pdf>
- A2: Resident Mission Activities, 2007 and 2012**
<http://www.adb.org/sites/default/files/A2-RM-Activities-2000-and-2012.pdf>
- B1: Decentralization Objectives, Roles, and Policies of Comparable Agencies**
<http://www.adb.org/sites/default/files/B1-Decentralization-Objectives-Roles-and-Policies-of-Comparable-Agencies.pdf>
- B2: Delegation of Work to Field Offices in Selected Multilateral Development Banks**
<http://www.adb.org/sites/default/files/B2-Delegation-of-Work-to-FOs-in-Selected-MDBs.pdf>
- B3: Types of Hubs in Multilateral Development Banks**
<http://www.adb.org/sites/default/files/B3-Types-of-Hubs-in-MDBs.pdf>
- C. Previous Reviews of Resident Mission Operations**
<http://www.adb.org/sites/default/files/C-Previous-Reviews-of-RM-Operations.pdf>
- D. Performance of Resident Mission Functions**
<http://www.adb.org/sites/default/files/D-Performance-of-RM-Functions.pdf>
- E. Performance of Operational Effectiveness Indicators**
<http://www.adb.org/sites/default/files/E-Performance-of-Operational-Effectiveness-Indicators.pdf>
- F1: Regression Analysis of Project Performance**
<http://www.adb.org/sites/default/files/F1-Regression-Analysis-of-Project-Performance.pdf>
- F2: Loans Processed by Resident Missions with Completion Reports, 2000–2012**
<http://www.adb.org/sites/default/files/F2-Loans-Processed-by-RMs.pdf>

Asian Development Bank Decentralization: Progress and Operational Performance

This evaluation reviewed ADB's decentralization progress to date in allocating staff, budgets, activities, responsibilities, and decision-making authority between headquarters and resident missions. It also discussed operational issues under the current decentralization model and provided recommendations for improving the effectiveness and efficiency of ADB's operations.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than \$2 a day, with 828 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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

About the Independent Evaluation at Asian Development Bank

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

Contact Information

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



Scan with your QR-enabled device
to read the online version