

Chair's Summary for the 12 November 2018 Meeting

Thematic Evaluation: State-Owned Enterprise Engagement and Reform

1. The Development Effectiveness Committee (DEC) discussed the thematic evaluation of the Independent Evaluation Department (IED) on State-Owned Enterprise (SOE) Engagement and Reform. DEC noted the evaluation's importance given ADB's significant SOE operations, amounting to around \$45 billion, representing 21% of total ADB support for 2005 to 2017 (evaluation period) including 273 sovereign loans and grants, 154 technical assistance (TA) projects, and 57 non-sovereign operations projects.
2. **IED Findings and Recommendations.** To evaluate ADB's support for SOE engagement and reform, IED developed an evaluation framework that classified macro-level interventions such as policy-based loans, TA and knowledge products and services as *indirect support*; sector governance and SOE-specific inputs including sovereign project loans and grants as *targeted support through sovereign investments*; and PPP modality and other non-sovereign interventions as *targeted investments through non-sovereign investments*. Using this framework, IED found that (i) targeted sovereign interventions were the most successful with a 68% rating; (ii) ADB's overall SOE interventions were successful or highly successful with a 61% rating; and (iii) indirect macro-level support showed modest results with a rating of 54%. Further, it found that ADB's SOE support was not sufficiently strategic nor well-organized for delivery.
3. IED thus recommended for ADB to: (i) address more comprehensively SOE reform issues, provide strategic direction to governments, and use country partnership strategies process to articulate country-relevant approaches; (ii) strengthen capacity of the existing SOE working group; (iii) improve monitoring and reporting of SOE reform measures; and (iv) refine project classification system for better tagging of SOE reforms and enhance ADB knowledge base.
4. **Management Response.** Management commented on the scope, data set used, and the methodology of IED's evaluation as follows. The evaluation's scope was unclear whether all the projects evaluated should address all SOE reform elements (including improving corporate and social governance, reducing fiscal burden of SOEs, improving SOE efficiency and commercial viability, etc.) or whether these layers of reform needed to be sequenced. The data set used for the evaluation mixes interventions that target SOE reforms with those that do not (where reform was not the primary objective), making findings and conclusions drawn from the data set less targeted. With a mixed set of SOE projects evaluated, IED deviated from its initial approach paper which focused on evaluating SOE reform operations to include non-reform SOE operations when it circulated the final report. Management finally pointed to the misapplication of conventional project ratings to assess ADB performance on SOE reforms given the inherent difficulty in attributing reforms to specific projects. Management suggested that the study could have identified bottlenecks and gaps in SOE reforms by analyzing the successes and failures of ADB's interventions and systematically assessing sequenced operations.
5. Management generally agrees with the recommendations, highlighting its ongoing initiatives consistent with the recommendations. However, it only partly agrees with recommendation 3, noting that the creation of a central database for reform monitoring is unnecessary with the ongoing development of the eOperations database, a single source of data of ADB operations with an improved project classification system.
6. **DEC Discussion and Comments.** DEC found unsatisfactory that the IED report was finalized with unresolved disagreement between IED and Management about the methodological approach,

emphasizing the need for consultation and coordination between IED and Management at concept development and approach paper stage to identify the right scope, categorization and data set for evaluation. DEC and some Board members also discussed DEC's role in resolving divergent views between IED and Management on scoping, methodology, coverage and process. DEC noted that management's response provided details of relevant actions already underway, but could have included specific actions to address issues on corporate governance and accountability, longer-term monitoring of SOE reform progress, and more coordinated, comprehensive approach to SOE reform. A DEC member also noted the defensive tone of the response (similar to its response to the SME review) which could give the impression that management was more focused on rebutting criticism than learning from the evaluation.

7. Some DEC members raised concerns about the data set used in the evaluation for being too broad (i.e. questioning the inclusion non-SOE reform operations), which made extracting useful lessons to guide future ADB SOE-reform operations difficult. (It recalled concerns raised over the narrow data set used in the SME evaluation.) Further, categorization of some of the programs and projects also proved to be difficult under IED's evaluation framework (one project was categorized differently in different parts of the report). On the other hand, Management was cautioned not to use the evaluation methodology as excuse when evaluation results are not favorable.
8. By mixing SOE reform and non SOE reform projects in the data set, some DEC members questioned the value of the aggregated performance ratings in the evaluation's overview to provide useful information. IED typically aggregates performance to provide an overall understanding of the subject, and then drills down to the results to examine changes on the ground, if any. Alternatively, Management suggested that the overview could set out stylized facts that could be clarified and provide more in-depth analysis.
9. Some DEC members noted that the recommendations could have been more nuanced, by identifying the deficiencies in ADB operations and steps to strengthen the same, and focusing on examples of what worked, why in certain sector and economies. IED explained that its evaluations only signal what needs to be done. IED could also supplement the report by evaluating specific countries and sectors with larger SOE investments to provide for more differentiated findings and lessons, or specific topics such as SOE governance.
10. DEC discussed that SOE reform is a long process, requiring careful planning, and proper resourcing in headquarters and resident missions, particularly for technical assistance for capacity building. ADB should carefully weigh the usefulness of a mix of modalities and adequate sequencing of interventions as governed by the nature and scope of the intended SOE reform, while recognizing country context and political economy of member countries.
11. DEC discussed the significantly higher success rates of non-sovereign operations over sovereign operations in SOE engagement and reform is probably due to PSODs direct engagement with more mature SOEs (as part of the evolution of ADB operations and sequencing of ADB operation types) and special purpose vehicles (created by SOEs) with proper governance standards.
12. DEC noted that the SOE Working Group was established at the end of December 2016 (hence its impact may still be difficult to find) and only started to put in place a knowledge plan and gauge project classifications for Strategy 2030 implementation. To improve reporting on SOE operations and enable effective reporting against operational priorities of Strategy 2030, some DEC members stressed the need to update the project classification system, which entails manpower, financial and other resources to be implemented. DEC further noted the appropriate expertise needed to fill the Working Group to ensure that it can guide operations departments during project design and participate in policy dialogues with members.

13. **Next Steps.** Management and IED will have earlier and detailed consultations on methodological approaches for future evaluations.
14. Further, any unresolved disagreements on methodological approaches between Management and IED in future evaluations will be referred to DEC for guidance and settled immediately before proceeding with the evaluation.