

VIII

The Changing Nature of ADB Assistance

Although the proportion of infrastructure lending in ADB's total lending did not change much until 2006, ADB's approach has been changing and evolving in response to the expanding development agenda, changing development paradigm, and changing needs of the region. ADB's infrastructure operations have evolved from the "bricks and mortar stage" to a much wider and more comprehensive development agenda. The changes have profoundly impacted the selection and design of infrastructure projects. The changing approach has been supported by the adoption of ADB's poverty reduction strategy in 1999, which emphasizes access to the poor.

The *Connecting East Asia* (endnote 2) study describes infrastructure challenges from five interrelated perspectives (termed "stories") to explain the range of issues involved in infrastructure development. The five perspectives are interrelated and deal with overlapping issues, but provide a good basis to describe the changing nature of ADB's infrastructure operations. In this section, the five perspectives have been taken in a broader sense to capture some elements of the new framework described in *Connecting East Asia*, e.g., inclusive development, coordination and accountability, and risk management.

This section examines how ADB operations have changed and evolved over the period from each of the five perspectives noted in the study.

A. The Economic Story

The economic perspective is about the role of infrastructure in underpinning investment, growth, and poverty reduction. It also deals with investment

in and the stock of infrastructure, and access to infrastructure services. With respect to poverty, the story is taken in a broad sense to include inclusive development.

As the character of ADB evolved from that of a development financier to that of a development bank, the identification, design, and economic analysis of ADB's projects, particularly infrastructure projects, changed correspondingly. Prior to the adoption of new business processes in 2002, the country operational strategy and country assistance plan were the main instruments for formulating ADB's assistance strategy and program in DMCs. However, this process suffered from weak integration with macroeconomic planning, insufficient attention to policy dialogue, and weak capacity building efforts reflecting inadequate economic and sector work and weak ownership by DMCs (among other things). Under the new business processes, the country operational strategy and country assistance plan were integrated into one document, the country strategy and program, which involved more detailed sector and thematic studies and assessments. This has been renamed as the country partnership strategy. Identification of a project for ADB support is now rooted in extensive work for the country partnership strategy, including macroeconomic analysis, thematic assessments, and detailed sector studies in the key areas. As a result, infrastructure development supported by ADB is a part of the overall investment, growth, and poverty reduction efforts in the country.

ADB's changing approach is also reflected in the gradual evolution of guidelines for economic analysis of projects in ADB. The evolution brought more changes to ADB's lending operations in infrastructure than in

other sectors. During the 1970s, economic analysis of projects focused on maximizing output or income (often referred to as the “economic” or “efficiency” objective), assigning equal weights to benefits accruing to different groups and different end users. The revision of the guidelines during the 1980s recognized benefit distribution as important but mainly relied on indirect means such as macroeconomic analysis and impact on other socioeconomic objectives. However, explicit benefit distribution criteria reflecting poverty concerns were not introduced at that time. During this period, project appraisal reports mainly focused on a limited number of items such as objective, benefits and beneficiaries, financial and economic rates of return, sensitivity analysis, and project risk. The examination of macroeconomic issues was not detailed and had a limited focus on policy and institutional issues. The guidelines for the economic analysis of projects were revised again in 1997, and resulted in a significant broadening of issues to be considered. These included a greater emphasis on nontraded outputs that meet people’s needs; the greater role of the private sector; and addressing of a broader range of issues, including distributional effects of projects, financial and environmental sustainability, and the policy context. In particular, these new guidelines included distributional analysis with reference to the poor. The broader agenda of the new guidelines is reflected in the elaborate list of 13 issues covering dimensions of economic analysis.²⁷ Project-specific financial and economic rates of return are now only two of many criteria that new ADB infrastructure projects are expected to satisfy.

The evolution of ADB’s programming and economic analysis of projects is well reflected in changes in the objectives, scope, and design of ADB’s infrastructure projects.²⁸ For example, a review of randomly selected transport sector projects (Appendix 9) shows that, during the 1970s, ADB’s lending for roads was mostly directed toward construction of physical infrastructure (e.g., new highways and rural roads). In the 1980s, ADB lending financed more road reconstruction, rehabilitation and, improvement. ADB’s infrastructure projects in the 1990s encompassed a wider perspective, including road maintenance, project management, operational efficiency, capacity building, policy and institutional reforms, private sector participation, environmental protection, and responsiveness to social concerns.²⁹ In the new millennium, the selection of road projects increasingly emphasized poverty reduction, including access to health, education, and social amenities. More recently, prevention of HIV/

AIDS and human trafficking has been incorporated in road project objectives.³⁰ During the 1970s and 1980s, ADB’s railway projects focused on physical infrastructure (Appendix 9). However, since the 1990s, social impacts, environmental protection, and policy reforms had been components of railway projects. The findings of the transport sector study also provide insights about the changing nature of ADB’s infrastructure projects as influenced by other factors described in this section.

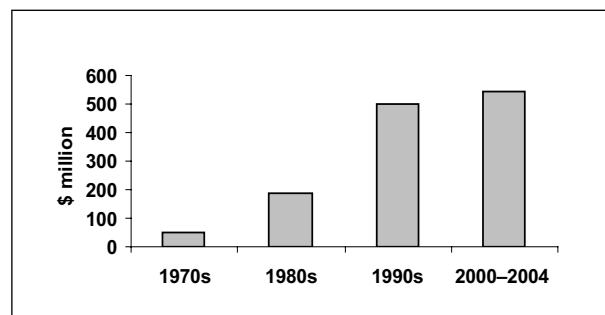
After the 1980s, ADB operations increasingly emphasized reforms covering a number of economic issues, as reflected in the growing proportion of program lending in its lending portfolio (Appendix 11). The reforms’ foci included enhancement of competitiveness, legal and regulatory areas, and efficiency, which have an impact on infrastructure investment and growth in the region.

B. The Spatial and Demographic Story

The spatial and demographic perspective deals with the contribution of and meeting the needs of rapidly growing urban agglomerates, particularly to maintain their competitiveness, link with the poor in rural areas, and provide regional infrastructure supporting cross-border trade.

Asia and the Pacific has the fastest growing urban population in the world. Meeting the resulting infrastructure needs is a major challenge. In response, ADB’s urban operations have increased steadily during 1968–2004 (Figure 28). In total, during 1968–2004, ADB has provided \$10.2 billion in loans for urban development,³¹ accounting for 9.4% of ADB’s total lending during this period. Further, a review of urban projects during mid-1993 and mid-2005 shows that most of ADB’s urban projects are for infrastructure.³² Moreover, 18.3% of ADB’s total infrastructure lending

Figure 28: ADB’s Average Urban Lending, 1968–2004



Note: 1970s refers to 1968–1979.

Source: ADB. 2006. *Special Evaluation Study: Urban Sector Strategy and Operations*. Manila.

is in urban areas. ADB's increasing responsiveness to this challenge is also reflected in the Medium-Term Strategy II, which assigns high priority to urban infrastructure projects.

Linking people and markets within and across DMCs has been a key feature of ADB's infrastructure operations, which include both rural and urban projects. For example, ADB's recent transport projects show increasing responsiveness to the need for strengthening urban-rural linkages, which is reflected in increasing emphasis on feeder roads in highway projects. Another key spatial and demographic dimension of ADB's infrastructure operations is the rising focus on regional infrastructure projects, as previously described.

Since the 1990s, the objectives and scope of ADB's transport projects included upgrading critical road links, facilitating regional connectivity, and expanding urban roads (Appendix 9).

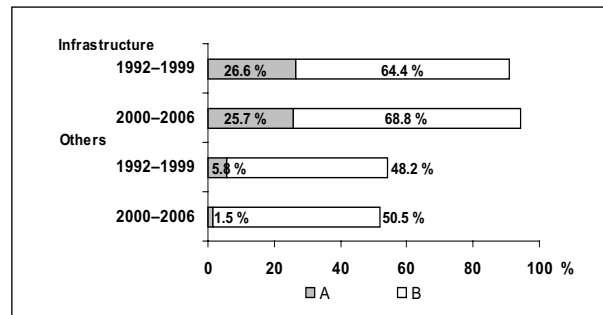
C. The Environmental Story

The environmental perspective deals with the impact of infrastructure on the environment, including air quality, availability of clean water and sanitation, and the ecosystem. It also emphasizes the importance of addressing environment issues at both project and policy levels, and coordination among the agencies involved.

In the early 1980s, ADB committed itself to integrate environmental concerns in its developmental activities; among all ADB's operations, this had the greatest impact on its infrastructure operations (Figure 29 and Appendix 10). In 1986, ADB developed a set of environmental guidelines covering the major sectors of its operations. ADB's environmental agenda has expanded rapidly to address environmental concerns at both project and policy levels. In 1999, environmental sustainability was recognized as a cross-cutting priority under ADB's poverty reduction strategy and subsequently in ADB's Long-Term Strategic Framework. ADB has had environment assessment requirements for more than 20 years, and ADB's environmental safeguard requirements were formalized more recently in the Environment Policy (2002),³³ together with *Operations Manual* sections (OM F1) and *Guidelines on Environment Assessment* 2003.³⁴

During 1992–2006, almost all (92.6%) of the 435 infrastructure projects approved were classified as either category A or B in terms of environmental impact. This included 26.2% of projects under category A, which have the most significant environmental

Figure 29: ADB Public Sector Loan Count by Environmental Category, 1992–2006



A: With significant adverse environmental impact.
 B: With some adverse environmental impact but of lesser degree than A.
 Sources: Environment and Social Monitoring Information System and Reports and Recommendations of the President.

impact. In contrast only about half (53.0%) of the 640 projects approved in other sectors were classified as either category A or B. Further, only 3.6% of projects in the other sectors were category A. Clearly, the increasing environmental requirements have affected ADB's infrastructure lending the most. Concerns for environmental impact in ADB's infrastructure operations are also reflected in the review of random transport sector projects (Appendix 9). The objectives, scope, and design of roads and highways and of railway projects during the 1990s and more recently have shown increasing sensitivity to protection of the environment.

The creation of the Regional and Sustainable Development Department during the 2002 reorganization strengthened ADB's institutional structure for review and monitoring environmental impact in its operations. This supplemented the risk management systems already in place in operational departments, and provided adequate checks and balances on safeguards issues³⁵ by establishing the Environment and Social Safeguard Division in the Regional and Sustainable Development Department to focus on compliance oversight. ADB's Chief Compliance Officer, supported by the Environment and Social Safeguard Division, advises Management and operational departments on compliance with safeguard policies and related operational guidelines. As most projects having significant adverse impact on the environment (group A and B) are in infrastructure, they are examined closely and benefit from additional expert support on environmental issues.

The portfolio of ADB's environment-oriented projects has been rising and many were in infrastructure. For example, during 1991–2005, about 51.7% of environment-oriented projects were in infrastructure. They included water supply, sanitation, sewerage

construction, wastewater management, drainage improvement, and renewable energy projects. The projects also addressed policy, institutional, and coordination aspects.

In 2005, ADB started a number of initiatives in response to increasing global and regional concerns about GHG emissions, climate change, and other environmental issues. Most of the initiatives are directly related to infrastructure (e.g., the Energy Efficiency Initiative [EEI] and Carbon Market Initiative [CMI]), and are profoundly affecting ADB's infrastructure operations.

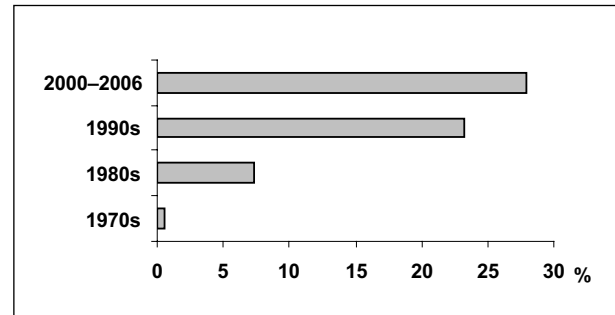
D. The Political Story

The political perspective deals with who captures the benefits of infrastructure—who provides it, to whom, at what price, and at whose cost. In particular, it highlights the influence of the political economy on tariff levels and draws attention to the complex interplay of public-private ownership and regulation issues.

Since the 1980s, ADB has been emphasizing these issues by supporting sector reforms in infrastructure. This is partly reflected in the increasing proportion of program lending, most of which has had an impact on infrastructure. Initially, the proportion of program lending in ADB's total lending rose slowly from 0.6% in the 1970s to 7.3% in the 1980s (Figure 30); the trend accelerated to 23.2% during the 1990s and 28.0% in 2000–2006. Program lending focusing on sector-specific reforms in ADB's infrastructure operations essentially started in the 1990s. The proportion of program loans in infrastructure sectors was small but also rose during this period, from near zero to 4.2% in the 1990s and 7.3% during 2000–2006.³⁶ The smaller proportion of program loans in infrastructure sectors partly reflects the fact that significant sector reforms were supported by ADB through investment loans, which is evident from the review of randomly selected projects (Appendix 9). ADB's overall infrastructure operations have increasingly emphasized reforms including cost recovery and ownership issues. Reforms supported by ADB also cover policy, institutional, and regulatory issues. Further, the need to establish an independent regulator is consistently conveyed to DMCs through project and policy dialogue.

As noted, the economic analysis of ADB projects now includes distribution issues, including benefits to the poor. In 1999, ADB adopted poverty reduction as its overarching objective. In the next few years, projects

Figure 30: Proportion of Program Loans in ADB Public Sector Lending, 1968–2006



Sources: ADB internal database on Loan, TA, Grant, and Equity Approvals; and Project Processing Information System (PPIS) as of 8 December 2006.

were also classified based on how many poor benefited from it. Although the target requiring a minimum proportion of projects with a specified minimum number of poor beneficiaries has been removed, these developments reflect ADB's increasing focus on who benefits from its projects. Poverty and distributional concerns have also influenced tariff issues in projects supported by ADB.

ADB's Policy on Indigenous Peoples (1998) and Policy on Involuntary Resettlement (1995), which are part of its safeguard policy framework, show ADB's social concerns in terms of at whose cost infrastructure is built. Significant effort and time is spent during the preparation and implementation of infrastructure projects to ensure that they comply with all three safeguard policies.

ADB also has sector policies (e.g., water, energy, and forest) that include other safeguard elements to address issues related to equitable distribution of costs. ADB's concerns for social issues and protecting the vulnerable are also reflected in its infrastructure operations, by an increasing emphasis on issues related to gender discrimination, spread of communicable diseases (e.g., HIV/AIDS, SARS, and avian flu), and trafficking in women and children. In summary, ADB proactively seeks to avoid, minimize, or mitigate adverse environmental impacts, social costs to third parties, and marginalization of vulnerable groups that may result from its infrastructure projects.

E. The Funding Story

The funding perspective deals with how to provide the financing needs of infrastructure. While funds may flow through public or private routes, ultimately, either tax or tariff (or a user charge) pays for the infrastructure. First, as an official lender, ADB has

consistently provided funds for infrastructure projects. By 2006, ADB had provided about \$62.3 billion in loans from its public sector window and close to \$2 billion in loans and equity from its private sector window for infrastructure. This accounts for 51.7% of its total lending from the public sector and 44.2% from the private sector windows. Second, ADB has promoted infrastructure financing by the private sector to supplement public financing through support to reforms and general support to private sector development.

ADB's support to sector reforms includes efforts to enhance cost recovery and improve the legal and regulatory framework for private sector participation. The high priority assigned to these issues in ADB's infrastructure operations is clearly demonstrated in the country partnership strategy, and reflected in the review of randomly selected transport sector projects (Appendix 9). ADB's operations in infrastructure pay increasing attention to infrastructure financing issues, including user charges, subsidies, and private sector financing. The emphasis on maintenance of existing assets is also increasing.

As mentioned in ADB's Poverty Reduction Strategy, private sector development is a priority theme of ADB, and is well reflected in its operations. For example, about

Table 5: Composition of Project Preparatory Technical Assistance Consultants in Infrastructure Projects (%)

	1991–1995	1996–2000	2001–2005
Sector-specific and			
Engineering	86	89	69
Thematic and			
Others	12	11	30
Data not available	2	0	1
Total	100	100	100

Source: ADB Staff.

\$7.3 billion or about 28% of total loan approvals by regional departments during 2000–2005 were private sector related, including in infrastructure.³⁷ Together with private sector operations department's loans and equity investments, and cofinancing from private sources through guarantees and the complementary financing scheme, ADB facilitated a total flow of \$10.3 billion for the private sector, including infrastructure. Further, while increasing its efforts to facilitate greater private sector financing of infrastructure, ADB has not reduced its public sector lending for infrastructure projects, unlike the World Bank.

The changing nature of ADB's infrastructure operations is also seen in the changing skill mix of staff and consultants engaged by ADB for project preparatory TA. A notably greater share

Table 6: Staff in Operations Departments of ADB Headquarters

Functional/Job Areas	1996	2002	2003	2004	2005
Programming, Coordination, Economists, Management, Portfolio Management, Strategy and Policy Anchors	78	51	56	110	132
Physical Infrastructure (includes transport, road, railways, energy, renewable energy, electricity, oil & gas, communications, financial analysis, and general infrastructure)	64	72	76	47	39
Social Infrastructure (includes Social Sectors Development, Environment and Social Safeguards, Poverty Reduction and Social Development)	54	73	67	69	71
Governance, Capacity Building, Finance, Trade, Private Sector Operations, Private Sector Development	32	62	70	69	76
Agriculture, Environment and Natural Resources	47	52	52	19	21
Total, HQ Operations Departments Staff	275	310	321	314	339
Share of Physical Infrastructure (%)	23	23	24	15	12
Share of Social Infrastructure, Agriculture, and Governance (%)	48	60	59	50	50
Share of Programming, Coordination, etc. (%)	28	16	17	35	39

Source: ADB Staff.

of consultants engaged under TA for preparing infrastructure projects have had “thematic and others” skills during 2001–2005 than during 1996–2000 (Table 5). This reflects the widening development agenda in infrastructure projects of ADB, as does the changing skills mix of professional operations staff. During 1996 and 2005, the number and proportion of staff with skills in thematic and other areas has increased sharply while the share of skills in physical infrastructure has declined (Table 6).

With the adoption of the Medium-Term Strategy II, emphasis on infrastructure in ADB operations has been renewed. ADB is not reverting to the “bricks and mortar” stage but is offering a comprehensive development package. ADB’s renewed emphasis on infrastructure is not about continuing “business as usual” or going back to the past, but is about developing financially, socially, and environmentally sustainable infrastructure in the Asia and Pacific region.