



ADB

---

October 2008

# Work Program and Budget Framework 2009–2011

Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADB I	–	Asian Development Bank Institute
ADF	–	Asian Development Fund
APCF	–	Asia Pacific Carbon Fund
CAREC	–	Central Asia Regional Economic Cooperation
CDTA	–	capacity development technical assistance
CWRD	–	Central and West Asia Department
DMC	–	developing member country
EARD	–	East Asia Department
ERD	–	Economics and Research Department
GCI	–	general capital increase
GMS	–	Greater Mekong Subregion
ISTS	–	information systems and technology strategy
IT	–	information technology
MDG	–	Millennium Development Goal
MFF	–	multitranche financing facility
MfDR	–	managing for development results
MTS	–	medium-term strategy
OCR	–	ordinary capital resources
OECD	–	Organisation for Economic Co-Operation and Development
OGC	–	Office of General Counsel
PARD	–	Pacific Department
PATA	–	policy and advisory technical assistance
PPP	–	public–private partnership
PRC	–	People’s Republic of China
PSOD	–	Private Sector Operations Department
RCI	–	regional cooperation and integration
RDTA	–	research and development technical assistance
RMU	–	Risk Management Unit
RSDD	–	Regional and Sustainable Development Department
SARD	–	South Asia Department
SERD	–	Southeast Asia Department
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
WPBF	–	work program and budget framework

## NOTE

In the report, “\$” refers to US dollars.

## CONTENTS

EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. OPERATIONAL ALIGNMENT TO STRATEGY 2020	1
A. Sharpening the Focus on Core Operational Areas	2
B. Promoting Inclusive Growth	4
C. Environmentally Sustainable Growth	12
D. Regional Integration	15
E. Engagement in Fragile Countries and Situations	18
F. Knowledge Operations and Knowledge Management	18
III. INSTITUTIONAL ADJUSTMENTS FOR STRATEGY 2020	20
IV. NON-OPERATIONS SUPPORT TO STRATEGY AND WORK PROGRAM IMPLEMENTATION	22
V. OPERATIONAL RESOURCE PARAMETERS 2009–2011	24
A. Portfolio Management	25
B. Disbursement Trends	25
C. Operational Resource Parameters for 2009–2011	26
D. Cofinancing	29
E. Financing Modalities and Approaches	32
F. Technical Assistance	32
VI. RESOURCING THE WORK PROGRAM: STAFFING AND BUDGET FRAMEWORK FOR 2009–2011	34
A. Cost Drivers	34
B. Measures to contain Budget Growth	37
C. Staffing Requirements	37
D. Budget Preview for 2009	38
VII. RESOURCE AND EXPENDITURE PARAMETERS	39
A. Operational Resources	39
B. Expenditure Expectation, 2010–2011	39
VIII. WPBF 2009-2011 REPORTING AND MONITORING	40

## APPENDIXES

1.	Ordinary Capital Resource Sovereign Lending Pipeline 2005–2011 (By Sector Classification)	41
2.	Asian Development Fund Lending and Grant Operations Pipeline 2005–2011 (By Sector Classification)	42
3.	The Five Strategic Priorities for the Research and Development Technical Assistance Program 2009–2011	43
4.	Asian Development Fund Lending and Grant Operations Pipeline 2005–2011 (By Region and Country)	45
5.	Ordinary Capital Resource Sovereign Lending Pipeline 2005–2011 (By Region and Country)	46
6.	Mobilizing Resources for Mainstreaming Sector and Thematic Priorities	47
7.	Ordinary Capital Resource (Sovereign) and Asian Development Fund Pipeline 2005–2011 (Thematic Classification)	49
8.	Project and Program Loan Disbursements (OCR and ADF)	51
9.	Multitranches Financing Facility Approvals 2005-2007 and Program 2008-2011	52
10.	Country/Regional Strategies and Operations Business Plans	54
11.	Delegation of Asian Development Bank's Projects to Resident Missions 2009–2011	55

## EXECUTIVE SUMMARY

The work program and budget framework (WPBF) defines the parameters and main thrusts of the operations of the Asian Development Bank (ADB) for 2009–2011, and provides the framework for preparation of the 2009 budget. This year's WPBF outlines how ADB will begin the medium-term alignment of ADB operations, organization, and resources to the long-term strategic framework 2008–2020 (Strategy 2020), approved in April 2008. It also addresses how ADB will deliver the assistance agreed upon in the successful ninth replenishment of the Asian Development Fund (ADF X). Given anticipated lending headroom constraints, the WPBF has been prepared this year in conjunction with a separate paper to review the ADB ordinary capital resources (OCR) requirements.

Strategy 2020 reconfirmed that ADB's vision is "an Asia and Pacific region free of poverty" and its mission is to help its DMCs reduce poverty and improve living conditions and quality of life by focusing ADB support on three distinct but complementary development agendas: inclusive economic growth, environmentally sustainable growth, and regional integration. Strategy 2020 also set a number of operational goals that relate to strengthening the focus on five core operational areas, increasing assistance for environmentally sustainable development, expanding support for regional cooperation and integration (RCI), and scaling up private sector development (PSD) and private sector operations (PSO).

The WPBF 2009–2011 reflects a significant effort to put ADB on track to achieve the goals of Strategy 2020. Alignment of 80% of ADB operations to the five core operational areas—infrastructure, finance, education, environment, and regional cooperation—will be achieved by 2011. The first three sectors will account for 83% of projects during 2009–2011 (compared with 61% in 2005–2007) and 86% of lending volume (69% in 2005–2007). Private sector development and private sector operations combined are expected to account for about 37% of ADB lending by 2011, with a target of 50% by 2020. Lending for environmental sustainability will grow rapidly, reaching about 40% of ADB operations by 2011. RCI will account for about 20% of lending by 2011, on its way towards the target of 30% of ADB operations by 2020.

Operations will be realigned across and within sectors to achieve the objectives outlined in Strategy 2020 and the three agendas on inclusive growth, environmental sustainability, and regional integration. Lending and nonlending operations and knowledge products will be utilized in synergy to achieve these objectives. Research and development technical assistance (RDTA) will support Strategy 2020 implementation by (i) analyzing constraints to growth and the promotion of inclusiveness through service delivery, (ii) addressing climate change to achieve sustainable development, (iii) generating and disseminating knowledge for regional integration, (iv) analyzing causes for and responses to commodity price increases, and (v) assessing demographic changes and their implications for the region.

ADB will continue to respond to DMC needs by efficiently administering a growing portfolio, which totaled 529 active loans valued at \$39.9 billion at the end of 2007. Sovereign and private sector portfolio ratings have improved and will continue to be carefully monitored. Increasing disbursements, projected to surpass \$11 billion per year by 2011, will contribute to maintaining a positive net resource transfer to the region.

The breadth of operations envisaged in the WPBF to implement Strategy 2020 is based on significantly higher ADF resources (about \$3 billion per year, committed through the recent ADF X replenishment) and on a stable level of OCR of about \$8.8 billion per year. In addition, systematic mobilization of cofinancing is expected to promote stronger partnerships and

leverage an additional \$1.7 billion to \$2.7 billion per year—equivalent to as much as 20% of ADB resources—for an overall funding level approaching \$14 billion. ADB will increasingly look at cofinancing as an approach to building partnerships and enhancing resource mobilization to help DMCs meet total development financing requirements.

While the above key thrusts of the WPBF will put ADB on track to implement Strategy 2020, ADB will closely monitor the ongoing global financial turmoil and its impacts on DMCs both in short- and medium-term and be prepared to adjust operational programs as required.

Notwithstanding this scenario, a significant reduction in OCR operations to less than \$4 billion per year starting in 2010 is possible if a general capital increase (GCI) or other measures to address OCR lending headroom constraints are not implemented in time. This would reduce ADB lending and ADF grant operations to about \$7 billion annually. DMCs have suggested that this level of operations would significantly reduce ADB's ability to fund development activities and support reforms. Implementation of this contingency scenario would imply drastic reductions in the sectors of ADB engagement, and would bring into question the viability of sustaining operations, particularly in some countries without ADF access.

In parallel with refocusing its operations, ADB will better align the institution to Strategy 2020 by (i) improving coherence in corporate strategies and policies, (ii) increasing corporate responsiveness, (iii) improving the organizational structure, and (iv) enhancing human resources management and skills mix.

An initial mapping of ADB policies and strategies has started to determine if they are current, relevant, and in line with Strategy 2020. Based on this assessment, work will begin to revise, consolidate, or propose the retirement of policies and strategies, as needed. Internal processes will be reassessed and automated through the second Information Systems and Technology Strategy (ISTS) 2004–2009. This opportunity will be used to improve responsiveness and efficiency, and to reduce the time needed to process and implement operations. While a large-scale reorganization is not envisaged, ADB's internal organization will be adjusted to reduce duplication and improve operational and administrative efficiency, keeping in mind budgetary considerations. Generally, the organizational structure within departments will be made more flexible, and resources will be deployed optimally across regional departments. This will include more flexibility in delegation of work and resources to resident missions, and the promotion of more knowledge sharing. To implement and achieve the medium-term objectives of Strategy 2020, the work of non-operations departments and offices will be aligned to support business plans of the operations units. This is particularly relevant in portfolio management, cofinancing, risk management, and associated services in financial control and/or reporting, procurement, treasury, legal, and other support.

Staff and skills gaps are likely to emerge with the expected realignment of operations, particularly in environmental sustainability, nonsovereign operations, and portfolio and risk management. These gaps will need to be addressed. ADB's human resources management will be enhanced to support ADB in meeting the Strategy 2020 business requirements. Implementation of the action plan resulting from the comprehensive human resource strategy review to be completed in December 2008 will start in January 2009. Meanwhile, initiatives under the current human resource strategy (2004–2007) will continue to ensure that ADB can attract and retain a highly motivated, appropriately skilled, and flexible workforce. Staff engagement surveys will be conducted regularly.

To achieve the skills mix needed for Strategy 2020, proactive management of vacancies in close coordination with the operations departments will start immediately. Recruitment for the skills and expertise required under Strategy 2020 will be prioritized and accelerated by identifying vacant budgeted positions that could be redeployed temporarily for this purpose without reducing the existing departmental staff resource allocation. To provide required staff resources in a timely manner, ADB initially plans to add 12–18 professional staff positions and several local staff positions, primarily to resident missions. At the same time, ADB plans to recruit 20–25 additional professional staff through the combined vacancy management and vacancy pooling exercise, and about 15 local staff through position redeployment enabled by outsourcing. The guiding principle for distributing new positions is to allocate the majority to (i) implement the common priorities of Strategy 2020 and ADF X commitments, prioritizing support to enlarged ADF operations—including consolidation of support to fragile states—and resident missions in ADF-eligible countries; (ii) strengthen advisory functions in priority themes, such as climate change and regional cooperation; and (iii) ensure risk management and due diligence of the private and public sector portfolio.

Planned activities to execute Strategy 2020, the ADF X commitments, and the managing for development results (MfDR) agenda form a robust work program requiring higher budgetary and staff resources. Inflation and the global and regional labor market conditions exacerbate price pressures on the budget and staff planning for 2009. Nevertheless, ADB plans to manage this challenge without large or abrupt increases in the budget. This will be achieved through (i) rigorous pooling, repositioning, and alignment of ADB's resources; (ii) proactive use of efficiency measures; (iii) prudent and gradual increases in the resources over the next 3–4 years, based on target dates set for achieving Strategy 2020 goals and meeting ADF X commitments; and (iv) close monitoring of the work program's progress and resource utilization. Preliminary estimates project the 2009 net internal administrative expense budget requirements at about \$392 million, based on a price increase of approximately 7.5% over the 2008 midyear estimate and volume growth of 2.3%. The expenditure increase is largely due to higher staff costs, staff consultant fees, travel-related expenses, and the impact of inflation on other administrative expenses. The volume increase is attributed mainly to the envisaged expansion in staff positions to meet the incremental resource needs and cost drivers linked to Strategy 2020 and ADF X implementation.

ADB will implement measures to enhance institutional efficiency and redeploy resources to priority areas. First, the operational program will be steadily prioritized and focused on Strategy 2020, allowing economies of scale in the use of staff resources. Second, staff skills alignment will be achieved through a combination of strategic recruitment of qualified new staff and training of existing staff. Third, some minor organizational alignments—mostly within departments—will be implemented to reduce duplications and improve operational and administrative efficiency. Fourth, ADB will continue to streamline business processes through information technology applications, and actively utilize modern communications technologies to save business travel where possible.

ADB is committed to monitoring, managing, and reporting on the implementation of Strategy 2020. Monitoring and reporting on results will take place through the ADB results framework, recently approved by the Board. The framework will track regional and country outcomes, ADB's contribution to these outcomes through key outputs, the effectiveness of ADB operations, and organizational effectiveness. Indicators of operational and organizational effectiveness in the results framework will replace past results frameworks attached to the WPBF. The *Development Effectiveness Review*, presented in the third quarter of 2008, but in

subsequent years before the WPBF, will assess achievements and highlight issues for Management action.

## I. INTRODUCTION

1. The work program and budget framework (WPBF) defines the parameters and main thrusts of the operations of the Asian Development Bank (ADB) for 2009–2011. It also provides the framework for preparation of the 2009 budget. In addition, given the anticipated lending headroom constraints, the WPBF has been prepared this year in conjunction with a separate paper to review the ADB ordinary capital resources (OCR) requirements.<sup>1</sup>

2. The challenges to be addressed in this year's WPBF include (i) beginning the medium-term alignment of ADB operations, organization, and resources to the long-term strategic framework 2008–2020 (Strategy 2020),<sup>2</sup> approved in April 2008; and (ii) responding to the ninth replenishment of the Asian Development Fund (ADF X), as well as the more uncertain situation for OCR. These challenges will be addressed against a backdrop of strong growth and demand for financing in ADB's developing member countries (DMCs), rapid increases and volatility in the price of commodities (food grains, metals, and oil), and cost pressures on ADB-funded operations resulting from inflation and the relative medium-term depreciation of the US dollar. While full implementation of Strategy 2020 will require several years and continuing adjustments, the WPBF 2009–2011 outlines the approach ADB will take in the initial years of implementation. At the same time, ADB will closely monitor the ongoing global financial turmoil and its implications on DMCs both in short- and medium-term and be prepared to adjust operational programs as required.

## II. OPERATIONAL ALIGNMENT TO STRATEGY 2020

3. Strategy 2020 reconfirmed that ADB's vision is "an Asia and Pacific region free of poverty," and its mission is to help its DMCs reduce poverty and improve living conditions and quality of life. To achieve this, ADB will support three complementary development agendas: inclusive economic growth, environmentally sustainable growth, and regional integration. Strategy 2020 also established a number of operational goals related to strengthening the focus on five core operational areas, scaling up private sector development and private sector operations,<sup>3</sup> increasing assistance for environmentally sustainable development, and expanding support for regional cooperation and integration (RCI). This section describes how ADB will begin adjusting the content of its operations to gradually achieve these objectives.

4. The breadth of operations to implement Strategy 2020 described in detail in this section is based on significantly higher ADF resources committed through the ADF X replenishment—about \$3 billion per year—and on a stable level of OCR lending of about \$8.8 billion per year. In addition, the systematic mobilization of cofinancing, through contractual and collaborative agreements, is expected to promote stronger partnerships and leverage an additional \$1.7 to \$2.7 billion per year—equivalent to as much as 20% of ADB's resources.

---

<sup>1</sup> ADB. 2008. *Review of the Asian Development Bank's Ordinary Capital Resource Requirements*. Working paper. Manila.

<sup>2</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

<sup>3</sup> Private sector development (PSD) activities – typically undertaken by regional departments – usually involve government counterparts and aim at creating an enabling environment and removing constraints to private sector expansion through, for example, policy reforms, public-private partnerships, and improvements in the financial sector. Private sector operations (PSO) – processed by the Private Sector Department – involve lending, equity investment, guarantees, and B-loans where the counterpart are private sponsors. The goal refers to both PSD and PSO combined.

5. Compared to this scenario of significant engagement and mobilization of complementary financing, a significant reduction in OCR operations to less than \$4 billion per year starting in 2010 is possible if a general capital increase (GCI) or other measures to address OCR lending headroom constraints are not implemented in time. This would reduce ADB lending and ADF grant operations to about \$7 billion year. The extent and impact of ADB operations would then be correspondingly reduced. Resource implications are discussed in greater detail in Section V.

#### **A. Sharpening the Focus on Core Operational Areas**

6. Under the Medium-Term Strategy II 2006–2008 (MTS II), ADB has increased the focus of its operations.<sup>4</sup> This resulted in aligning 69% of OCR lending, 59% of ADF operations and 55% of the technical assistance (TA) pipeline for 2008–2010 to the priority group I sectors, with a significant decline over time in the share of group III sectors.

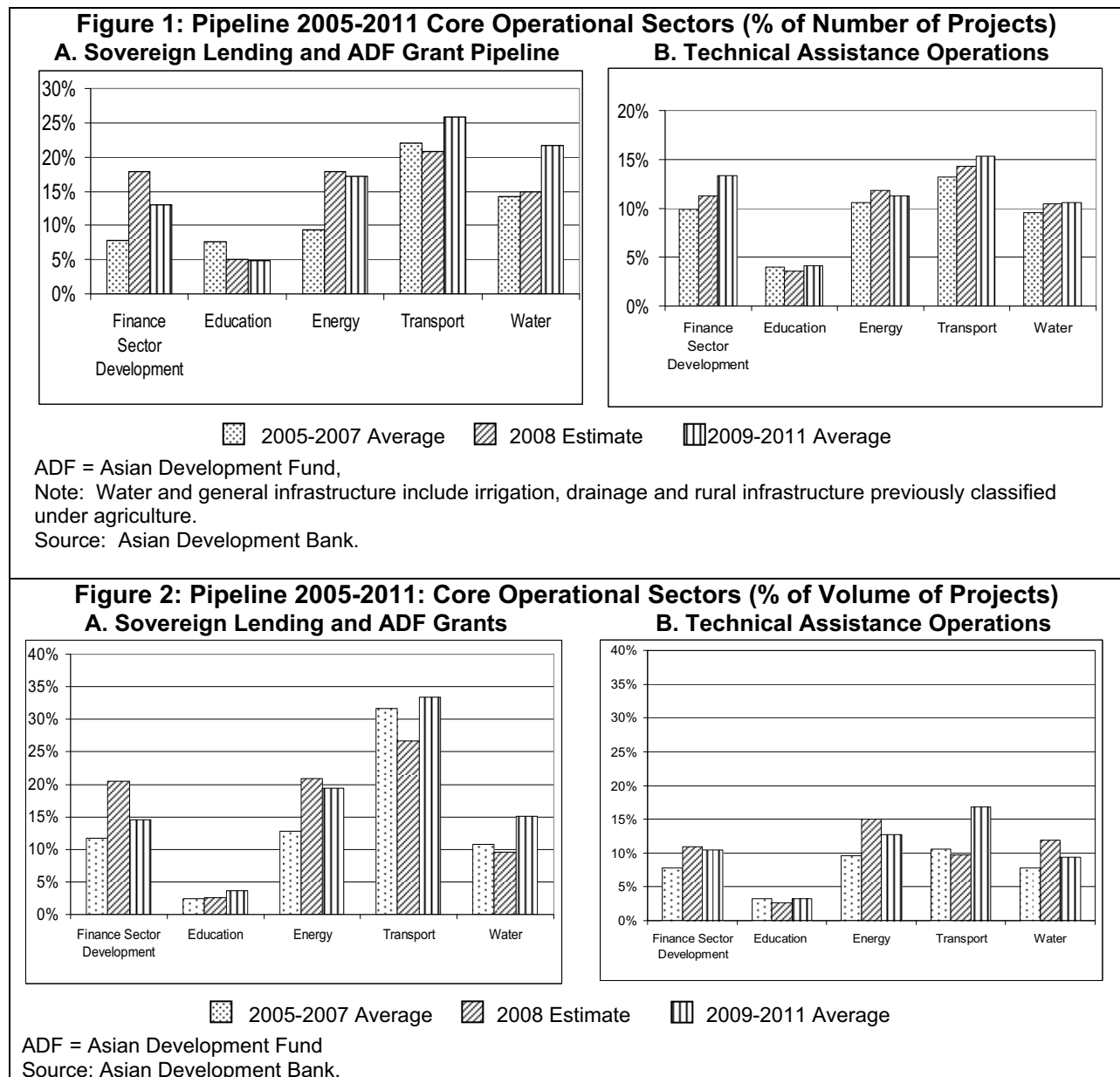
7. To maximize results, efficiency, and impact, Strategy 2020 identifies five core areas of operations: infrastructure, finance sector development, education, environment, and RCI. ADB operations are expected to increasingly concentrate on these five core operational areas, which will comprise 80% of its annual approvals by 2012. As a result of the continuity from MTS II to Strategy 2020, and stronger alignment of the current and future pipeline, ADB is expected to meet the 80% alignment target during 2009–2011.

8. The early achievement of the lending program alignment targeted by Strategy 2020 is largely the result of an aggressive change in the sector composition of planned operations. As Figures 1A and 2A show, the number of sovereign operations in support of the energy, water, transport infrastructure, education, and finance sector will grow significantly, accounting for 83% of projects during 2009–2011 (compared with 61% in 2005–2007) and 86% of lending volume (69% in 2005–2007). Agriculture and natural resources and health are the main non-core sectors, with average weight of 5% and 2% respectively in the 2009–2011 pipeline (3% and 1% in terms of lending volume). Other infrastructure will account for 9% of projects and 8% of lending and ADF grants. Lending to agriculture<sup>5</sup> will focus more sharply on rural infrastructure, and the promotion of health will continue the shift from direct to indirect support and greater use of partnerships. TA operations will show comparable shifts, though in a more gradual manner (Figures 1B and 2B). The sector breakdown of the OCR and ADF pipelines is shown in Appendices 1 and 2.

---

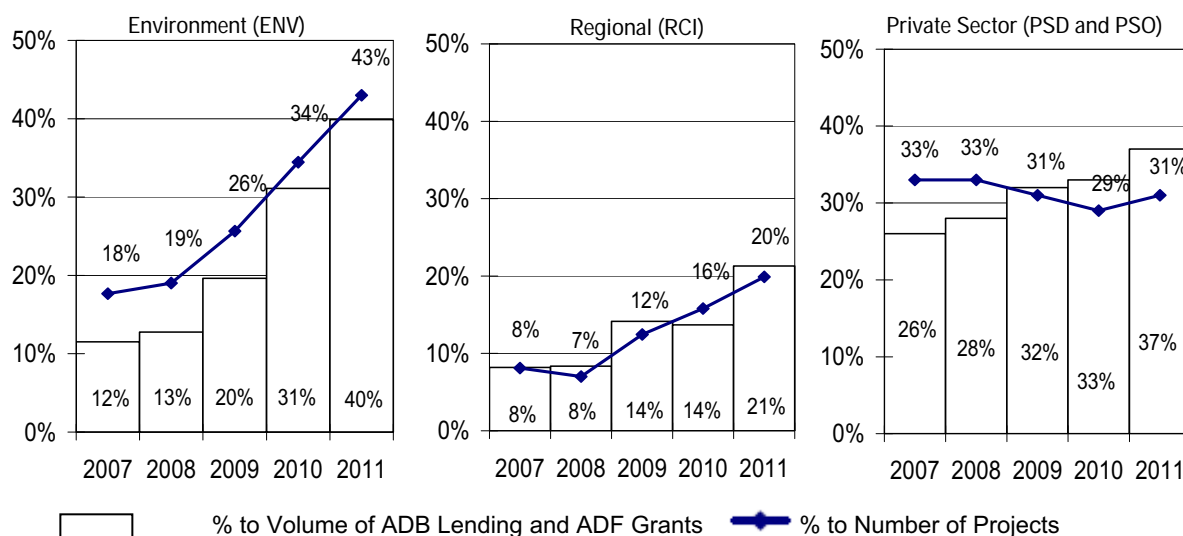
<sup>4</sup> MTS II defined three priority groupings of sectors: group I (education, energy, finance sector, road transport, rural and urban infrastructure), group II (agriculture and natural resources, health, law and the judiciary, public finance and economic management, railways, trade), and group III (civil aviation, communications, development finance institutions, fishery, general government administration, housing, industry, livestock, water transport).

<sup>5</sup> Agriculture and natural resources includes support for crop diversification and commercialization, agribusiness infrastructure, livelihood improvement and natural resources management. Investment in irrigation and drainage is included under water infrastructure above.



9. Planned operations will also make significant progress in the thematic areas for which Strategy 2020 mandates specific trends or targets. As Figure 3 shows, lending and ADF grants for environmental sustainability will account for 43% of ADB operations by number and nearly 40% by volume by the end of 2011. RCI, targeted to account for 30% of ADB operations by 2020, will increase to about 20% by volume and number by 2011, particularly through ADF operations. Lending and ADF grants for private sector development and private sector operations, which are forecast to account for 50% of operations by 2020, will increase to 37% by volume and 31% by number by 2011, reflecting an increase in the average size.<sup>6</sup>

<sup>6</sup> Unless otherwise specified, annual data presented starting from figure 3 are rolling three-year averages for the period ending in the year indicated (for example, 2011 data are 2009-2011 averages). This allows for a clearer depiction of the trends, regardless of short term fluctuations.

**Figure 3: Evolution of ADB Lending and ADF grants by thematic priority**

ENV = environmental sustainability, PSD = private sector development, PSO = private sector operations, RCI = regional cooperation and integration  
 Source: Asian Development Bank estimates.

10. The realignment of ADB operations in response to Strategy 2020 is significant. However, some of the shifts cannot be fully captured by the current project classification system, which is not completely aligned to Strategy 2020 categories.<sup>7</sup> A review of the project classification system has begun to ensure more accurate reporting, which will support monitoring of the objectives and targets in Strategy 2020. The review will be completed during the second half of 2008.

11. The stronger alignment of operations will allow ADB to better address poverty reduction through the three complementary strategic agendas of environmentally sustainable growth, inclusive growth, and regional integration.

## B. Promoting Inclusive Growth

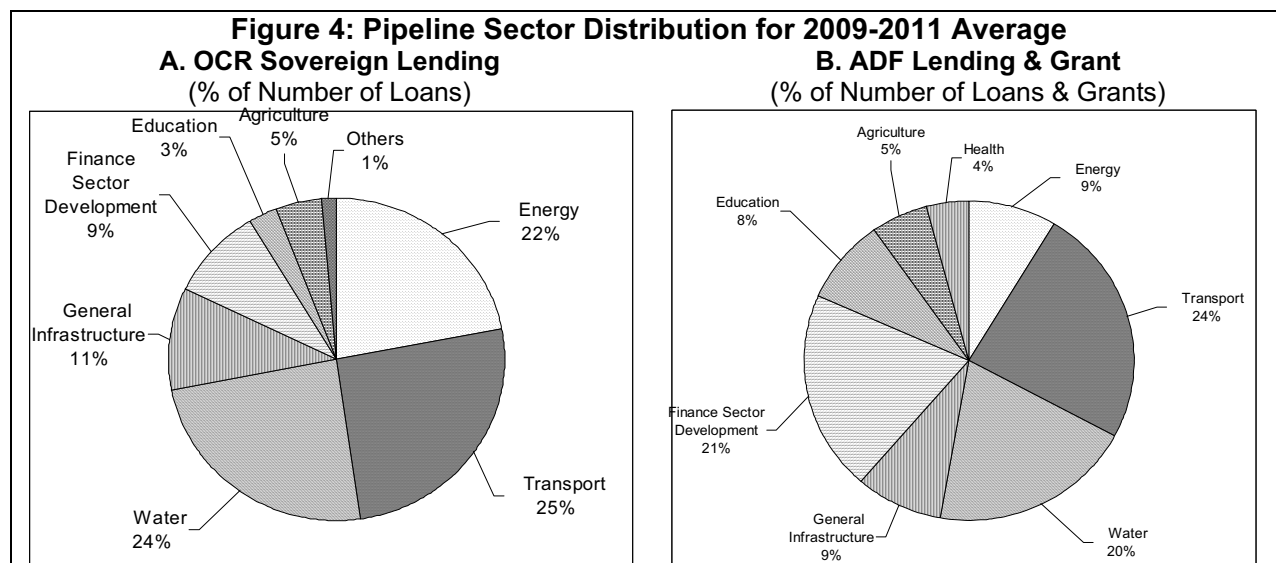
12. ADB's support for inclusive growth will be based on two mutually reinforcing approaches. On the one hand, DMCs need rapid growth to expand economic opportunities and generate the jobs and earnings that will allow their people to escape income poverty. On the other hand, broader access to these opportunities and to social services will more directly contribute to the attainment of non-income Millennium Development Goals (MDGs), complementing more targeted ADB interventions and activities of other stakeholders.

<sup>7</sup> The current classification system is geared more to the previous long-term strategic framework, MTS II, and poverty strategies. Temporary reclassifications were introduced (for example, shifting irrigation and drainage infrastructure from the agriculture to the water sector; and adopting a more conservative definition of operations for private sector development, based on support for policy reforms to improve the enabling environment, finance sector development, and public-private partnerships). Projects are classified as addressing environmental sustainability if they aim at natural resource conservation, urban environmental improvement, cleaner production, environmental policy or legislation, or other global or regional transboundary environmental issues. However, dimensions directly linked to climate change and clean energy are not fully captured by the present system.

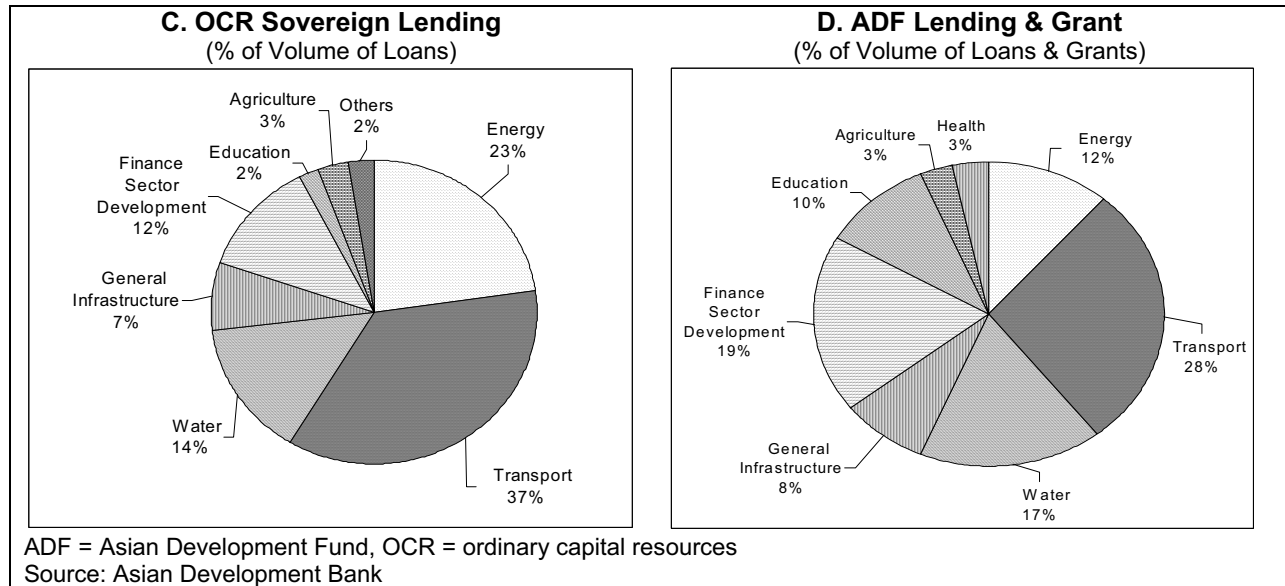
## 1. Generating Growth and Economic Opportunities

13. Economic growth and enhancement of economic opportunities will be supported through infrastructure, policy reforms (including private sector development), and private sector operations.

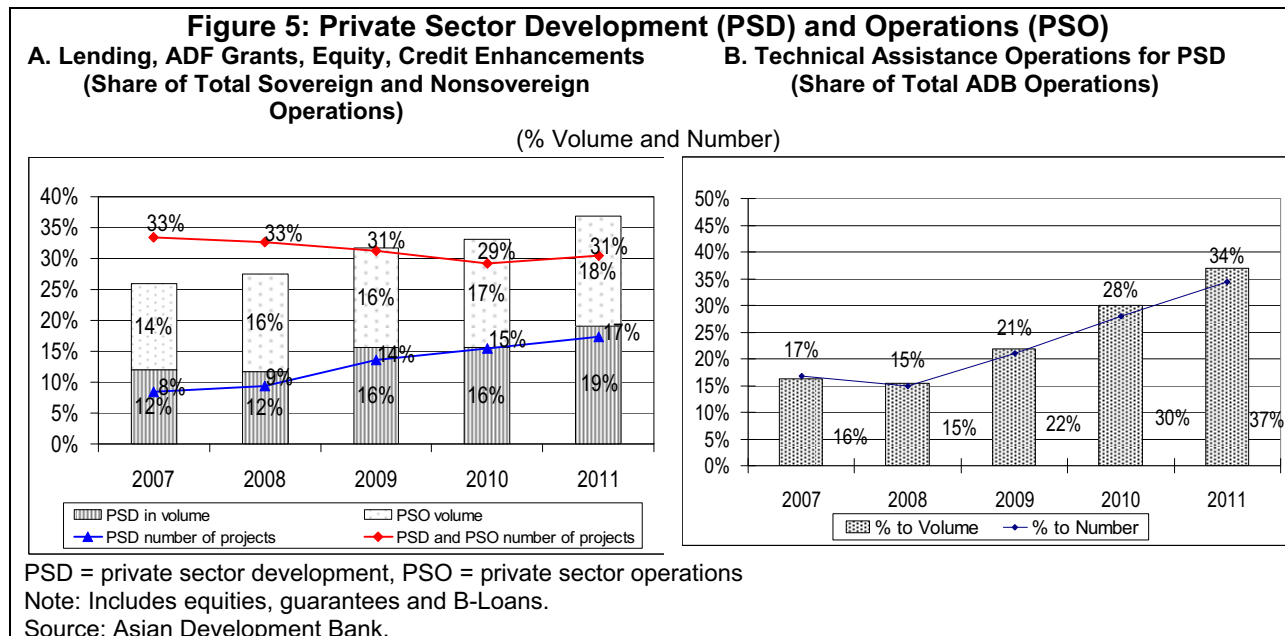
14. Infrastructure will continue to receive the largest share of ADB lending. For OCR sovereign operations, it will account for 82% by number of projects and 80% by volume, compared with 62% by number of projects and 65% by volume for ADF lending and grants (Figure 4). While transport and energy will continue to receive the largest shares of investment, water sector investment will more than double from 2005–2007 levels to \$4.6 billion in 2009–2011. This is consistent with ADB's commitment to ensure the development and management of this precious resource. About 72% of ADB operations in the water sector will address water supply and sanitation, while 28% will address water resource management through irrigation and drainage in rural areas. Within the energy sector, nearly a third of the projects—many of them funded with OCR – will have a focus on energy efficiency, clean energy, or renewable resources, thus contributing to the environmental sustainability of growth and to the mitigation of climate change. In the transport sector, operations in some countries will begin to shift towards the more energy-efficient subsectors of railways and urban transport. The number of transport projects with a regional dimension is high at 57%, confirming the strong demand for ADB support to establish physical connectivity as a step towards closer integration.



ADF = Asian Development Fund, OCR = ordinary capital resources  
Source: Asian Development Bank



15. Private sector development and private sector operations (Footnote 3) will increasingly become the instrument for promoting economic growth and job creation in Asia and the Pacific. A goal of Strategy 2020 is for private sector development and private sector operations combined to account for 50% of ADB operations by 2020. Based on current plans, they will account for 31% by number and 37% by volume by 2011 (Figure 5A). Within this total, based on a conservative definition (Footnote 7), private sector development activities are expected to grow and account for approximately 17% of the number of projects and 19% of the amount in 2009–2011. Nonlending operations will also strongly support private sector development, which will account for 37% of the program (Figure 5B). Private sector development loans and ADF grants processed by regional departments will aim to remove constraints resulting from policies, regulations, limited institutional capacity, and underdevelopment of the financial sector. ADB will also work with DMCs to help their utilities change from state-run monopolies to competitive corporate entities, towards a private sector model. Program lending and policy dialogue will be the primary instruments for private sector development.



16. Finance sector operations are expected to grow significantly in number and amount compared to previous periods, accounting for nearly 15% of sovereign loans in 2009–2011. As examples of such operations, the Southeast Asia Department (SERD) will continue to process program loan clusters aimed at developing the capital markets, while the Central and West Asia Department (CWRD) will target development of the legal and regulatory framework for the banking and nonbanking sectors (including pensions and insurance). The South Asia Department's (SARD) finance sector operations will facilitate infrastructure project-financing facilities, strengthen public resource management, support rural finance and small and medium-sized enterprises, and improve governance management practices.

17. The private sector, through its greater efficiencies and capacity for innovation, is an engine for sustainable economic growth, necessary for poverty reduction. The role of the private sector in poverty reduction is often indirect, creating the foundation for medium and long-term growth, particularly when accompanied by an enabling environment based on appropriate regulations and policies. Private Sector Operations Department (PSOD) operations will complement the policy advice provided through regional departments' operations, and act as a catalyst, facilitating investment, stimulating competition, and promoting new ideas in pursuit of economic growth and, ultimately, poverty reduction.

18. Private sector operations will on average represent 14% of ADB projects and 18% of overall operations by amount over 2009-2011 (Figure 5A). They will continue to focus on priority sectors, such as (i) energy, with special attention to renewable energy and energy-efficiency improvements; (ii) urban infrastructure, particularly water supply and transport; and (iii) finance, especially banking, investment funds, trade finance, and microfinance, as well as the promotion of finance sector development through guarantees for securitization transactions. Country coverage of PSOD portfolio, which grew from 13 to 19 countries in the last 5 years, will be expanded from 19 DMCs in 2008 to 24 DMCs in 2011 through the careful selection of transactions in new markets, to reduce portfolio concentration in the larger DMCs over time. PSOD will pay particular attention to opportunities for leveraging private sector operations with the aim of doubling the amount financed through syndications known as B-loans. Coordination between PSOD and regional departments will continue to be strengthened to synergize the improvements in the enabling environment promoted through policy reforms and specific private sector operations transactions.

19. Operations departments will continue to seek strategic interventions through public–private partnerships (PPPs), focusing on energy, transport, water, wastewater and solid waste treatment and disposal, power distribution, and other urban services. PPP projects will contribute to poverty reduction by improving the delivery efficiency of essential services, including to the poor, while allowing scarce budget resources to be used for poverty-targeted programs. TA interventions will help expand the knowledge base for the future design of these operations, notably in SARD and CWRD.

### **Box 1: Defining Public–Private Partnerships**

The term “public–private partnership” (PPP) describes a range of possible relationships among public and private entities in the context of infrastructure and other services, such as management contracts, joint ventures, concessions, build-own-operate and build-operate-transfer arrangements. PPPs present a framework that—while engaging the private sector—acknowledges and structures the government’s role to ensure that social obligations are met and successful sector reforms and public investments are achieved. A strong PPP optimally allocates the tasks, obligations, and risks among the public and private partners. The public partners in a PPP are government entities, including ministries, departments, municipalities, or state-owned enterprises. The private partners can be local or international, and may include businesses or investors with technical or financial expertise relevant to the project. The structure of the partnership should be designed to allocate risks to the partners that are best able to manage those risks and thus minimize costs, while improving performance.

Recent efforts aimed at piloting PPPs in Asian Development Bank (ADB) operations have shown that constraints need to be overcome on all sides: (i) ADB needs to improve its response speed and staff skills mix; (ii) central and local governments need to adjust the legal and regulatory environment; and (iii) project sponsors must change their perception of what to expect from ADB, and be prepared to factor in the time and cost required to address social and environmental safeguards. Nevertheless, given the financing gap for infrastructure development in the region, PPPs hold considerable medium- and long-term promise.

Source: ADB 2008. *Public-Private Partnership Handbook*. Manila. and ADB staff.

20. The expansion of private sector operations and PPPs will present a number of challenges for ADB, including (i) strengthening the administration of a rapidly expanding private sector operations portfolio; (ii) ensuring an adequate staff skills mix to design and implement these types of transactions and perform the necessary financial due diligence, including the needed legal advice; (iii) adjusting ADB’s financial policies to the different risk profiles that these operations entail; and (iv) developing the necessary legal and regulatory infrastructure in DMCs. To address the higher levels of nonsovereign lending and credit enhancements in ADB’s portfolio, the Risk Management Unit (RMU) will implement risk-mitigation initiatives over the next 3 years. These include modifying the credit approval process, developing new risk rating and pricing tools, and improving portfolio monitoring tools (para. 55). For these reasons, ADB will expand private sector operations and private sector development activities gradually. During 2009–2011, the emphasis will be on strengthening the policy frameworks in DMCs and the administration of the PSOD portfolio, while building ADB’s internal capacity and moderately expanding private sector operations. More robust growth will begin towards the end of the WPBF period. In future years, private sector development and private sector operations are projected to grow in parallel.

#### **2. Promoting Inclusion and Access to Opportunities**

21. Access to opportunities and services will be expanded through ADB operations in 2009–2011 focusing on education, health, rural infrastructure, and water supply and sanitation, in line with Strategy 2020. A significant investment program is envisaged to expand the access of an increasingly urban population to water supply and sanitation. Because local governments will carry increasing responsibility and financial burden for providing urban services, pilot nonsovereign operations and TA will explore and address some of the constraints they will face in this expanded role. SARD will develop and deliver nonsovereign operations aimed at promoting PPPs in the development of urban infrastructure. Urban services will also account for a growing share of new projects by East Asia Department (EARD). Some of EARD’s non-lending operations will assess and ease the constraints to nonsovereign lending in the People’s

Republic of China (PRC), including building capacity at the subnational level for risk rating, debt management, and PPP implementation.

22. The number of education sector projects planned for 2009–2011 will remain stable. ADF will be a primary source for education sector financing. The decline in primary education operations from about 60% of ADB investment in 2000–2004 to about 30% in 2005–2007 will continue. It will be matched by growth in projects or programmatic lending to enhance the quality and coverage of secondary, vocational, and technical education, and the beginning of operations for post-secondary education in selected countries. Operations will respond to the diversity of the DMCs. SARD will continue to support primary education and skills development. While maintaining assistance to secondary, vocational, and technical education, SERD will begin operations for post-secondary education in selected countries. In response to a request from the Government of Mongolia, EARD has developed projects to address education in all subsectors, while continuing to provide strategic education TA and advisory support in the PRC. To encourage programmatic approaches, CWRD will shift its financing of social services away from direct project financing; it will use instead program loans to finance public administrations willing and able to establish strategies and plans for the sector, which include definitions of service coverage and standards, credible systems and procedures, transparency and efficiency, and performance indicators. The analytical underpinning for enhancing the inclusiveness of social services will come from ADB-wide research and development technical assistance (RDTA) implemented by the Economics and Research Department (ERD). Against this varied background, ADB has started to assess whether the focus and planned level of its education operations is adequate (Box 2).

### **Box 2: ADB's Approach to Education**

Inclusive growth relies on the economic and social returns of investment in education and skills development. The Asian Development Bank (ADB) recently completed and published a comprehensive strategic study of the education sector.<sup>a</sup> The study provides a systematic analysis of education and human capital development challenges in the region. Building on ADB's strong record in supporting improvements in education in developing member countries (DMCs), it also presents a set of actionable recommendations for ADB operations in the sector to ensure they continue to respond effectively to DMC development needs arising from evolving labor markets and rapid economic and social development.

Increasing targeted assistance to improve the quality of education continues to be a priority. Progress in improving enrollments and the increasingly complex demands of globalization require that DMCs expand basic education to include secondary education. However, DMCs must look beyond basic education to technical and vocational education and skills training, as well as to higher education. These trends are already shaping the ADB assistance pipeline, and will increasingly do so in the coming years.

Resource requirements and development needs in the education sector in Asia and the Pacific are expected to increase significantly over the next decade because of expansion and development pressure. The technical and vocational education and/or skills and higher education subsectors in particular will require substantial investments for system expansion and upgrading of infrastructure and facilities. Demand for higher education is expected to double in 5 years and triple in 10 years in many DMCs.

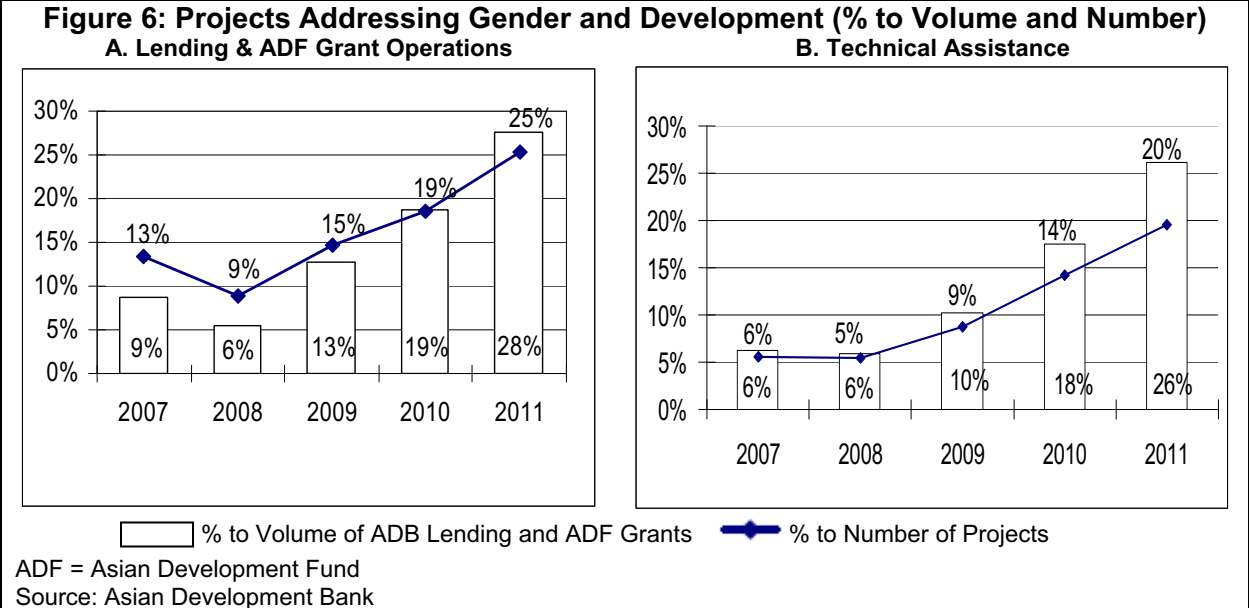
As they develop, DMCs need to balance priorities among education's subsectors to meet growing and increasingly complex requirements. In today's fast-changing environment, ADB must continue to carefully align its assistance in education with DMCs' needs in human resources development that support inclusive growth and the expansion of skills and competencies necessary for them to proceed to the next stage of development. Sustainable development of education will increasingly need to be broad-based, incorporating innovative partnerships and financing arrangements with a wide range of stakeholders.

<sup>a</sup> ADB. 2008. *Education and Skills: Strategies for Accelerated Development in Asia and the Pacific*. Manila.

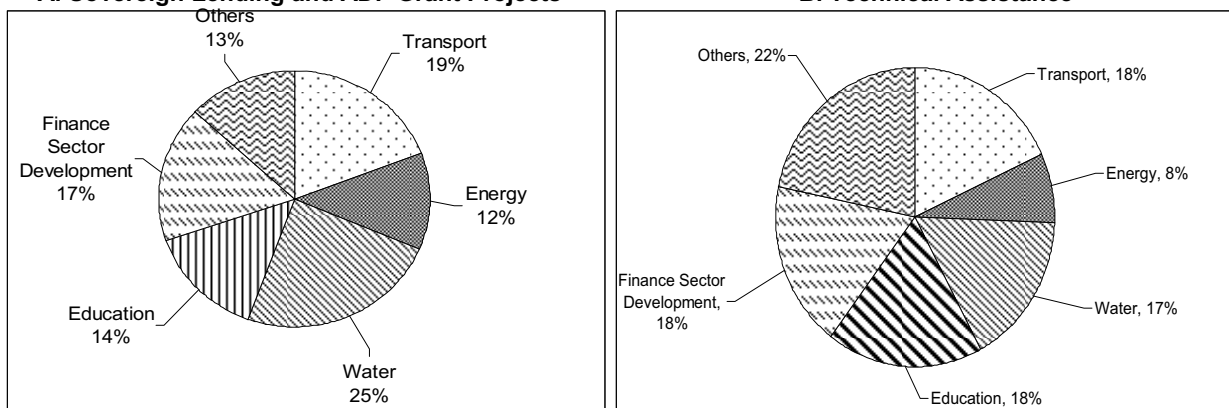
23. In the health sector, ADB’s emphasis will shift towards indirect support for health outcomes by optimizing the health impacts of infrastructure projects (water supply, sanitation, and waste management) and mitigating through proactive design the potential adverse effects—such as traffic accidents, the spread of vector-borne diseases in urban settings, and the diffusion of HIV/AIDS linked to populations’ increased mobility. ADB’s direct support for health will focus on program-based loans for health that address governance and public expenditure management for cost-effective delivery of health programs and services, based on DMC demand and the individual CPS process. Direct stand-alone interventions will be highly selective, emphasize the creation of regional public goods through communicable disease control, and used in partnership with programmatic approaches, as in the health sector-wide approach planned by the Pacific Department (PARD). Consistent with Strategy 2020, an operational plan for health has been prepared, which will guide ADB's involvement in the sector.

24. ADB will promote inclusiveness by addressing gender dimensions in its projects. Based on preliminary estimates, about 25% of sovereign loans and ADF grants will include a thematic emphasis on gender and development and/or other effective gender mainstreaming elements (Figure 6), reversing a recent trend that has seen the share of projects addressing gender dimensions decline, due to the shifting composition of ADB lending (with decline of operations for primary education, health, agriculture and natural resources).

25. Future operations will emphasize gender mainstreaming in growing sectors, such as urban development, water supply and sanitation, and energy, as well as through the continuing operations in education, agriculture, and health. The emphasis will be on projects that provide direct access to services (especially education and skills enhancement, health, and water supply); expand access to economic and financing opportunities; and promote access to markets and enhance productivity through transport, energy, and rural infrastructure (Figure 7). The even distribution of gender interventions across sectors is a sign of firmer mainstreaming across ADB operations.



**Figure 7: 2009-2011 Sector Distribution of Projects Addressing Gender (% to Number)**



ADF = Asian Development Fund, TA = technical assistance  
Source: Asian Development Bank

26. The inclusion of population living in rural areas will be facilitated by allowing them to reap the income benefits of higher productivity resulting from investment in irrigation, drainage, and rural electrification; and improving their access to services and markets through better transportation. ADB's operations in agriculture are further discussed in Box 3, in the context of ADB's response to the food crisis.

27. Strategy 2020 identifies good governance and capacity development as key drivers of change in ADB's efforts to pursue its vision and new strategic agenda. To improve the cost-effective delivery of public goods and services and broaden inclusiveness, ADB will increase support for good governance and capacity development. Governance risk assessments and risk management plans, initiated in 2007 under ADB's Second Governance and Anticorruption Action Plan, facilitate mainstreaming of good governance at the sector level throughout ADB operations. Focusing on three governance thematic priorities—public financial management, procurement, and combating corruption—ADB's risk-based approach to sector governance assessment will continue to assist in designing and delivering higher quality projects and programs. Country and sector governance risk management plans prepared for country partnership strategies (CPSs) are being translated into project designs, including actions to mitigate identified risks. ADB plans to focus its efforts on strengthening governance, combating corruption, and mainstreaming capacity development through institutional reform in DMCs. ADB will continue to participate in global and regional initiatives, such as the Extractive Industries Transparency Initiative, the Organization for Economic Cooperation and Development with the Development Assistance Committee (OECD-DAC) Network on Governance, and the ADB-Organization for Economic Cooperation and Development (OECD) Anti-Corruption Initiative for Asia-Pacific.

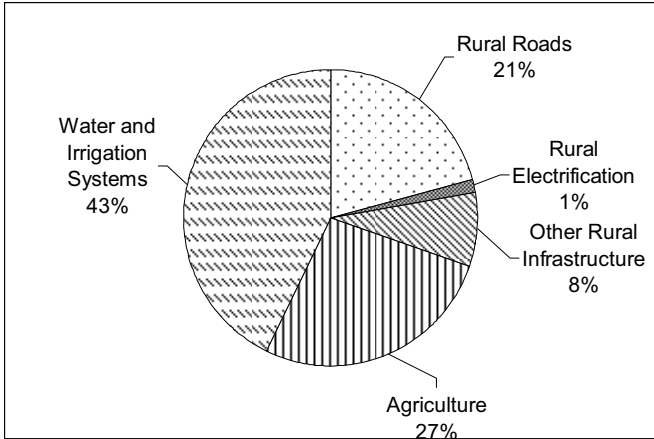
**Box 3: Responding to the Food Crisis through Agricultural Development**

Soaring food grain prices have caused serious concern around the world. In Asia, the estimated 1.2 billion poor people who spend on average 60% of their income on food have been hit hard by food price inflation. The impact of the food crisis has been compounded by the almost simultaneous increase in global energy prices. These crises are squeezing fiscal space, and their continuation could slow economic growth and erode some of the hard-won gains in reducing poverty.

Given the potential impact of the food crisis on Asia and the Pacific and on the attainment of Strategy 2020 goals, the Asian Development Bank (ADB) will include food crisis response in its operations during 2009–2011. In the short term, ADB’s response to the food crisis includes targeted interventions to protect the food entitlements of the poor and vulnerable groups through safety net programs, as well as support food imports and sector reforms. An assistance package of \$170 million incorporating these features was approved for Bangladesh on 22 July 2008, and similar support is being prepared to respond to requests from Afghanistan, Cambodia, Kyrgyz Republic, Mongolia, and Pakistan. Technical assistance has been approved to help Pacific developing member countries (DMCs) prepare a response to the impact of high world commodity prices. In addition, ADB has engaged in policy dialogue with DMC governments on the importance of adopting measures that provide relief to the affected poor with minimal adverse macroeconomic consequences or distortion of markets.

Over the medium to long term, ADB’s assistance to the agriculture sector will be guided by its Strategy 2020, and rely on measures to expand supply. In the medium term, ADB will support the enhanced productivity growth of agriculture through increased investments—particularly in infrastructure (irrigation systems, connectivity to the markets, and post-harvest facilities); sector reforms, including pricing and trade policies; rural finance; and other capacity building initiatives through regional cooperation. Over the long term, ADB will continue its support in knowledge and capacity development, particularly through more investment in adaptive research and technology dissemination for productivity enhancement in close collaboration with specialist agencies, such as international agriculture research institutions.

**Sector Distribution of Projects Supporting Food Crisis, 2009–2011  
(Volume of Loans and Grants)**

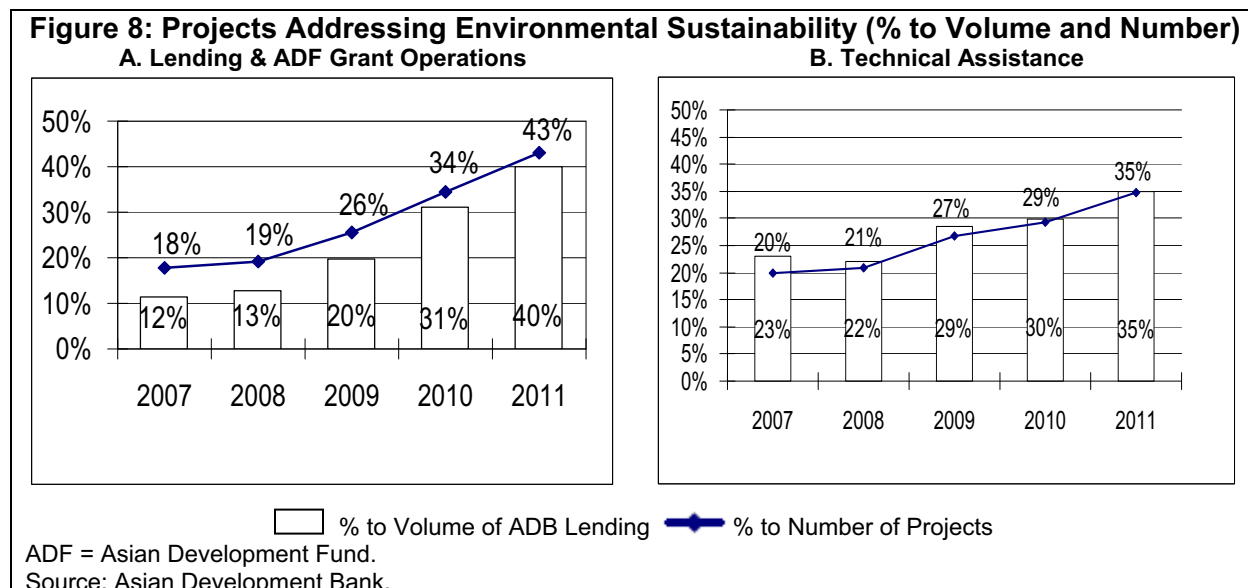


Source: Asian Development Bank.

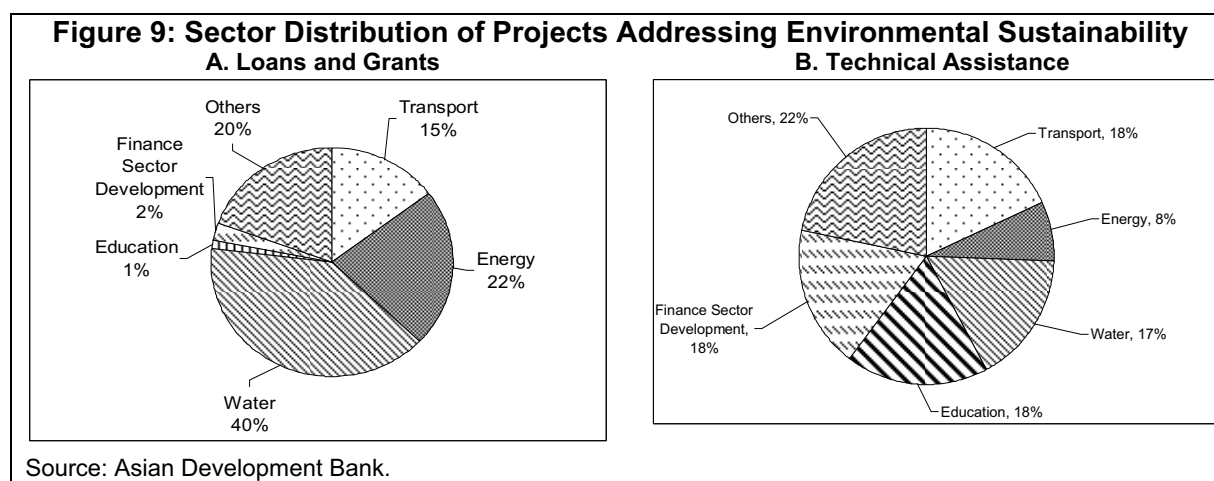
**C. Environmentally Sustainable Growth**

28. Strategy 2020 underlines that only growth that is environmentally sustainable can eliminate poverty, and commits ADB to making assistance for environmentally sustainable development a significant share of operations by 2012. Consistent with the strategy, the share

of operations addressing the environmental theme will grow substantially, from less than 20% currently and in the recent past to nearly double that amount in 2009–2011 (Figure 8).



29. Strategy 2020 gives particular prominence to ADB's role in helping its DMCs respond to the threats to economic growth and poverty reduction created by global climate change—both by reducing the intensity of greenhouse gas emissions of the region's economies and by introducing measures to help adapt to the already inevitable negative impacts of climate change. Strategy 2020 also recognizes the need to pay specific attention to environmental quality in the region's rapidly expanding urban areas and undertake other complementary actions to establish the basis for sustainable management of natural resources. Building on ADB's strong tradition and experience, 40% of operations with an environmental theme will continue to be in the water and urban sector in 2009–2011 (Figure 9A). Nearly 22% of projects, supported by TA operations will address clean and renewable energy, and energy-efficiency improvements, signaling both growth and diversification in the environmental portfolio.<sup>8</sup>



<sup>8</sup> The project classification system will be reviewed to ensure that ADB operations in these areas are accurately classified and accounted for, since operations addressing climate change were not previously tracked.

30. Climate change is one of the key development challenges faced by DMCs. The social dimensions of climate change will have wide-ranging consequences. However, consideration of these issues has lagged behind mitigation. Climate change may radically affect current migration levels and patterns, elevate conflicts, disrupt the livelihoods of rural and urban communities, and facilitate the spread of fatal diseases. Climate change threatens the achievement of the MDGs, and could bring about a significant rollback in the achievements to date.

31. Strategy 2020 emphasizes that ADB will help its DMCs transform their economies towards low-carbon growth paths and help them adapt to the unavoidable impacts of climate change. ADB's mitigation efforts will focus on promoting renewable energy and energy efficiency, and the wider adoption of cleaner energy sources. Regarding adaptation, the emphasis will be on building climate-resilient economies by addressing vulnerabilities at national, sector, and project levels. These activities will be performed in close coordination with ADB's disaster risk management operations to implement the new Disaster and Emergency Assistance Action Plan, which will strengthen and mainstream links between disaster preparedness and response structures and climate change adaptation planning.

32. Dialogue will continue with other development partners to help DMCs transform their development plans to achieve low-carbon and climate-resilient economies, as well as to respond to requests to participate in international forums to showcase ADB's knowledge and programs on climate change. ADB will respond to climate change by focusing on the following areas:

- (i) Momentum in energy efficiency and clean energy investments will be sustained, scaling up beyond the current level of \$1 billion per year. Energy conservation, and clean and renewable energy sources, will be the focus of EARD's and SARD's program in the energy sector, and a significant component in other regions.
- (ii) Transport is the largest sector in ADB operations. ADB will help its DMCs move away from their current heavy emphasis on investments in roads and highways towards a more balanced and sustainable mix, which includes rail and public transport systems coupled with sound urban mobility planning.
- (iii) As a global and/or regional public good, forest and other ecosystems provide valuable services by absorbing carbon from the atmosphere and fostering biological diversity. ADB will explore strategic, selective ways of supporting its DMCs in sustainable land management and the forestry sector.
- (iv) Adaptation will be supported through the preparation of regional climate change implementation plans (Box 4), and by systemically including adaptation analysis in the CPS preparation process to guide ADB country operations, particularly in countries with special climate change risks. Assistance will be provided to DMCs to integrate climate change adaptation into national development strategies and enhance resilience of sector strategies. In addition, screening tools will be introduced to identify projects at risk and critical investments, including infrastructure requiring "climate proofing." Adaptation will figure prominently in the PARD work program, including preparation of a regional climate change implementation plan, and management of coastal and marine resources in five DMCs that lie within the "coral triangle".

#### **Box 4: South Asia Regional Climate Change Implementation Plan**

Developing member countries (DMCs) in South Asia are facing a major challenge in sustaining rapid economic growth, while containing pressure on environmental resources and the threat of climate change. Some of the consequences of global warming have already become visible. Monsoon rains have become more intense and less predictable, Himalayan glaciers are melting, floods and droughts are more frequent, and mangrove forests are disappearing at an alarming rate. Public health, biodiversity, agriculture production, access to drinking water, and national security will be affected. Cognizant of these serious conditions, SARD is preparing a South Asia regional climate change implementation plan in line with national policies and action plans of DMCs to combat climate change.

The Government of India set out the National Action Plan on Climate Change in June 2008. To support increases in solar energy, a top priority of this action plan, the Asian Development Bank (ADB) will help develop large solar energy projects through an innovative public–private partnership scheme by providing an integrated renewable energy project loan in 2009 applicable to the proposed Clean Technology Fund.

The Bangladesh Climate Change Strategy Action Plan, formulated in September 2008 by the Government of Bangladesh, includes a water and sanitation program in areas vulnerable to the climate. To adapt and mitigate climate change in this aspect, ADB will provide an environment, health, and urban public sector development program loan in 2009. ADB will also provide a technical assistance cluster for capacity development and enhancing governance to implement the action plan.

In Nepal, ADB will support crop diversification and commercialization in 2009 to reduce CO<sub>2</sub> and NO<sub>2</sub> by promoting resource conservation technologies and adaptation by research on heat-resistant crops and water-efficient cultivation.

33. Research to support the climate change agenda will be one of the top ADB knowledge-generation priorities in 2009–2011. The Regional and Sustainable Development Department (RSDD) will support macro and sector-development planning and climate proofing of vulnerable projects. In addition, RSDD is preparing three climate change studies covering energy, agriculture, and migration, all of which will be published in 2009. ERD will include in its research program the analysis of the costs and benefits of climate change. Capacity development and policy analysis TA planned by regional departments will also support analysis at the country level and design of appropriate responses and policies.

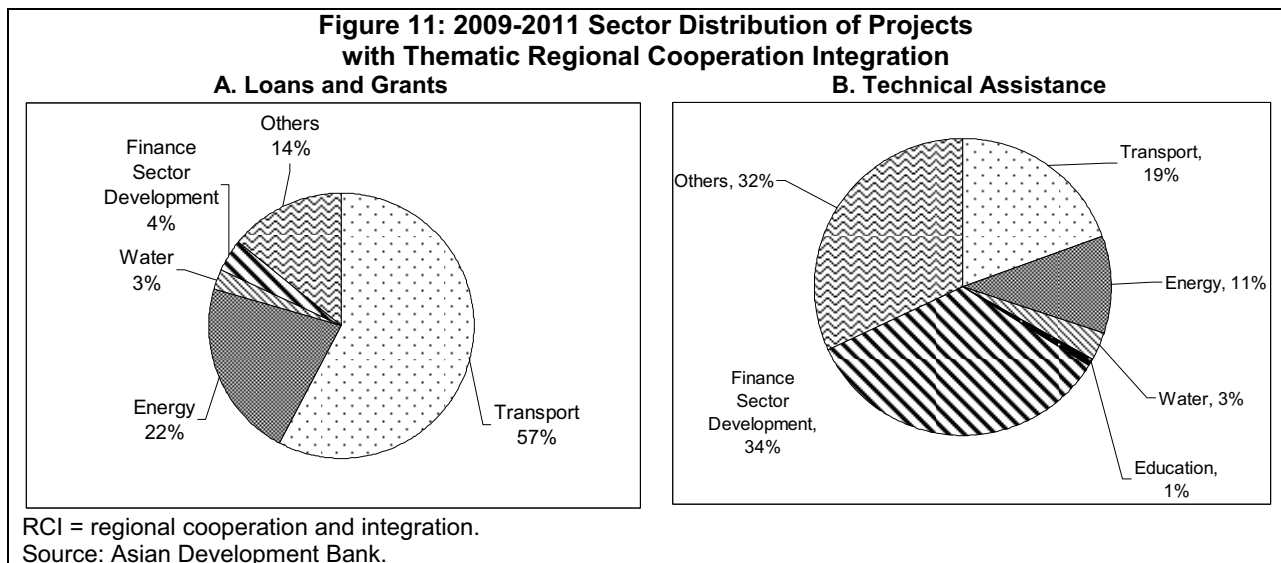
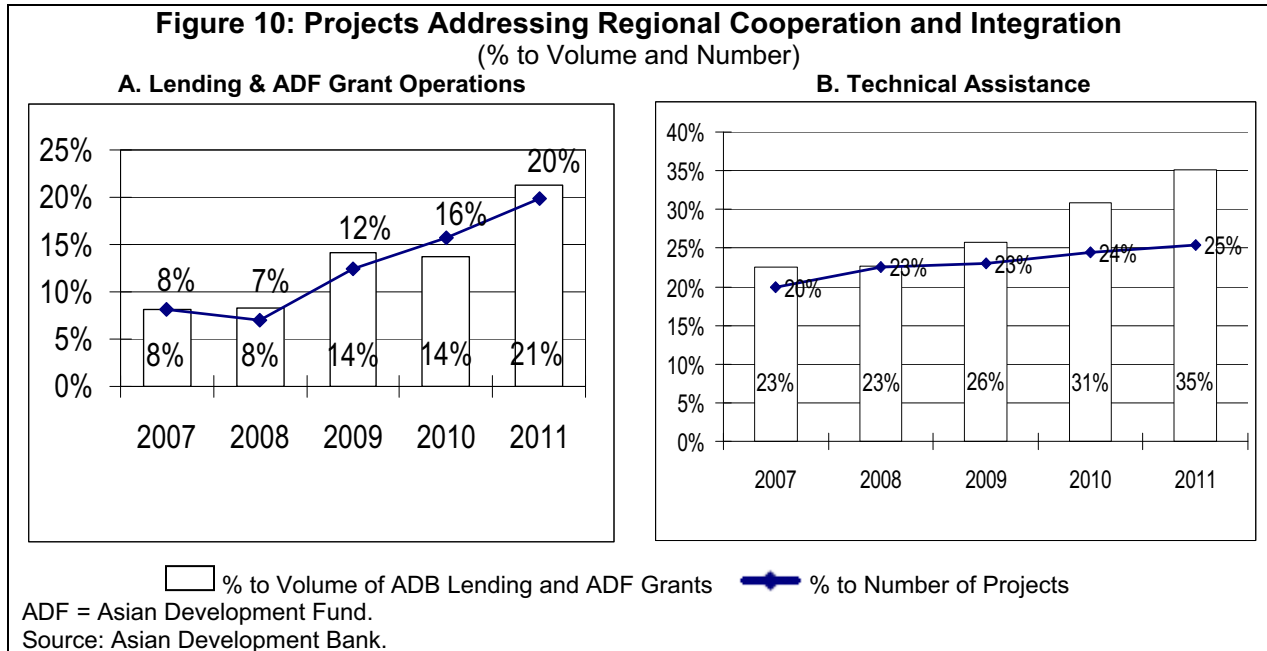
34. The considerable realignment of operations to address climate change and environmental sustainability will require a corresponding adjustment in the skills mix and staff strength, as well as closer partnerships with other institutions and sources or custodians of funds.

#### **D. Regional Integration**

35. As Strategy 2020 states, regional integration has the potential to accelerate economic growth, reduce poverty and economic disparity, raise productivity and employment, and strengthen institutions. To meet the expected demand, and to pursue its objective of stimulating and supporting RCI, the strategy commits ADB to progressively raise aggregate public and private sector lending for regional and subregional projects to at least 30% of ADB operations by 2020. The ADF X replenishment also recognized the importance of promoting regional public goods by earmarking up to 10% of the program during 2009–2012 for subregional projects, on

the condition that participating countries match every dollar drawn from the pool with \$0.50 from their performance-based allocation.<sup>9</sup>

36. As indicated in Figure 10, projects meeting the thematic classification of RCI will increase to 20% of operations in 2009–2011, while TA for this purpose will reach 25%. The incentive provided through an earmarked ADF allocation is already showing results, since the share of projects promoting RCI is nearly double for ADF-funded projects compared to the OCR program. The sector distribution of projects supporting RCI in 2009–2011 (Figure 11A) shows that transport accounts for 57% and energy for 22%, an expression of the interest in cross-border infrastructure links.



<sup>9</sup> Prioritization of ADF projects according to the agreed criteria will take place at the end of 2008 for the 2009–2010 period.

37. Operations departments will support regional cooperation at various levels through lending and non-lending operations. A new regional cooperation strategy will be prepared in 2010 for the Greater Mekong Subregion (GMS), which is expected to result in greater focus on the “soft” aspects of cooperation, especially competitiveness and social and environmental concerns, in addition to continued subregional infrastructure development. Regional cooperation in trade, investment, tourism, environment, human resource development, and connectivity will also be promoted through other arrangements between SERD countries.<sup>10</sup> Similar themes will be promoted by SARD at the subregional, regional, and interregional level.<sup>11</sup> SARD will also encourage networking among think tanks to generate policy recommendations on RCI issues. CWRD will assist the Central Asia Regional Economic Cooperation (CAREC) Program to shift from strategy definition to a project financing mode, particularly in transport, energy, and trade facilitation, increasingly adopting climate change as a central theme. EARD will continue to support the participation of Mongolia and PRC in the CAREC and GMS initiatives. In the Pacific, PARD will partner with bilateral aid agencies, the World Bank, and the International Finance Corporation to develop a Pacific regional infrastructure facility; and will promote dialogue and subregional pilot activities on audit, infrastructure regulation, and trade. In addition to assisting subregional activities, ADB will support broader efforts at generating regional public goods, for example, by combating corruption through the ADB-OECD Anticorruption Initiative for Asia-Pacific and by addressing environmental issues (Box 5).

**Box 5: Addressing Environmental and Natural Resources Degradation at the Regional Level**

The Asian Development Bank (ADB) is engaged with developing member countries in helping to reduce pressures on valuable land, water, forest, coastal, and marine resources, particularly through regional cooperation. In the People’s Republic of China (PRC) and Central Asia, for example, ADB and the Global Environment Facility (GEF) have joined forces through the PRC-GEF Partnership on Land Degradation in Dryland Ecosystems and the Central Asian Countries Initiative for Land Management to combat land desertification. These partnerships aim to develop long-term programs that will leverage resources and knowledge for sustainable land management. ADB support for the Heart of Borneo Program, which combines climate-change mitigation, adaptation, biodiversity conservation, and poverty reduction for forest communities, will help address deforestation—a major source of greenhouse gas emissions in Indonesia with regional impact. In the Greater Mekong Subregion, the Biodiversity Corridors and Tonle Sap initiatives are conserving forest and wetland resources that support millions of poor rural families across national borders. ADB is also mobilizing financing for the Coral Triangle Initiative, a regional effort by six Southeast Asian and Pacific countries to address degradation of the “Amazon of the Sea,” known for its rich biological treasures and high economic value. At the urban level, the Clean Air Initiative for Asian Cities is one example of helping improve urban air quality across the region, increasingly in ways that simultaneously reduce greenhouse gas emissions.

38. The lending program will be complemented by TA and knowledge operations. Knowledge for regional cooperation will be a key theme for RDTA, involving both ADB and the Asian Development Bank Institute (ADBI). The Office of Regional Economic Integration will continue to support initiatives of ASEAN + 3 (the Association of Southeast Asian Nations plus PRC, Japan, and Republic of Korea), and related work to enhance bond market development in the region. ADBI will undertake complementary efforts on intraregional capital flows and promotion of effective trade regimes within the region, while the ERD will pursue economic monitoring, and RSDD will promote regional public goods (such as health). At the regional level, TA operations will be aligned with the priorities identified in the respective regional cooperation

<sup>10</sup> Particularly through the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area and the Indonesia-Malaysia-Thailand Growth Triangle.

<sup>11</sup> Respectively through the South Asia Subregional Economic Cooperation Program, South Asian Association for Regional Cooperation, and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation.

strategies, supporting preparation of the investment pipeline and the complementary soft infrastructure (studies and master plans; cross-border agreements on the movement of people, goods, and services such as power), and will encourage networking among think tanks to generate policy recommendations on RCI.

#### **E. Engagement in Fragile Countries and Situations**

39. While addressing the Strategy 2020 priorities, ADB will also continue to enhance its engagement in fragile countries and situations. ADB committed to increasing the allocation of TA resources available to weakly performing countries by 20% compared to the 2004–2006 baseline period. As the most focused assistance to address capacity building in these countries is delivered through ADTA, this source is the most relevant measure of ADB's commitment. Relative to the baseline, the 2005–2007 program increased 25% while the 2006–2008 program is estimated to represent a 29% increase. When including PPTA, the total TA program increased 8% in 2005–2007 and is expected to increase 16% in 2006–2008. Especially relevant during 2006–2008 was the \$15 million TA to Timor-Leste for Infrastructure Project Management. Approved in 2007, the TA provides capacity building for selected ministries in preparing and procuring contracts and managing their subsequent implementation. ADB will continue efforts to deliver sizeable support to weakly performing countries through the TA program.

40. Regional departments will continue to seek innovative means to strengthen the effectiveness of country-led models of engagement in fragile countries. Programming and design of operations will seek to sustain longer-term commitments to capacity enhancement and institutional development, taking advantage of some features of the recent TA reform, that specifically benefit fragile countries, micro-states, and other DMCs with acute capacity and aid absorption problems. In particular, the TA reforms will promote the use of cluster TA for longer-term engagement in capacity development, joint TA with pooled resources where absorptive capacities are limited, and TA to support project implementation. The reforms also provide for possible execution through nongovernment organizations or other development partners, and for flexibility in the level of contingencies and counterpart financing requirements, promoting realistic expectations of country performance and aid effectiveness.

41. During the WPBF period, ADB will strengthen its operations monitoring in fragile and conflict-affected situations to enhance the performance of its operations portfolios. Differentiated strategic approaches will be progressively built into CPSs for countries that exhibit serious manifestations of fragility and vulnerability because of conflicts, small size and isolation, or weak governance systems and institutional capacities. To enhance engagement in such settings, regional departments will explore the use of innovative instruments and assistance modalities; develop new partnerships, including with non-state actors; and apply ADB policies and business processes with greater flexibility without compromising the application of prudential policies and safeguards. In post-conflict situations, ADB will increasingly participate in joint needs assessment and reconstruction efforts, with a view to better aligning its assistance program with whole-of-government approaches and the transitional results frameworks adopted by development partners. To support ADB's operational effectiveness in fragile states and situations, in-house capacities in these domains will have to be strengthened through knowledge development, networking, and incentive systems.

#### **F. Knowledge Operations and Knowledge Management**

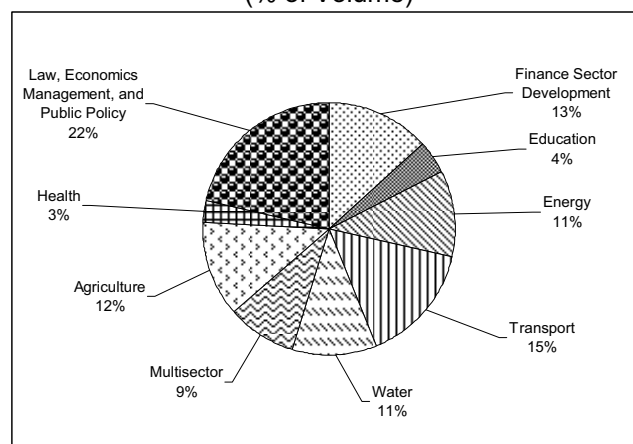
42. An essential feature of Strategy 2020 implementation will be the integration of knowledge activities in ADB operations. For this reason, knowledge-related activities, including TA, have been discussed in the previous sections under the relevant Strategy 2020 priorities.

The groundwork for closer integration between knowledge generation and operations, and for stronger knowledge management, has been laid in recent years. It will be enhanced by the strategic planning of ADB's RDTA, continued convergence between lending and TA operations, and implementation of the TA reform and knowledge management approaches.

43. **Strategic Prioritization of ADB's Knowledge Agenda.** ADB established under the 2008 TA reform a strategic forum to prioritize RDTA (Appendix 3). For 2009–2011, preliminary work for the strategic forum<sup>12</sup> has identified the following five priority areas, which respond to Strategy 2020 and to emerging regional issues: (i) promoting inclusive growth, (ii) addressing climate change for sustainable development, (iii) facilitating knowledge for regional integration, (iv) providing support to address increasing commodity prices, and (v) assessing and responding to demographic change. Although the RDTA program is primarily undertaken by knowledge management departments, coordination with operations departments will be ensured to obtain the maximum operational impact from the RDTA program.<sup>13</sup> An important plank of knowledge operations will be to provide guidance and analytical inputs for the preparation and implementation of CPSs.

44. **Synergies Between Technical Assistance and Lending.** A greater convergence in sectors between TA and lending operations had been gradually achieved in recent years under the MTS II. This trend will continue in 2009–2011 as a large share of the TA program will be focused on the core areas of Strategy 2020. Preliminary estimates show that about 37% of TA is programmed for infrastructure, comprising energy, transport, water supply and sanitation, and waste management. An additional 13% is programmed for finance sector development, and 4% for education (Figure 12). In terms of thematic priorities, initial figures indicate that environmental sustainability will be addressed by 35% of the TA pipeline, and RCI by 25%. Such an alignment is expected to enhance synergies among ADB's operational instruments and increase the development impact of ADB operations.

**Figure 12: Sector Distribution of Technical Assistance Operations, 2009–2011**  
(% of Volume)



Source: Asian Development Bank.

<sup>12</sup> The forum is chaired by the vice-president for knowledge management and sustainable development, with the Strategy and Policy Department serving as the Secretariat, and all operational and knowledge management departments heads acting as members. To begin providing research directions in spite of the short time available between approval of the TA reform and preparation of the WPBF, the strategic forum is being conducted through a simplified pilot process in 2008, relying on consultation meetings and indirect inputs from DMCs through the regional departments. The process is expected to be articulated further before the next edition in 2009, including more systematic consultation with DMCs.

<sup>13</sup> The knowledge management departments are ADBI, ERD, OREI, and RSDD. Operations departments refer to the five regional departments—CWRD, EARD, SARD, and SERD—and PSOD.

45. **Technical Assistance Reform Implementation.** In parallel with the alignment by sector and theme, improvements in the results and impact of the TA program are expected through the implementation of TA reforms.<sup>14</sup> The impact of TA operations and their knowledge contribution to ADB operations are expected to increase through (i) stronger planning; (ii) more focused quality control during design; (iii) emphasis on implementation, including delegation to executing agencies where feasible;<sup>15</sup> and (iv) streamlined procedures.

46. **Strengthening Processes for Knowledge Dissemination.** ADB will continue to strengthen the approach to knowledge dissemination inside the organization through communities of practice and knowledge hubs, lunchtime seminars, invitation to external keynote speakers, and conferences. The Operations Evaluation Department will systematically disseminate evaluation results. The introduction of the eStar document repository and sharing system will allow information to flow more smoothly, while a system of focal points on issues such as climate change will ensure a link between knowledge generation and its application to operations. In its interaction with DMCs and the development community, ADB will promote knowledge exchange through conferences and seminars (in synergy with ADBI), publications, TA operations, and preparation of briefing notes on topical matters at the request of DMC governments; and will encourage networking among think tanks.

### III. INSTITUTIONAL ADJUSTMENTS FOR STRATEGY 2020

47. ADB will strongly align its operations to Strategy 2020. Ensuring the continued, long-term alignment will also require adjustments in the institution's policies and strategies, business processes, organization, and human resources skills mix. This includes securing the appropriate expertise to (i) deliver effective projects and programs in climate-change mitigation, environmentally sustainable infrastructure projects, regional integration, private sector development, and PPPs; (ii) enhance risk management; (iii) interact closely with development partners; and (iv) leverage through cofinancing adequate resources to complement and augment ADB's program. In the medium term, ADB needs to better align the institution to Strategy 2020 by (i) improving coherence in corporate strategies and policies, (ii) increasing corporate responsiveness, (iii) enhancing human resources management and skills mix, and (iv) improving organizational structure.

48. **Improving Coherence in Corporate Strategies and Policies.** ADB is committed to streamlining the array of corporate policies and strategies, as well as those being prepared, and to ensure their alignment and coherence with Strategy 2020. An initial mapping and cross-comparison of ADB's policies and strategies, particularly sector and thematic policies and strategies, is under way to provide a complete and unified understanding of their range and complementarity. Once this phase is completed, relevant units will be requested to assess (i) the extent to which the full scope of individual policies and strategies has been implemented; (ii) whether individual policies and strategies are up to date and reflect recent developments in the respective field or area; and (iii) whether individual policies and strategies are still relevant in the context of Strategy 2020. Based on the results of this second phase, work will begin to revise, consolidate, or propose retirement of policies and strategies, as needed.

49. **Increasing Corporate Responsiveness.** ADB recently completed policy revisions to reform TA operations (Footnote 12) and mainstream the multitranche financing facility (MFF).<sup>16</sup>

<sup>14</sup> ADB. 2008. *Increasing the Impact of the Asian Development Bank's Technical Assistance Program*. Manila.

<sup>15</sup> Delegation will be based on capacity assessments. EARD has been piloting this approach by undertaking several capacity assessments in PRC, leading to the delegation of three TA projects starting in 2008.

<sup>16</sup> ADB. 2008. *Mainstreaming the Multitranche Financing Facility*. Manila.

These are expected to shorten processing time and increase responsiveness and efficiency. ADB's loan and debt management were enhanced, including simplification of loan charges and introduction of local currency lending modalities for nonsovereign and subsovereign lending transactions.<sup>17</sup> To streamline and modernize business processes in portfolio management, an e-handbook on project implementation was launched in March 2008 to support executing agencies and implementing agencies in administering projects on an effective, timely, and efficient basis. ADB will continue to pilot-test elements of the innovation and efficiency initiative (nonsovereign operations) throughout the WPBF period. In addition, ADB will enhance the efficiency of its internal processes through the implementation of the second information systems and technology strategy 2004–2009 (ISTS II),<sup>18</sup> and will use this opportunity and the development of a unified project processing and portfolio management system to reassess and improve its business processes, improve responsiveness and efficiency, and reduce the time needed to process and implement operations. The ongoing review of the Operations Evaluation Department will contribute to ensuring that lessons learned are incorporated into ADB's operations to improve their development effectiveness.

**50. Enhancing Human Resources and Skills Mix.** ADB's human resources management will be realigned to enable and support ADB in meeting the Strategy 2020 business requirements following the completion of the comprehensive human resources strategy (HRS) Review in December 2008 by an external consulting firm. Implementation of the recommended action plan will start in January 2009. To achieve the skills mix required for Strategy 2020, a full skills inventory of staff on board has to be regularly updated and skills needed to implement Strategy 2020 clearly defined. Staffing and skills mix requirements are dynamic, to be defined primarily in the continually changing context of the scope, size, nature and operational priorities in the region and individual countries. Going forward, departments and offices will continually assess skills gaps in their work units and also identify positions that are no longer needed for Strategy 2020. In conjunction with such an exercise, separation packages will be put in place for redundant skills in cases where retraining or redeployment is not a viable option. Recruitment for the skills and expertise required under Strategy 2020 will be prioritized and accelerated by identifying existing vacant budgeted positions that could be redeployed temporarily for this purpose without reducing the existing departmental staff resource allocation. Skills mix alignment to Strategy 2020 will also be achieved through more use of strategic recruitment (i.e., advance external recruitment at entry and mid-levels for skills needed in priority areas) and where warranted, flexible recruitment provisions (e.g., longer fixed-term but non-renewable contracts; recruitment at midpoint level salaries for highly qualified experts). Following the completion of the 2008 staff engagement survey, ADB will continue to assess progress and has committed to conduct such surveys regularly every 2 to 3 years.

**51. Improving the Organizational Structure.** While ADB does not expect reorganizations on the scale of those in 2002 and 2006, some realignments are anticipated during 2009–2011 to reduce duplication and improve operational and administrative efficiency, keeping in mind budgetary considerations. Generally, greater flexibility in organizational structure will be implemented within departments and optimal deployment of resources will be implemented across regional departments. More flexibility in delegation of work and resources to resident missions is also envisaged, as dictated by client and business needs. This process will take into account the capacity of the resident mission (RM) and the findings of the recently completed

<sup>17</sup> ADB. 2007. *Review of the Asian Development Bank's Loan Charges*. Manila.

<sup>18</sup> The information system and technology strategy 2004–2009 (ISTS II), adopted in June 2004 is also improving the way ADB shares and uses knowledge.

review of RM operations.<sup>19</sup> Such changes in organizational structure will enable more synergy and knowledge sharing required for ADB operations to deliver Strategy 2020's objectives.

#### IV. NON-OPERATIONS SUPPORT TO STRATEGY AND WORK PROGRAM IMPLEMENTATION

52. To implement and achieve the medium-term objectives of Strategy 2020, the work of non-operations departments and offices will be aligned to support the business plans of the operations units. This is particularly relevant in portfolio management, cofinancing, and risk management, as well as associated services in financial control and reporting, procurement, treasury, legal, and other support. Aside from meeting the direct requirements of operations under Strategy 2020, ADB will continue to upgrade institutional efficiency, business processes, and systems in areas such as strategic and business planning, budgeting, human resources, results management, internal audit, external relations, information technology (IT), and administrative services. Key initiatives of non-operations departments and offices in 2009–2011 are highlighted in paragraphs 52 to 60.<sup>20</sup>

53. **Support for Portfolio Management.** With the envisaged increase in the portfolio size and number of projects being administered, support for procurement, consultant engagement, and portfolio performance monitoring will continue to be strengthened. This will include overhauling the consultant management system and upgrading procurement procedures. Guidelines will be developed for unique products, such as projects with PPP modalities, to minimize ambiguities and delays in procurement. More frequent training and an accreditation program will be held for staff, particularly those in field offices, to strengthen procurement supervision. For the first time, staff of the Central Operations Services Office will be posted to resident missions on a selective basis, and ADB will work with DMCs to strengthen national procurement systems and development of national consultants. Efficiency measures will be implemented in portfolio management. Engagement of long-term consultants will be streamlined, when appropriate, with the use of the newly developed indefinite delivery contracts (retainer-type contracts). The use of ADB's e-handbook on project implementation, launched in 2008, will be encouraged among executing and implementing agencies. ADB will increasingly look at the possibility of introducing e-procurement mechanisms and consolidating in-house seminars on procurement and consulting services.

54. **Financial Control and Treasury Services.** The growing portfolio and cofinancing will increase the volume of transactions handled by the Controller's Department and Treasury. The expected increase in the use and establishment of trust funds will require more attention to ensure ADB fulfills its responsibilities as trustee. Over the medium term, the controller plans to improve trust fund accounting to accommodate the funds' varying financing modalities and reporting requirements, and to support more strategic management of trust funds. Within the WPBF period, the current loan and grant IT systems will be phased out in line with the plan to modernize these systems.

55. For Treasury, the planned 2009–2011 operational volumes will require the mobilization of \$8 billion–\$10 billion in OCR funds annually, compared with \$3.6 billion in 2000–2006. The larger funding will generate a correspondingly higher number of transactions, while ADB will need to deal with a wider range of products and investors for funds mobilization. Early in the

---

<sup>19</sup> ADB. 2008. *Review of Resident Mission Operations*. Manila.

<sup>20</sup> Work program of the Operations Evaluation Department for 2009–2011 is being prepared separately from this WPBF and is scheduled for Board consideration in early December 2008.

WPBF period, Treasury will work jointly with the Strategy and Policy Department to lead the preparatory work and facilitate negotiations for a GCI. With regard to internal policies and processes, Treasury will expand the depth and coverage of asset and liability management of OCR, ADF, Technical Assistance Special Fund (TASF), trust funds, and other funds. The RMU and Treasury will work to integrate the investment and risk management guidelines for the ADF.

56. **Risk Management.** In 2009–2011, risk management initiatives will focus on strengthening ADB's capacity to monitor and mitigate risks related to the higher share of nonsovereign lending and credit enhancements in ADB's portfolio. To this end, the credit approval process will be modified to require closer and continuous involvement of the RMU—from first contact to the final project review meeting. New risk rating and pricing tools will be introduced, which will involve re-rating the whole loan and guarantee portfolio, mainly in 2009. As a part of portfolio risk management, early warning systems will be improved to detect deteriorating exposures and enhance stress testing of the portfolio. The management of market and treasury risks will be better integrated in light of the recently approved *Treasury Investment and Risk Management Guidelines*<sup>21</sup>. In 2009–2010, the RMU aims to establish an assessment and pricing framework for equity transactions; place tools and instruments on an integrated IT platform; and further review the credit risk policy.

57. **Legal Support.** The Office of General Counsel (OGC) also anticipates that the growth in lending to nonsovereign entities and wider use of credit enhancements will generate larger demand for legal work. This will emanate from increasing due diligence of legal frameworks in project processing and administration, as well as a potential rise in legal disputes. Further, climate change-related initiatives, such as the establishment of the Asia Pacific Carbon Fund and the Future Carbon Fund, will require more legal services in connection with the trading of carbon credits. In Treasury's funding operation, the trend towards more small borrowings by ADB, including local currency borrowings, will require additional legal support. OGC will also work with the Treasury and the Strategy and Policy Department in preparing for negotiations for a GCI. The initiative to introduce programmatic cofinancing will generate significant legal requirements. Finally, OGC intends to contribute to the development of legal and regulatory frameworks and capacity in DMCs for the expansion of private sector operations and/or PPPs, and for the promotion of inclusive growth.

58. **Internal Audit and Anticorruption.** In line with the scaling up of ADB operations in recent years, the Office of Auditor General estimated that investigation cases had increased by 15% per year. To support ADB's emphasis on infrastructure, the Auditor General aims to strengthen staff capacities in the quality assessment of engineering works and equipment supply. With regard to internal control and external attestation, following ADB's adoption of a risk-based audit planning cycle and to meet the Strategy 2020 requirements, audit priorities and coverage will be expanded to nonsovereign operations, trust funds, financially critical IT systems, and IT security. Internal audit of resident mission operations will be enhanced in connection with greater delegation of loan and TA projects to resident missions. The approach to project procurement-related audits will also be realigned to better promote ADB's development effectiveness agenda. ADB will continue to provide fraud and corruption awareness training to staff and government counterparts to ensure ADB-financed projects adhere to the highest standards of integrity.

59. **External Relations.** In 2009–2011, external relations activities will be intensified to support information and knowledge dissemination and awareness raising under Strategy 2020.

---

<sup>21</sup> ADB. 2008. *Treasury Investment and Risk Management Guidelines*. Manila

A special focus will be on branding in priority areas, such as climate change, RCI, and infrastructure. Media outreach activities will be strengthened to support ADB's implementation of Strategy 2020 and position ADB as a major knowledge and development partner in the region. The Department of External Relations will coordinate closely with operations departments and field offices to raise awareness about the development impacts in DMCs through various communications channels, and to support the knowledge departments in the production, marketing, and dissemination of knowledge products and services to wider audiences through multiple channels, including the internet. The Department of External Relations will lead a global survey to measure stakeholder perceptions of ADB, and will continue to lead the implementation of the *Public Communications Policy (2005)* and review information dissemination mechanisms and related business processes.

60. **Strengthening IT Support.** ADB is implementing ISTS II 2004–2009. The strategy and its priorities remain a key enabler for ADB to implement Strategy 2020. Several changes in business operations outlined in the Strategy 2020 will affect the planned IT priorities and architecture. Investment and funds management, risk management, compliance, and user-driven technologies were not the main considerations when ISTS II requirements were established. However, IT in 2009–2011 will center on systems modernization and integration in the context of changing business needs as guided by Strategy 2020. A large part of ISTS II deliverables and objectives will be fulfilled during the WPBF period. The Office of Information Systems and Technology will help users realize the benefits of ADB's IT investments and lay the foundation for the next generation of IT solutions.

61. **Administrative Services.** In managing its office facilities, ADB will embrace and demonstrate the values of Strategy 2020 in sustainable environmental management. In 2009–2011, ADB will seek to reduce corporate greenhouse emissions in headquarters and extend energy conservation programs to the field offices. Support to core areas of operations, such as the main library, will be further geared towards the use of electronic resources, assistance to communities of practice, and information brokering, as guided by Strategy 2020. The Office of Administrative Services will work to improve procedures and internal services quality and responsiveness in areas such as events management, institutional procurement, business travel, safety and security, and emergency assistance. This effort will be matched with more optimized use of resources based on reviews of outsourced services, enhancement of contractors' performance, and monitoring of performance indicators through process improvement tools, such as Six Sigma and Statistical Process Control.<sup>22</sup>

## V. OPERATIONAL RESOURCE PARAMETERS 2009–2011

62. ADB will attempt to fulfill its mandate and provide greater service to its DMCs in 2009–2011 by carefully managing a growing portfolio and fully delivering the concessional resources made available by ADF X. At the same time, ADB will strive to maintain a stable level of OCR operations<sup>23</sup> and continue expanding private sector operations and private sector development operations. Expanding partnerships with other institutions will allow ADB to indirectly support priority objectives for Asia and the Pacific that are not at the core of ADB's specialization, while leveraging increasingly significant financial resources for the region.

---

<sup>22</sup> Six Sigma is the relentless and rigorous pursuit of the reduction of variation in all critical processes to achieve continuous and breakthrough improvements that impact the bottom line/or top line of the organization and increase customer satisfaction. The Office of the Administrative Services uses it as a measure of quality.

<sup>23</sup> Subject to further guidance by shareholders and the Board when considering ADB's OCR position.

## A. Portfolio Management

63. **Sovereign Portfolio Overview.** The sovereign loan portfolio<sup>24</sup> at the end of 2007 consisted of 529 active loans with a total commitment of \$39.9 billion.<sup>25</sup> Projections show a modest increase in the number of loans being administered during the WPBF period. While the increase in the number of loans is small, the average size of loans<sup>26</sup> has been increasing steadily, particularly from the OCR window and for infrastructure and finance sectors projects, demanding in turn more intensive supervision.

64. **Risk Ratings.** Risk ratings have been improving, and efforts in this direction will continue. At the end of 2007, the project performance report system rated 92% of all active sovereign loan projects or programs as satisfactory or better, and the proportion of projects at risk was about 8%.<sup>27</sup>

65. **Private Sector Portfolio Ratings.** ADB's total private sector portfolio reached a record of \$3.04 billion at the end of 2007, an increase of 79% over 2 years from \$1.69 billion at the end of 2005. The share of private sector investments with risk ratings of satisfactory or better was 92.6% in 2007, and the share of companies with risk ratings of substandard, doubtful, and loss was only 1.8% (a significant reduction from the 1999 level of 13.2%). Particular attention will be paid during 2009–2011 to consolidating the procedures and resources for supervising the expanding private sector portfolio in preparation for stronger future growth of private sector operations.

## B. Disbursement Trends

66. Yearly loan disbursements, which averaged \$5.4 billion in 2005–2007, are projected to increase steadily, exceeding \$11 billion by 2011 (Figure 13). Loan disbursement ratios have also been trending up, from 21% in 2005 to 25% in 2007, which is above the 23% target in the ADB results framework. The higher disbursements have contributed to maintaining positive net resource transfers to DMCs since 2006, reaching \$3.21 billion in 2007.<sup>28</sup>

<sup>24</sup> As of end-2007, based on Central Operations Services Office data.

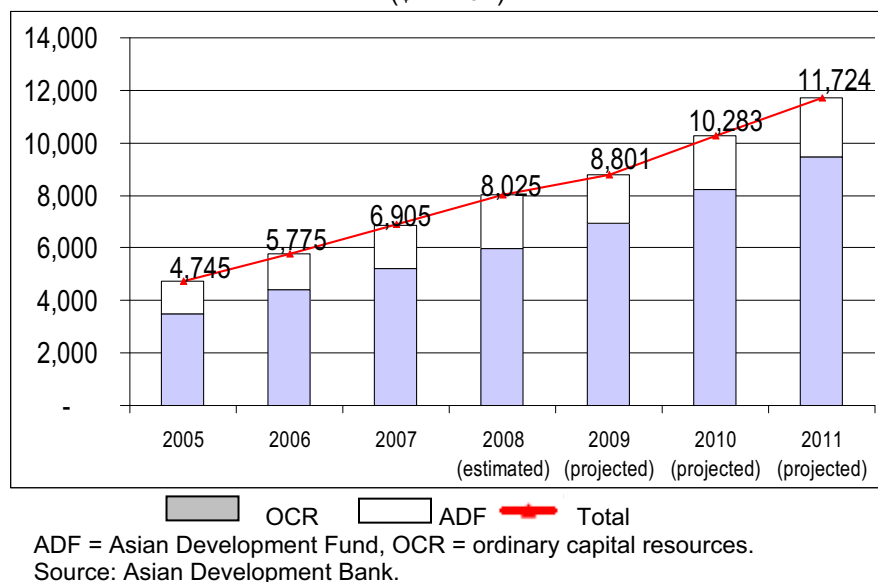
<sup>25</sup> Of these, \$33.2 billion (83%) was for 479 project loans and \$6.6 billion (17%) was for 50 program loans. Ordinary capital resources accounted for 70.5% of the portfolio (\$28.1 billion; 197 loans), and ADF for 29.5% (\$11.8 billion; 332 loans). Concentration remained largely unchanged over the past 5 years with seven of the largest borrowers accounting for 80% of the total portfolio amount.

<sup>26</sup> Loan size growth may be explained by ADB's Increasing focus on transport and communications, finance and energy. Other factors include increasing domestic inflation rates and appreciation of other currencies against the US dollar (resulting in higher procurement costs in dollar terms), and the pursuit of operational efficiency through the processing of fewer, larger operations.

<sup>27</sup> The grant portfolio (excluding Japan Fund for Poverty Reduction and Japan Fund for Information and Communication Technology) included 98 grants, of which only one was rated at risk.

<sup>28</sup> Net resource transfers were negative from 2001 to 2005, due in part to high loan prepayments.

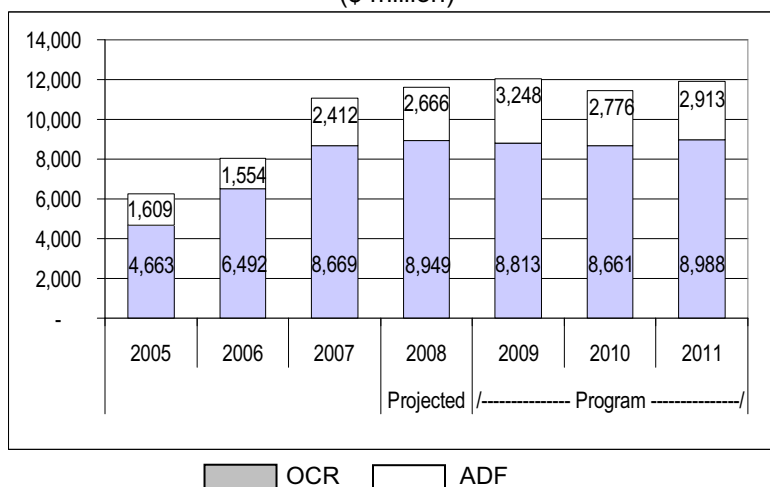
**Figure 13: Lending, ADF Grants and Equity—Disbursement Performance, 2005–2011**  
(\$ million)



### C. Operational Resource Parameters for 2009–2011

67. Responding to DMC demand, ADB's total lending and ADF grant operations increased from \$6.3 billion in 2005 to \$11.1 billion in 2007 (Figure 14).<sup>29</sup> Demand in the coming years is expected to remain strong and continue growing, as DMCs address the challenges of promoting inclusive and environmentally sustainable growth. Demand trends are further discussed in the working paper entitled *Review of the Asian Development Bank's Ordinary Capital Resources Requirements*, which was prepared in conjunction with the WPBF.

**Figure 14: Lending, ADF Grants, Equity and Guarantees – Stable Scenario**  
(\$ million)



<sup>29</sup> This growth is the result of greater responsiveness of ADB operations to demand, through improved portfolio management, new lending modalities, adjustments in eligible items and ADB financing shares, and reduction in OCR loan charges, as well as greater demand by group B borrowers, renewed interest in policy-based lending, and increased fiscal space for project loans.

68. The commitment of ADF and OCR resources for the WPBF 2009–2011 has been planned based on the larger concessional financing made available by the ADF X replenishment, and of a stable OCR scenario of approximately \$8.8 billion annually. Therefore, total ADB sovereign and nonsovereign lending, ADF grants, equity, and guarantees will remain between \$11.4 billion and \$12.1 billion per year. While placing a ceiling on recent growth, this level would allow ADB to respond meaningfully to DMC requests. However, it would imply actions to augment ADB’s lending headroom by 2010. Annual commitments of ADB resources through project approvals by region are in Table 1.

**Table 1: Project Approvals Financed by OCR and ADF by Region, Volume and Number 2005–2011**

	2005-2007 Average		2008 Estimate		2009		2010		2011	
	No.	\$ mn	No.	\$ mn	No.	\$ mn	No.	\$ mn	No.	\$ mn
Central and West Asia	17	1,858	24	2,324	28	2,865	26	2,510	24	2,525
East Asia	10	1,406	15	1,522	17	1,510	14	1,436	16	1,490
Pacific	5	94	7	189	6	57	11	519	7	217
South Asia	19	1,985	29	3,021	45	3,284	54	3,408	52	3,370
Southeast Asia	21	2,184	32	3,030	41	3,026	33	2,214	34	2,919
RSDD	0 <sup>a</sup>	8								
Private Sector Operations	22	931	18	1,529	15	1,320	16	1,350	17	1,380
<b>ADB</b>	<b>94</b>	<b>8,467</b>	<b>125</b>	<b>11,615</b>	<b>152</b>	<b>12,061</b>	<b>154</b>	<b>11,437</b>	<b>150</b>	<b>11,900</b>

<sup>a</sup> One regional project to address avian flu. When averaged, annual number rounds to less than 1. ADB = Asian Development Bank, RSDD = Regional and Sustainable Development Department. Source: Asian Development Bank.

69. **ADF Resources Will Expand Significantly.** ADF resources will continue to be allocated to countries based on the performance-based allocation system, including the adjustments agreed during ADF X negotiations, such as the threshold for blend borrowers, the revised grant framework, and the regional set-aside. A modest amount of hard term ADF resources<sup>30</sup> (about \$100 million per year) will be utilized by blend countries, depending on requirements. Savings and cancellations will continue to be pursued to ensure a healthy portfolio, and these will be reallocated as they occur. A detailed breakdown of ADF operations is in Appendix 4.

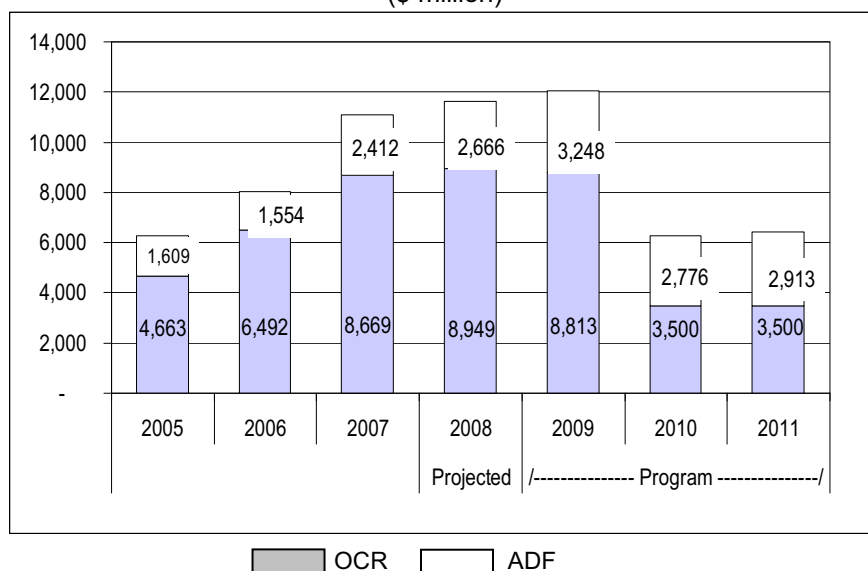
70. **OCR utilization levels shown in Figure 15 are based on a “stable scenario”** (see Appendix 5 for details). ADB has undertaken and will continue to implement measures to actively manage its capital base, and maximize headroom under current policies, as discussed in detail in the working paper on the *Review of the Asian Development Bank’s Ordinary Capital Resources Requirements*. Following Board guidance, options for expanding lending headroom, including a possible reinterpretation of article 12.1 of the ADB Charter,<sup>31</sup> are being explored. In addition to the “stable scenario” described above, a “contingency scenario” was also developed, based on the assumption of a level of OCR lending headroom of less than \$4 billion per year,

<sup>30</sup> The hard-term ADF lending facility was established in the *Revising the Framework for Asian Development Fund Grants*, approved in September 2007. Using resources from the 20% ADF volume discount the facility has a fixed interest rate based on the ordinary capital resources fixed-rate lending terms less 150 basis points or the current ADF rate, whichever is higher. Other terms are similar to those of regular ADF loans.

<sup>31</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

starting in 2010 (Figure 15). Feedback received from DMCs during country programming missions held in the first half of 2008 indicated that the associated level of operations would significantly reduce ADB's ability to fund development activities and support reforms, and to support DMCs during this delicate phase of food crisis and financial turmoil. Its implementation would imply drastic reductions in the sectors of ADB engagement, and would question the viability of sustaining operations, particularly in some countries without ADF access.

**Figure 15: Lending, ADF Grants, Equity and Guarantees – Contingency Scenario**  
(\$ million)



ADF = Asian Development Fund, OCR = ordinary capital resources.  
Note: 2005–2007 Historical, 2008 Projected, 2009–2011 Program  
Source: Asian Development Bank

71. **Articulation of the contingency scenario would require full consultation** of ADB's DMCs and other stakeholders. Preliminary simulations of the headroom impact of a reinterpretation of article 12.1 of the Charter suggest that from a lending headroom perspective it would generate more than the \$11 billion needed to allow ADB to maintain the stable lending scenario in 2010 and 2011, but that borrowing headroom constraints would become binding in 2011. Depending on progress in the discussion on ADB's OCR requirements and general capital increase including those on the Charter reinterpretation, ADB will be able to determine in early 2009 the most likely level of operations for the coming years. Any needed adjustments to sector, thematic priority, or country allocations would be discussed through internal and external consultations, and reflected in the planning directions for 2010–2012, to be issued in early 2009 guiding preparation of the 2010–2012 WPBF. ADB will also continue to monitor the evolution of foreign exchange rates and their impact on lending headroom.<sup>32</sup> If adjustments become necessary to the 2009 OCR lending level, one option would be to delay Board consideration of a share of 2009 projects to early 2010, to be accompanied by reprogramming of 2010 activities. This would be less disruptive to countries' development and financing programs than an up-front reduction in planned lending, given the long lead time needed to develop individual operations.

72. ADB will pursue moderate growth in nonsovereign lending and guarantee operations. Demand for ADB nonsovereign lending and credit enhancements remains high across DMCs. In

<sup>32</sup> The headroom situation is monitored periodically and reported quarterly to the Board through the quarterly *Treasury Report*.

response, ADB will increase its pipeline for such operations through private sector operations (see paras. 17 and 18) and pilot testing with cautious expansion of nonsovereign projects processed by the regional departments. Direct funding of nonsovereign operations will be complemented by private sector development activities aimed at creating the necessary enabling environment. The planned evolution of nonsovereign operations is in Table 2.

**Table 2: Actual and Projected Ordinary Capital Resources Nonsovereign Lending, Equity, Guarantees, and B-Loan Operations, 2005–2011**  
(by Volume and Number)

	2005-2007 Average		2008 Estimate		2009		2010		2011	
	No.	\$ mn	No.	\$ mn	No.	\$ mn	No.	\$ mn	No.	\$ mn
<b>Loans</b>	<b>12</b>	<b>651</b>	<b>17</b>	<b>1,483</b>	<b>15</b>	<b>1,270</b>	<b>16</b>	<b>1,320</b>	<b>18</b>	<b>1,450</b>
Private Sector	10	566	13	1,224	10	990	11	1,020	12	1,050
Public Sector	2	85	4	259	5	280	5	300	6	400
<b>Credit Enhancements</b>										
<b>(Private Sector)</b>	<b>5</b>	<b>483</b>	<b>5</b>	<b>725</b>	<b>6</b>	<b>930</b>	<b>7</b>	<b>1,030</b>	<b>8</b>	<b>1,130</b>
Guarantees	3	190	2	100	2	130	2	130	2	130
B-Loans	2	293	3	625	4	800	5	900	6	1,000
<b>Equity</b>	<b>9</b>	<b>176</b>	<b>3</b>	<b>205</b>	<b>3</b>	<b>200</b>	<b>3</b>	<b>200</b>	<b>3</b>	<b>200</b>
<b>ADB</b>	<b>26</b>	<b>1,310</b>	<b>25</b>	<b>2,413</b>	<b>24</b>	<b>2,400</b>	<b>26</b>	<b>2,550</b>	<b>29</b>	<b>2,780</b>

ADB = Asian Development Bank, mn = million, OCR = ordinary capital resources.

Source: Asian Development Bank.

#### D. Cofinancing

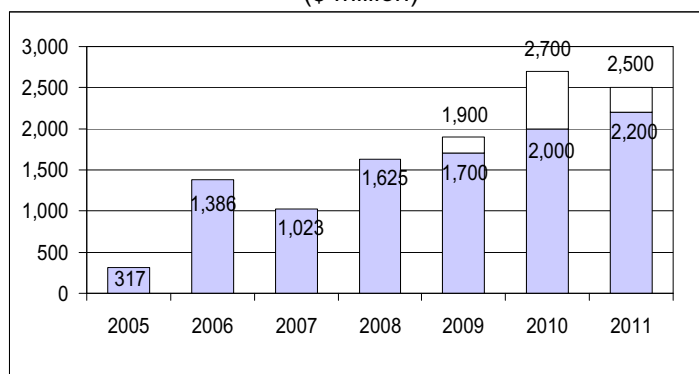
73. Strategy 2020 anticipates that ADB's cofinanced lending will become an increasingly important element in ADB operations, and will increase more quickly than ADB's stand-alone financing operations. Given the existing headroom constraints, attracting loan cofinancing for ADB's OCR lending operations will be emphasized. This will require close cooperation between operational departments and the Office of Cofinancing Operations. Efforts are ongoing to (i) better integrate cofinancing into the operational planning and project processing cycle; (ii) provide greater predictability through the use of framework agreements for cofinancing with key partners, and through financing partnership facilities; and (iii) improve the results framework for financing partnerships and cofinancing (Box 6). Greater use of credit enhancements for both sovereign and nonsovereign operations will be supported through a more effective approach to capital backing of guarantee operations.

74. During the WPBF period (2009-2011), it is anticipated that total direct value-added cofinancing<sup>33</sup> will be \$1.7 billion–\$2.7 billion per year, compared to an estimated 3-year average of \$1.3 billion in 2006–2008 and \$0.4 billion in 2003–2005 (Figure 16). These estimates are based on (i) a projection of past trends adjusted to account for a more proactive approach to cofinancing mobilization; (ii) information on potentially large cofinancing transactions associated

<sup>33</sup> This includes cofinancing whereby ADB enters into contractual or collaborative agreements with its cofinancing partners and thus directly supports through its own staff resources the mobilization of such cofinancing in the form of commercial guarantees and syndications, official loans, and grants for loan projects. It does not include discrete cofinancing that is arranged by the project sponsor without explicit support through ADB.

with specific projects in the pipeline; and (iii) the expected outcome of various programmatic cofinancing initiatives.

**Figure 16: Official and Commercial Cofinancing 2005–2011**  
(\$ million)



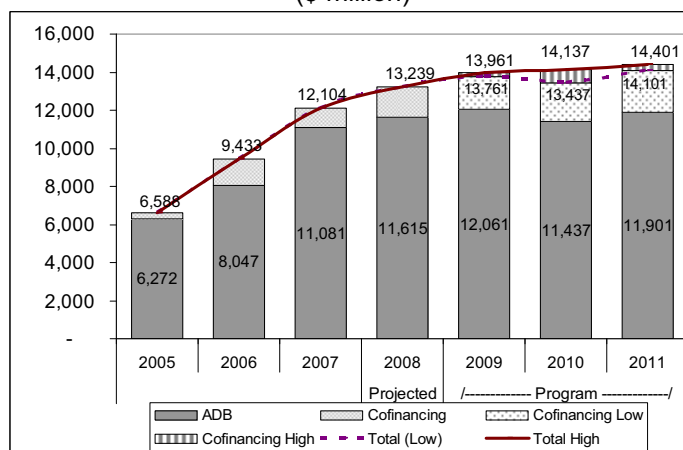
■ Actual (2005-2007) / Low Estimate (2008-2011) □ High Estimate (2009-2011)

Note: Annual data. 2005–2007 historical, 2008 projected, 2009–2011 estimates.

Source: Asian Development Bank.

75. Ranging from 12% to 20% of ADB resources, depending on the year and scenario, increasing levels of direct value-added cofinancing will allow ADB to continue responding to DMC requirements in the constrained OCR resource environment. By developing projects in partnership, ADB will help reduce transaction costs for DMCs, while incorporating innovative ideas and different approaches into project design. Figure 17 shows how recent trends and estimated future increases in official and commercial cofinancing complement ADB resources.<sup>34</sup>

**Figure 17: 2005–2011 Trends in ADB Operations and Cofinancing**  
(\$ million)



Source: Asian Development Bank.

<sup>34</sup> To credibly leverage cofinancing, ADB will need a critical mass of own resources, and the level of possible cofinancing is likely to be negatively affected if the contingency scenario discussed in paragraphs 70-71 is implemented.

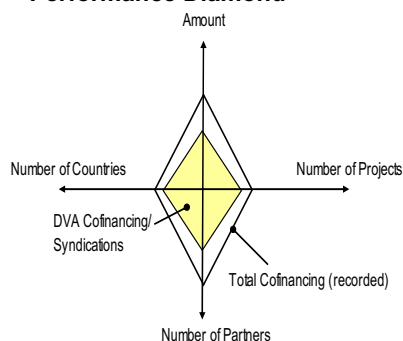
76. In addition to using ADB resources, leveraging loan cofinancing, and utilizing credit enhancements, ADB also manages bilateral and multidonor funds, which enable ADB to fulfill its mandate through a range of activities by supplementing lending through TA and project grants. The Japan Fund for Poverty Reduction, established in 2000, now has more than \$360 million in resources. Other significant bilateral funds include the \$20 million People's Republic of China Regional Cooperation and Poverty Reduction Fund, the Channel Financing Agreement with the Government of France, and Republic of Korea e-Asia and Knowledge Partnership Fund for \$20 million each. The largest multidonor fund is the Asia Pacific Carbon Fund, which accounts for \$152 million contributed by seven donors. Funds used to mainstream ADB's sector and thematic priorities are discussed in greater detail in Appendix 6.

### Box 6: Cofinancing Challenges and Measurement

The long-term strategic framework 2008–2020 (Strategy 2020) increases the emphasis on cofinancing to strengthen partnerships and supplement Asian Development Bank (ADB) resources. While ADB seeks cofinancing at competitive rates to continue providing significant assistance levels to its developing member countries, the external environment has become more complex. International banks at the moment have limited appetite for cross-border risk and non-investment-grade lending, and there is greater emphasis in financial markets on domestic resource mobilization and regional capital market development. For development agencies like ADB, cofinancing entails another dimension: the development of partnerships that allow harmonization and reduction of transaction costs in the delivery of aid. Therefore, the challenge is to develop, through regular consultations, partnership agreements with official and private sources, that will help improve predictability of cofinancing and simplify its delivery through programmatic agreements, rather than individual transactions.

The additionality brought about through various cofinancing instruments can be illustrated through a “financing partnership diamond,” which captures not only the total amount of funds mobilized but also the number of countries, partners, and projects involved.

#### Financing Partnership Performance Diamond



	Three-year Moving Average		
	2003-2005	2004-2006	2005-2007
No. of projects	13	19	20
DVA cofinancing (\$ million)	424	641	909
No. of cofinanciers <sup>a</sup>	16	30	37
No. of DMCs	9	11	13

DVA=direct value added.

<sup>a</sup>Includes commercial lenders for B loans.

The financing partnership diamond shows, using a 3-year moving average for the past 5 years, that ADB has increased its cofinancing in several dimensions. ADB will intensify its efforts along these multiple dimensions to bring about more value in its partnership operations. The Samoa Power Sector Expansion Project is an example of such efforts. The \$100 million project forms part of the Government's development plan in the power sector to provide reliable and affordable electricity to its consumers. Complementing Asian Development Fund (ADF) loan and grant financing from ADB (\$42 million) Japan Bank for International Cooperation through the Accelerated Cofinancing Scheme with ADB, provided a concessional yen loan for \$38 million equivalent to the project. Meanwhile, the Government of Australia provided \$8 million funding through a loan buydown mechanism, enabling assistance to promote governance and regulatory reforms. The balance of \$12 million is funded by the Samoa Electric Power Corporation.

Source: Asian Development Bank.

## E. Financing Modalities and Approaches

77. **Project Lending Continues to Dominate.** Project lending will continue to be the most significant modality for ADB operations, accounting for 53% by number of projects and 55% by volume of lending in 2009–2011. Periodic financing requests processed under MFFs will rank second at 32% by number and 33% by volume, up substantially from past levels. Increased processing of MFFs in the recent past helps to explain the reduction in sector loans and sector development programs. Anticipated program lending is considerably lower than previous years, dropping to 5% by number and 7% by volume (Table 3). These levels should be considered indicative, because requests for policy-based support usually have a shorter gestation period and may not be fully reflected in lending pipelines at this stage even though in some cases policy reforms supported through past program lending have laid sufficient foundations for sector improvements and the resumption of project lending. Programmatic approaches consistent with Paris Declaration principles will continue to be applied and expanded, by supporting well formulated government investment or reform programs using common arrangements or procedures through a variety of assistance modalities, not restricted to program lending or pooling of resources.<sup>35</sup>

**Table 3: Sovereign Lending and Asian Development Fund Grant Pipeline, 2005–2011 (By Modality)**

Modality	2005-2007 Average				2008 (Estimate)				2009-2011 Average			
	No.	%	\$ mn	%	No.	%	\$ mn	%	No.	%	\$ mn	%
Project	31	44	2,854	38	42	42	4,522	46	69	53	5,569	55
Program	10	14	1,949	26	13	13	1,995	20	6	5	749	7
Sector	6	8	629	8	1	1	75	1	2	1	51	1
Sector Development Program	3	4	549	7	1	1	350	4	6	5	358	0
Special Assistance Loans	1	1	150	2	2	2	290	3	0	0	0	0
TA Loan	3	4	29	0	3	3	21	0	1	1	13	1
ADF Stand-Alone Grants	10	14	259	3	19	19	443	5	4	3	61	1
Credit Line	1	1	25	0	0	0	0	0	0	0	0	0
MFF PFR	7	10	1,002	13	20	20	2,079	21	41	32	3,300	33

ADF = Asian Development Fund, MFF = multitranches financing facility, PFR = periodic financing request.

Note: Blend projects are counted as one.

Source: Asian Development Bank.

## F. Technical Assistance

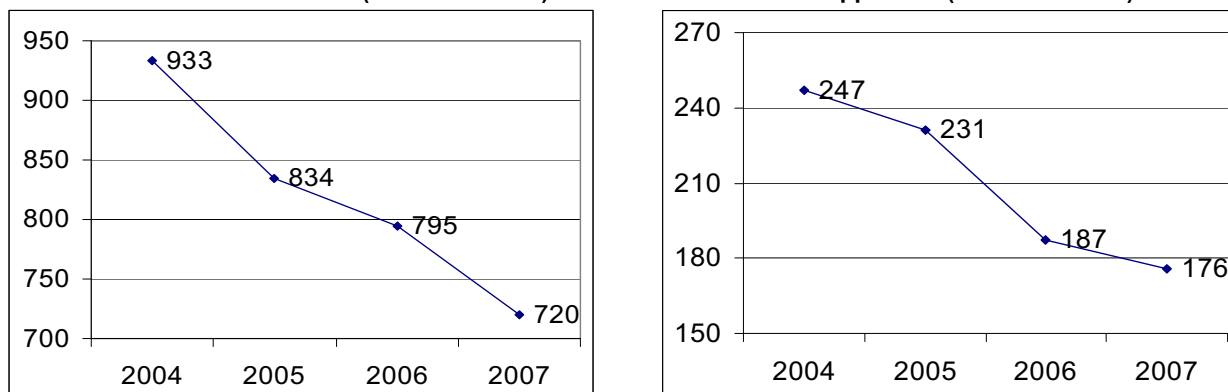
78. Active management of the TA portfolio will continue. In recent years, ADB new TA approvals remained stable, while the number of TA projects under implementation was reduced: 409 TA projects were closed in 2005 and 301 in 2007. As a result, the size of the active TA portfolio shrank from 1,184 in 2004 to 902 in 2007 (Figure 18A), while the satisfactory rating of TAs under implementation increased from 87% in 2006 to 95% in 2007.<sup>36</sup> In 2009, ADB will begin shifting from a control on the number of new TAs approved to a system which controls overall TA portfolio size. This will allow departments to increase TA approvals if they correspondingly reduce the size of the active TA portfolio, to increase flexibility and better align

<sup>35</sup> The annual survey on Monitoring the Paris Declaration has been expanded from 13 to 17 countries in 2008, and shows an increase in aid disbursed using common arrangements and procedures from 55% in 2005 to 61% in 2007.

<sup>36</sup> ADB. 2008. *Annual Report on 2007 Portfolio Performance*. Manila.

staff resources with the TA program. In spite of the increased flexibility, at present the number of new TA approvals is not expected to increase significantly.

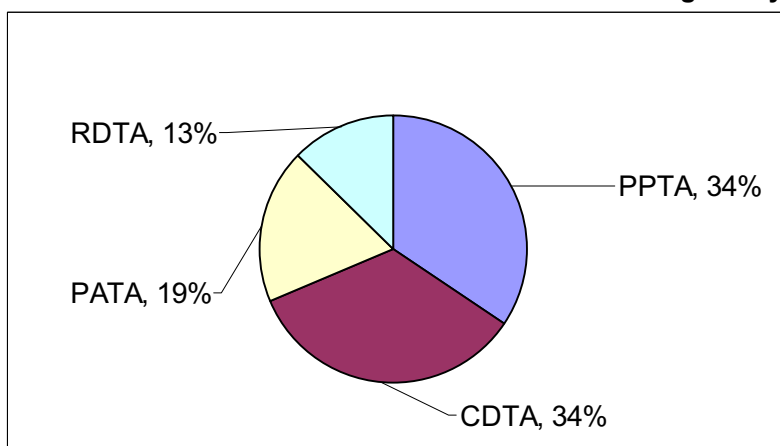
**Figure 18: 2004–2007 Advisory Technical Assistance and Regional Technical Assistance**  
**A. Under Administration (Number of TAs)**      **B. Approvals (Number of TAs)**



ADTA = advisory technical assistance, RETA = regional technical assistance, TA = technical assistance.  
 Source: Asian Development Bank.

79. While the new planning system will introduce more flexibility, project preparatory TA (PPTA) will continue to be emphasized. Based on current projections, ADB will allocate about 34% of its TA resources for PPTA, 33% for capacity development TA (CDTA), 19% for policy and advisory TA (PATA) and 13% for RDTA (Figure 19). ADB will more carefully prioritize CDTA, and PATA through country and regional strategies, and RDTA through the strategic forum.

**Figure 19: 2009-2011 Volume of Technical Assistance Program by Type**



CDTA = capacity development technical assistance, PATA = policy and advisory technical assistance, PPTA project preparatory technical assistance, RDTA = research and development technical assistance  
 Source: WPBF 2009-2011 submissions, Asian Development Bank

80. **Financing the TA Program.** The principal funding sources for the TA program are the TASF, the Japan Special Fund, and other external funding sources. In addition, some OCR net income will likely have to be transferred in 2009–2011 to ensure sufficient funding for TA operations, while guaranteeing that contributions to TASF made under ADF X are utilized for the

benefit of DMCs with ADF access. Annual financing for TA projects is expected to be in the range of \$270 million to \$290 million in 2009–2011 (Table 4).

**Table 4: Technical Assistance Financing Sources**

<b>Financing Sources</b>	<b>Average 2005-2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2009-2011</b>
Existing Sources & Projected Resources in TASF	16	23	19	13	25	57
New Contributions (from ADF X Replenishment)	54	58	80	94	84	258
OCR Net Income Transfer (Projected)	17	23	23	23	23	69
Savings & Cancellations (Projected) <sup>a</sup>	11	10	10	10	10	30
<b>Total</b>	<b>98</b>	<b>114</b>	<b>132</b>	<b>140</b>	<b>142</b>	<b>414</b>
JSF	42	66	60	50	45	155
Other Sources <sup>b</sup>	87	73	70	75	80	225
RCI Funds, CEF, ACEF	9	7	14	14	14	42
<b>Total TA Resources</b>	<b>237</b>	<b>260</b>	<b>276</b>	<b>279</b>	<b>281</b>	<b>836</b>

ADF = Asian Development Fund, ACEF = Asia Clean Energy Forum, CEF = Clean Energy Fund, JSF = Japan Special Fund, OCR = ordinary capital resource, RCI = regional cooperation and integration, TA = technical assistance, TASF = Technical Assistance Special Fund.

<sup>a</sup> Savings/cancellations from TASF.

<sup>b</sup> Projection for 2008 is based on the average of \$63–83 million.

Source: Asian Development Bank's Office of Cofinancing Operations, Strategy and Policy Department, and Treasury Department.

## **VI. RESOURCING THE WORK PROGRAM: STAFFING AND BUDGET FRAMEWORK FOR 2009–2011**

81. Despite rigorous prioritization, the strategic commitments under Strategy 2020, ADF X, and managing for development results (MfDR) cumulate into robust work programs requiring higher budgetary and staff resources. Inflation and the global and regional labor market conditions exacerbate price pressures on the budget and staff planning for 2009.

82. Nevertheless, ADB plans to manage this challenge without large or abrupt increases in the budget envelope. This will be achieved through (i) rigorous pooling, repositioning, and alignment of ADB's available resources; (ii) proactive use of efficiency measures; (iii) prudent and gradual increases in the resource envelope over the next 3–4 years, based on target dates set for achieving each of the Strategy 2020 goals and meeting ADF X commitments; and (iv) close monitoring of the work program progress and resource utilization. The broad parameters and approaches to resource the work program for 2009–2011 are discussed in para. 83.

### **A. Cost Drivers**

83. The 2009–2011 work programs—especially in 2009—simultaneously kick off critical actions to implement Strategy 2020 and ADF X commitments under the ADB's broader framework for MfDR. Some associated undertakings will require additional staff and budgetary resources. The estimated cost implications of key items will be provided in the 2009 budget document. These main cost drivers include the following:

- (i) strengthening the in-house capacity to implement common priorities of Strategy 2020 and ADF X commitments (i.e., climate change, environmentally sustainable infrastructure projects, and regional integration);
- (ii) enhancing support to fragile states and other ADF countries through increased ADF operations, enabled by a higher ADF X replenishment and strengthening of ADB's resident missions in ADF countries to support program implementation;
- (iii) providing adequate support (e.g., risk management, legal services, and disbursement) to implement private sector operations portfolio, which grew rapidly in the recent past, and to lay the foundation for the anticipated growth in nonsovereign lending;
- (iv) increasing delegation to resident missions to maximize ADB's development effectiveness through continued improvement of resident mission's capacity to manage the growing portfolio as a result of higher levels of new approvals in recent years;
- (v) adjusting compensation and benefits to reflect inflation, and to address market trends in the global and regional labor markets to continue to attract and retain high-caliber staff;
- (vi) reflecting higher travel costs associated with the substantial increase in fuel costs, airfares, hotel rates, and security-related costs in Asia and the Pacific; and
- (vii) increasing fill-ratio and reflecting a realistic, achievable, but higher percentage of "filled" staff-years to allow fuller use of the authorized staff positions through proactive vacancy management.

84. Table 5 provides a summary of the ADB work program for 2009–2011.

Table 5: Summary of Work Program 2009–2011

Item	Actual 2007	Program 2008	Estimate 2008	Program 2009	Average Program 2010-2011
<b>A. Key Outputs</b>					
<b>1. Investment Operations</b>					
<b>A. Portfolio Management (no of projects, year-end)</b>					
Regional Departments	452	468	490	524	510-520
Private Sector Operations	140	134	146	150	160
Loan/ADF Grant Disbursements (\$ million)	6,915	7,183	8,025	8,801	11,004
<b>Projects Rated Satisfactory (%)<sup>a</sup></b>					
- Regional Departments	92.4	92.0	94.7	94.4	94.2
- Private Sector Operations	90.7	96.0	92.4	94.0	95.5
<b>B. Project Processing</b>					
<b>Public Sector Operations (Regional Departments)</b>					
<b>Number of Approvals</b>					
Regular Program	49	71	62	75	72
ADF Stand-Alone Grants	13	6	19	18	17
MFF Subprojects	15	28	20	39	42
Sub and Non Sovereign	2	-	4	5	5
MFF Framework <sup>b</sup>	7	14	13	20	13
<b>Amount of Approvals (\$ million)</b>					
Regular Projects/Programs	9,820	10,033	10,034	10,742	10,304
ADF Stand-Alone Grants	7,331	7,330	7,253	6,066	6,578
ADF Stand-Alone Grants	414	237	443	412	433
MFF Subprojects	2,045	2,466	2,079	3,984	2,943
Sub and Non Sovereign	30	-	259	280	350
MFF Framework <sup>b</sup>	4,024	5,140	6,193	6,400	4,070
<b>Private Sector Operations<sup>c</sup></b>					
Number of Approvals	26	25	16	19	22
Amount (\$ million)	1,716	2,000	2,154	2,120	2,315
<b>DVA Cofinancing Operations<sup>d</sup></b>					
Investment Projects (number)	18	37-49	31	32-38	40-46
Investment Projects (\$ million)	1,023	1,350-1,800	1,624.7	1,700-1,900	2,100-2,600
TA Projects (number)	60	50-70	58-78	60	65
TA Projects (\$ million)	89.7	60-80	62.5-82.5	70.0	75.0
<b>2. TA Program</b>					
Ongoing TAs (number, year-end) <sup>e</sup>	842	875	796	849	840-890
New TA Approvals (number)	242	265	274	265-285	265-285
New TA Approvals (\$ million)	243.4	260-300	287.3	270.0-300.0	270.0-300.0
<b>A. Project Preparatory TAs - PPTAs</b>					
Ongoing TAs (number, year-end)	172	212	193	200	190-210
New TA Approvals (number)	66	94	98	95	80-100
New TA Approvals (\$ million)	40.6	72.2	96.3	76.8	75.0-90.0
<b>B. Capacity Dev./Policy &amp; Advisory/Research &amp; Devt TAs<sup>f</sup></b>					
Ongoing TAs (number, year-end)	670	663	603	649	650-680
Total New TA Approvals (number)	176	171	176	170-190	170-190
Total New TA Approvals (\$ million)	202.9	-	190.9	206.0	200.0-215.0
<b>3. Economic, Sector and Thematic Works (number)<sup>g</sup></b>					
Operations Departments	152	143	183	192	153
Non-Operations Departments <sup>h</sup>	102	96	98	89	86
<b>4. Operations Evaluation</b>					
Project Performance Evaluation Reports	13	13	14	13	13
Special Studies, CAPE, and Other Studies	32	23	23	23	25
<b>5. Country and Regional Strategies and Business Plans</b>					
Country Partnership Strategy	5	18	10	12	8
Regional Cooperation Strategy	-	2	-	1	1
Country Partnership Strategy Review	1	6	-	4	4
Country/Regional Operation Business Plans	25	21	20	19	18

- = 0 or not available/applicable, tbd = to be determined.

ADF = Asian Development Fund, CAPE = country assistance program evaluation, DVA = direct value added, CDTA = capacity development technical assistance, MFF = multitranches financing facility, OCR = ordinary capital resources, PPTA = project preparatory technical assistance, PATA = policy and advisory technical assistance, RDTA = research and development technical assistance, TA = technical assistance.

Notes: <sup>a</sup> Percentage by loan/project number, include those classified as "Highly Satisfactory" and "Satisfactory". For private sector operations, these include projects rated "Marginal". <sup>b</sup> MFF pipeline is not fully identified for 2010-2011. <sup>c</sup> Include loans, equity, guarantees, and B-loans.

<sup>d</sup> Estimates for cofinancing are subject to project requirements and confirmation by financing partners. <sup>e</sup> Excludes TAs technically completed but not yet financially closed, and supplementary/small-scale TAs. <sup>f</sup> Formerly AD/RETAs prior to 2008. <sup>g</sup> ETSWs are not funded under TAs. Figures are lower for 2009-2011 because studies are difficult forecast in advance. <sup>h</sup> Figures cover RSDD, ERD, and OREI.

## **B. Measures to contain Budget Growth**

85. To absorb these additional costs, while minimizing impacts on the total budgetary envelope, ADB will implement measures to enhance institutional efficiency and enable redeployment of resources to priority areas. First, the operational program is steadily being prioritized and focused based on Strategy 2020, which allows greater economies of scale by focusing the use of staff resources on priority sectors. Second, improved staff skills alignment will be achieved through a combination of strategic recruitment of qualified new staff and training of existing staff. Third, some minor organizational alignments—mostly within departments—will be implemented to reduce duplications and to improve operational and administrative efficiency. Fourth, ADB will continue to streamline business processes through IT applications, and actively utilize modern communications technologies to save business travel where possible.

## **C. Staffing Requirements**

86. **Estimated Requirements.** The initial request for additional staff required to implement Strategy 2020 during 2009–2011 totaled 100 professional staff positions and a similar number of local staff. These requests were examined carefully in consultation with the requesting departments/offices and with involvement of the relevant Vice Presidents. The process took into account the business plans reflected in sections II–V. The requests were screened rigorously by prioritizing positions that address common requirements across Strategy 2020 and ADF commitments. Nevertheless, over the medium term ADB will still require additional 60 professional staff, 70 national officers, and 80 administrative staff positions across the institution, including additions to resident missions. To enable timely provision of required staff resources, ADB plans to initially add 12–18 professional staff positions and several local staff positions, primarily to resident missions. At the same time, ADB plans to recruit 20–25 additional professional staff through the combination of vacancy management and vacancy pooling exercise (para. 89), and about 15 local staff through position redeployment enabled by outsourcing.

87. **Distribution of Positions.** The guiding principle for distributing new positions to be provided in the 2009 budget and positions made available from vacancy management is to allocate the majority to (i) implement the common priorities between Strategy 2020 and ADF X commitments, with higher priority given to strengthening support to increased ADF operations, including consolidation of support to fragile states and strengthening resident missions in ADF countries; (ii) strengthen advisory functions in priority themes, such as climate change and regional cooperation; and (iii) ensure risk management and due diligence of the private and public sector portfolio. The final distribution of staff positions will be determined during the preparation of the 2009 budget, taking into account the directions emerging from the discussions of this WPBF paper and ongoing discussions with ADB departments and offices.

88. **Staffing for 2010–2011.** To address the requirements that remain after the staffing measures in the 2009 budget process, ADB anticipates a gradual increase in staff positions by adding about 15 new professional staff positions and a slightly higher number of local staff positions per year over the medium term. However, taking note of the uncertainty on the size of OCR operations pending GCI discussions, staff requirement projections are tentative and will be adjusted as required.

89. **Vacancy Management.** The prevailing higher vacancy rate—attributable to attrition from retirement, resignation, and strict management of the special leave without pay program—offers a major opportunity to reposition the staff composition. The available vacancies will allow new

staff to be hired for priority specializations required to implement the Strategy 2020. In parallel, ADB will pool vacancies across the institution and use these positions to recruit skills urgently required in priority areas. ADB has applied a relatively conservative staff-fill ratio (93%) in budget planning to contain the budget size. To provide for additional staff without any abrupt increases in the authorized staff positions, ADB will apply an increasingly higher staff-fill ratio so that more authorized staff-years can be used to support implementation of the work program.

#### D. Budget Preview for 2009

90. The initial assessment of the work program and of the adjustments needed in 2009 to meet the requirements of Strategy 2020, as well as the expected increase in ADF operations, indicate that 2009 will require significantly higher real budget growth. Price factors will be a major contributor to the budget increase, exacerbating the pressure to limit volume increases to contain overall budget growth.

91. ADB estimates that the 2009 net internal administrative expense budget is about \$392 million (Table 6). This includes (i) a price increase of approximately 7.5% over the 2008 midyear estimate, (ii) volume growth of 2.3%, and (iii) a general contingency equivalent to 1% of the total budget. The price increase largely comprises the annual increase in staff costs, staff consultant fees, travel-related expenses, and the impact of rapid inflation in the Philippines and the region on the administrative expenses (e.g., office rental). The volume increase is attributable mainly to the envisaged increase in staff positions to meet the incremental resource needs and the main cost drivers (para. 83).

92. The 2009 budget document, to be prepared subsequent to the WPBF, will elaborate on the internal resources requirements to implement the 2009 work program. During the implementation of the budget, activities of departments and offices will continue to be examined and reprioritized, as appropriate, to ensure resource provision is aligned with the emerging strategic priorities.

93. Guidance provided by the Board during the consideration of this WPBF and feedback received from the Budget Review Committee's deliberation in November 2008 will be taken into account in preparing the 2009 budget, which will be circulated to the Board in November 2008. The Board consideration of the 2009 budget is planned for mid-December 2008.

**Table 6: Summary of the 2009 Budget Preview by Expense Category**  
(\$'000)

<b>Internal Administrative Expenses Category</b>	<b>2007 Actual</b>	<b>2008 Budget</b>	<b>2008 Estimate</b>	<b>2009 Preview</b>	<b>% Change over 2008 Estimate</b>
Board of Governors	1,121	1,656	1,617	1,674	3.5
Board of Directors	21,925	23,184	23,589	25,371	7.6
Operational Expenses	249,866	270,384	270,327	299,145	10.7
Administrative Expenses	56,651	63,503	63,426	67,963	7.2
<b>Total Before General Contingency</b>	<b>329,562</b>	<b>358,727</b>	<b>358,959</b>	<b>394,152</b>	<b>9.8</b>
General Contingency	0	3,587	3,129	3,942	0.2
Reimbursements from Trust Funds <sup>a</sup>	(4,067)	(5,164)	(5,164)	(6,197)	(0.29)
<b>Total</b>	<b>325,495</b>	<b>357,150</b>	<b>356,924</b>	<b>391,897</b>	<b>9.8</b>

( ) = negative

<sup>a</sup> Estimated recoveries of costs associated with administering single-donor and multidonor trust funds.

Source: Asian Development Bank.

## VII. RESOURCE AND EXPENDITURE PARAMETERS

### A. Operational Resources

94. Resourcing assumptions for 2009–2011 are in Table 7.

**Table 7: Planning Assumptions for 2009–2011**  
(\$ million)

<b>Funding Source</b>	<b>Average Annual Program 2005 to 2007</b>	<b>2008 Estimate</b>	<b>Projected Average Annual Program Size 2009 to 2011</b>
Ordinary Capital Resource Operations	6,608	8,949	8,820
Asian Development Fund Operations	1,859	2,666	2,979
Technical Assistance and Grant Operations (all funding sources)	237	260	270

Source: Asian Development Bank.

95. As of 30 June 2008, OCR lending headroom was \$15.5 billion. Additional resources that can be generated from loan savings and cancellations are estimated at about \$2 billion. The pipeline will be carefully managed making full utilization of cofinancing and other external resources.

96. ADF commitment authority for 2008 is estimated at \$2.7 billion (includes loan savings and cancellations). Additional resources from loan savings and cancellations are estimated at \$1 billion for the full ADF IX period. The average annual program size in 2009 to 2011 has been determined based on the ADF X replenishment.

97. ADB will maintain the TA program at an average of around \$270-\$290 million. The main financing sources are the Technical Assistance Special Fund (TASF), the Japan Special Fund (JSF), trust funds and TA-specific grants. Projected annual funding from TASF is expected to be about \$140 million (including OCR net income transfers and funds freed-up from savings and cancellations). Resource availability for JSF is expected to average \$55 million (including funds freed up as a result of savings and cancellations). Financing from other financing sources is expected to be about \$85 million annually.

### B. Expenditure Expectation, 2010–2011

98. The staffing and budget framework for 2010–2011 will be developed in 2009 based on additional information on the demand outlook and availability of operations resources over the medium term that will emerge from the ongoing GCI exercise. Depending on the progress in implementing Strategy 2020, the internal resource framework will take into consideration the possible internal changes required to gear ADB operations and staffing to meet the goals of Strategy 2020 and the commitments under ADF X. At the same time, the developments in global prices and market condition will have to be factored into the projections. Given the uncertainties, the internal resource framework for 2010–2011 has not been determined at this time.

## VIII. WPBF 2009-2011 REPORTING AND MONITORING

99. ADB is committed to monitoring, managing, and reporting on the implementation of Strategy 2020. Monitoring and reporting on results will take place through the ADB Results Framework,<sup>37</sup> that will track regional and country outcomes, ADB's contribution to these outcomes through key outputs, the effectiveness of ADB operations, and organizational effectiveness. A *Development Effectiveness Review*, presented in 2008 during the third quarter, but in subsequent years in advance of the WPBF, will provide an assessment of achievements and highlight issues for Management action.<sup>38</sup>

100. Past versions of the WPBF included a results framework. A comparison of the new ADB results framework with those included in previous WPBFs shows that the two overlap substantially. Indicators of operational and organizational effectiveness included in ADB's results framework cover most WPBF dimensions, and in fact a number of new indicators have been introduced.<sup>39</sup> For this reason, preparation of a separate WPBF framework has been discontinued, and monitoring and reporting on WPBF implementation will in the future be done through the *Development Effectiveness Review* and ADB results framework.

---

<sup>37</sup> ADB. 2008. *ADB Results Framework*. Manila. Approved by the Board on 8 September 2008

<sup>38</sup> The program presented in the current WPBF is meant to achieve the outcomes outlined in the results framework, and appears aligned towards the proposed outputs in most sectors. However, some adjustments to indicators and targets may be required as ADB operations evolve. For example, the growing emphasis on secondary, technical and vocational, and post-secondary education and the focus of financial sector programs on broader reforms and improvement of the enabling environment, suggest that some flexibility, and possibly adjustments in the choice of indicators may be necessary for the education and finance sector, to ensure that the impact of ADB operations is properly captured and reflected.

<sup>39</sup> The WPBF results framework included 25 indicators under the three categories of (i) MTS II alignment; (ii) aid harmonization and alignment; and (iii) efficiency. Of these, 13 are exactly or essentially the same indicators included in the ADB results framework (volume amounts may be replaced by ratios or percentage shares, or slight changes in definition are introduced). Three indicators of sector alignment to MTS II are replaced by 5 indicators of alignment by strategy 2020. Five indicators concern operations levels, routinely reported in the WPBF. This leaves only 4 WPBF results framework indicators not covered by the new ADB results framework which, on the other hand, includes 13 additional indicators of operations or organizational effectiveness.

**Ordinary Capital Resource Sovereign Lending Pipeline 2005–2011**  
(By Sector Classification)

	2005-2007 Average			2008			2009			2010			2011		
	No.	%	\$ mn	No.	%	\$ mn	No.	%	\$ mn	No.	%	\$ mn	No.	%	\$ mn
Infrastructure															
Energy	5	18	868	16	28	1,720	24	22	2,119	29	27	1,905	27	16	820
Transport	8	28	2,013	36	23	2,238	31	21	1,870	26	26	2,647	38	29	3,062
Water	5	17	452	8	17	673	9	19	849	12	23	815	12	30	1,400
General Infrastructure	0	0	0	0	8	467	7	14	669	9	9	518	7	9	461
Finance Sector Development	2	7	783	14	17	1,519	21	14	1,079	15	4	664	10	7	881
Education	0	0	0	0	0	0	0	3	100	1	2	120	2	3	195
Agriculture	2	7	124	2	4	170	2	4	203	3	5	299	4	3	151
Health	0	0	0	0	2	50	1	0	0	0	0	0	0	0	0
Others	7	24	1,351	24	2	300	4	3	325	5	0	0	0	1	200
<b>Total</b>	<b>30</b>	<b>100</b>	<b>5,592</b>	<b>100</b>	<b>53</b>	<b>7,137</b>	<b>100</b>	<b>77</b>	<b>7,213</b>	<b>100</b>	<b>77</b>	<b>6,970</b>	<b>100</b>	<b>80</b>	<b>7,170</b>

Source: Asian Development Bank.



## THE FIVE STRATEGIC PRIORITIES FOR THE RESEARCH AND DEVELOPMENT TECHNICAL ASSISTANCE PROGRAM 2009–2011

1. Through a Strategic Forum process, ADB established five strategic priorities, that will guide approximately two thirds of ADB research and development technical assistance (RDTA) during 2009-2011. They are aligned to Strategy 2020 priorities and reflect emerging issues with medium and long term potential impact on the Asia-Pacific region, as discussed below.

2. **Promoting inclusive growth.** High growth rates in some Asian countries have significantly reduced the incidence of poverty in the last decade. However, significant gaps remain for the region to meet the millennium development goals (MDGs), heightened by increasing income and non-income inequalities that can threaten the social contract on which growth itself is based. Access to proper education, health care, and other forms of social services, as well as financial resources remain limited in many developing member countries (DMCs), particularly for traditionally disadvantaged groups—including minorities and women. The situation for poor people is worse in fragile states which are often associated with (i) weak policy implementation, and management capacity; (ii) small, isolated market conditions; (iii) physical and social disruption linked to violent conflict; (iv) meager public sector resources; and (v) volatility and unpredictability of aid. ADB’s research agenda on these issues will focus on growth drivers and constraints (in particular the dynamics of enterprise growth and job creation), and on measures to create an environment for equal access to opportunities and services, both at the central and local level, through innovative financing for services, analysis and formulation of related policies, and capacity building for government institutions and officials.

3. **Addressing climate change for sustainable development:** Broad scientific consensus shows that greenhouse gas emissions from human activities have led to higher global temperatures, influencing the climate. Climate change is a major development issue, since the poorest people in the poorest countries are expected to suffer first and most from the negative impacts of climate change. The poor are already the most vulnerable to economic disruptions caused by natural disasters, and they are least able to cope with new risks.<sup>1</sup> Although the potential impacts of climate change and the need to mitigate them are well known, considerable efforts are needed for the DMCs to develop the local knowledge and policies to address them. A first strand of ADB research on this topic will aim at providing the necessary knowledge support to ensure that the DMCs can effectively prepare to implement the current and forthcoming international agreements (i.e., post-Kyoto Protocol arrangements). On the mitigation side, RDTA will generate additional knowledge to place clean energy and efficiency improvements at the core of the DMCs quest for a stable supply of energy. On the adaptation side, RDTA will help integrate the major concerns of climate change at the country partnership strategy (CPS) level through risk assessments, and at the project level through climate proofing. Finally, the country and regional implications and policy response to the impact of climate change on health, disaster preparedness, and the potential rise of ‘climate refugees’ will be analyzed.<sup>2</sup>

---

<sup>1</sup> Agricultural productivity gains and further increases in yields and profitability are threatened by higher rainfall variability, floods and negative effects of climate change. Likewise, urban populations and infrastructure, especially in coastal areas, are at risk from heat waves, storms, sea level rise and other natural disasters.

<sup>2</sup> One of the most significant impacts on climate change is expected to be on agriculture, due to changes in water supply and temperature. This also has implications on bio-fuel production, associated with rising food prices. These issues are addressed in a later section.

**4. Facilitating knowledge for regional integration.** Regional integration has the potential for accelerating economic growth, providing resources for policies that will reduce poverty and economic disparity; raising productivity and employment; and strengthening institutions. A dynamic and outward-looking Asian regionalism will help to stabilize and power the world economy. Asian cooperation—particularly on finance sector and macroeconomic policies—could provide an early example of Asia’s growing capacity to contribute to economic progress both regionally and globally. The effects of regional integration on investments are positive, but the benefits are likely to be distributed unequally across the region. Hence, more analysis is needed to assess the impact of regional integration and cooperation on poverty reduction. ADB’s work on the implementation of the regional cooperation and integration strategy<sup>3</sup>, approved in 2006, will continue. ADB will also continue, through activities by both knowledge and operations departments, to support and analyze the impact of regional economic integration and coordination initiatives, such as the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN (Association of Southeast Asian Nations) Growth Area (BIMP-EAGA), the Central Asian Economic Cooperation (CAREC), the Greater Mekong Subregion (GMS), the Indonesia-Malaysia-Thailand-Growth Triangle (IMT-GT) Subregion, the South Asia Subregional Economic Cooperation (SASEC); and ASEAN+3.

**5. Providing support to address increasing commodity prices.** The recent increases in commodity prices (mainly food and oil) threaten to push large numbers of people back below the poverty line in the region.<sup>4</sup> Food price inflation hurts the poor the most, given the high weight of staple foods such as rice in their consumption basket.<sup>5</sup> The rise in prices also threatens macroeconomic stability through inflation, the rising fiscal cost of subsidies, and possible exchange rate depreciation in importing countries.<sup>6</sup> Complementing the ongoing emergency relief on food prices by the operational departments, the overall aim of RDTA in this area will be to improve understanding of the trends, underlying issues, macroeconomic impact, and possible policy responses at the country and regional level. Research on long term solutions linked to increased agricultural productivity and improved energy efficiency will be conducted in partnership with relevant international agencies and research centers.<sup>7</sup>

**6. Assessing and responding to demographic change.** At least 500 million of the existing labor force of 1.7 billion workers are already unemployed or underemployed. The region’s population will expand by an estimated 750 million between 2004 and 2025, requiring the creation of 420 million jobs by 2030. Two important related implications for DMCs from the changing demographics are internal migration and urbanization. The expected urban development in the region is unprecedented with 1.1 billion more people living in the cities within the next 20 years—making urbanization and its management a critical policy issue for the governments. Cities need to develop a more sustainable transport system (including public transport), ensure clean water supply, while managing housing and other social systems. ADB’s research in this area will analyze the impact of urban development,<sup>8</sup> and develop approaches to improved urban management. This will include complementary research at the sector level in the areas of energy, water, housing, and sustainable transport.

<sup>3</sup> ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

<sup>4</sup> Estimates show that rice accounts for more than 40% of the calorie consumption for Asians, and that poor people spend as much as 30%-40% of their income on rice alone. In addition, the World Food Program reports that women and young girls are suffering the most from the reduced access to food resulting from high prices.

<sup>5</sup> See ADB.2008. *Special Report on Food Prices and Inflation in Developing Asia (2008)*.

<sup>6</sup> The rate of inflation measured by the consumer price index in 2007 accelerated in developing Asia to 4.3%, up from 3.3% in 2006, and currently is forecast to surge further in 2008 to 4.8% (*Asian Development Outlook 2008*).

<sup>7</sup> Agricultural productivity will be affected by climate change, due to changes in temperature, rainfall, and weather patterns. Specific adaptation measures are needed in the rural areas in the region to meet this challenge.

<sup>8</sup> See ADB. 2006. *Technical Assistance for Managing Cities in Asia*. Manila.

**Asian Development Fund Lending and Grant Operations Pipeline 2005–2011  
(By Region and Country)**

Region/Country	2005-2007 Average			2008 Estimate			2009			2010			2011		
	No.	\$ mn	%	No.	\$ mn	%	No.	\$ mn	%	No.	\$ mn	%	No.	\$ mn	%
Operations Group 1	26	1,220.8	66	32	1,784.3	67	35	2,381.5	73	34	1,883.5	68	33	1,935.0	66
Central and West Asia	14	670.5	36	19	997.5	37	16	1,538.0	47	15	1,085.0	39	15	1,130.0	39
Afghanistan	2	192.0	10	4	254.0	10	4	285.0	9	3	285.0	10	3	285.0	10
Armenia	1	22.2	1	1	17.3	1	-	45.0	1	2	100.0	4	1	70.0	2
Azerbaijan	1	4.3	0												
Georgia				1	40.0	2	-	90.0	3	1	100.0	4	1	95.0	3
Kyrgyz Republic	2	23.7	1	3	65.4	2	1	60.0	2	1	60.0	2	2	60.0	2
Pakistan	6	318.6	17	8	521.0	20	6	548.0	17	5	390.0	14	5	390.0	13
Tajikistan	1	17.0	1	1	54.8	2		65.0	2	2	65.0	2	1	65.0	2
Uzbekistan	1	37.5	2	1	45.0	2	1	85.0	3	1	85.0	3	1	85.0	3
Regional	1	55.2	3			-	4	360.0	11			-	1	80.0	3
South Asia	11	550.2	30	13	786.8	30	19	843.5	26	19	798.5	29	18	805.0	28
Bangladesh	5	325.8	18	5	510.0	19	6	460.0	14	8	415.0	15	6	400.0	14
Bhutan	1	26.6	1	1	54.3	2	1	20.0	1	1	20.0	1	2	20.0	1
India															
Maldives	1	4.4	0	2	15.0	1	1	10.0	0	1	10.0	0	1	10.0	0
Nepal	2	90.0	5	3	99.5	4	7	203.5	6	6	203.5	7	5	185.0	6
Sri Lanka	2	97.8	5	2	108.0	4	3	100.0	3	2	120.0	4	2	100.0	3
Regional	0	5.6	0			-	1	50.0	2	1	30.0	1	2	90.0	3
Operations Group 2	21	629.4	34	28	881.9	33	30	866.5	27	28	892.5	32	26	977.5	34
East Asia	2	23.4	1	4	74.3	3	4	92.0	3	3	96.0	3	3	60.0	2
Mongolia	2	23.4	1	4	74.3	3	2	66.0	2	2	58.0	2	3	60.0	2
PRC															
Regional							2	26.0	1	1	38.0	1			
Pacific	4	54.2	3	6	120.4	5	5	37.5	1	8	177.5	6	5	108.5	4
Cook Islands	0	0.9	0	1	6.9	0									
Kiribati							1	8.0	0						
Marshall Islands															
Micronesia															
Nauru							1	1.0	0						
Palau							1	3.5	0						
Papua New Guinea	1	24.3	1	1	80.0	3				2	100.0	4	2	65.0	2
Samoa	1	18.7	1	1	5.0	0				1	20.0	1	1	14.0	0
Solomon Islands	1	1.8	0	1	14.0	1				1	15.0	1			
Timor-Leste	1	5.3	0				1	20.0	1	1	20.0	1			
Tonga				1	11.3	0							1	9.5	0
Tuvalu				1	3.2	0				1	2.0	0			
Vanuatu										1	10.5	0			
Regional	1	3.2	0				1	5.0	0	1	10.0	0	1	20.0	1
Southeast Asia	15	551.8	30	18	687.2	26	21	737.0	23	17	619.0	22	18	809.0	28
Cambodia	3	42.6	2	5	79.4	3	5	114.0	4	5	94.0	3	6	114.0	4
Indonesia	2	90.1	5	3	160.0	6									
Lao PDR	2	26.5	1	2	43.0	2	3	56.2	2	3	56.2	2	2	56.2	2
Viet Nam	6	243.5	13	7	384.8	14	9	464.0	14	6	380.0	14	5	423.3	15
Regional	2	149.0	8	1	20.0	1	4	102.8	3	3	88.8	3	5	215.5	7
RSDD	0	8.3	0												
ADB	47	1,858.5	100	60	2,666.2	100	65	3,248.0	100	62	2,776.0	100	59	2,912.5	100

ADB = Asian Development Bank, RSDD = Regional and Sustainable Development Department.

Note: 2009–2011 subregional projects with matching contribution from country PBA are counted under the subregional program.

Source: Asian Development Bank.

**Ordinary Capital Resource Sovereign Lending Pipeline 2005–2011  
(By Region and Country)**

Region/Country	2005-2007 Average			2008 Estimate			2009			2010			2011		
	No.	\$ mn	%	No.	\$ mn	%	No.	\$ mn	%	No.	\$ mn	%	No.	\$ mn	%
Operations Group 1	14	2,536	45	25	3,326	46	42	3,487	48	46	3,735	53	49	3,660	51
Central and West Asia	6	1,187	21	9	1,326	19	15	1,327	18	13	1,425	20	13	1,395	19
Azerbaijan	1	80	1	2	215	3	3	125	2	2	100	1	2	100	1
Georgia															
Kazakhstan				1	336	5	1	150	2	1	200	3	1	170	2
Pakistan	4	1,065	19	5	690	10	9	977	14	9	1,050	15	8	1,050	15
Turkmenistan															
Uzbekistan	1	43	1	1	85	1	2	75	1	1	75	1	2	75	1
Regional															
South Asia	8	1,349	24	16	2,000	28	27	2,160	30	33	2,310	33	36	2,265	31
Bangladesh	1	242	4	1	82	1	3	400	6	3	365	5	4	370	5
Bhutan				1	51	1									
India	6	953	17	12	1,679	23	21	1,620	22	28	1,795	26	28	1,645	23
Sri Lanka	1	155	3	2	188	3	2	110	2	1	100	1	2	100	1
Regional							1	30	0	1	50	1	2	150	2
Operations Group 2	16	3,055	55	28	3,835	54	35	3,726	52	32	3,276	47	32	3,548	49
East Asia	8	1,383	25	11	1,448	20	13	1,418	20	11	1,340	19	12	1,330	18
Mongolia															
PRC	8	1,383	25	11	1,448	20	13	1,418	20	11	1,340	19	12	1,330	18
Pacific	1	40	1	3	69	1	2	19	0	3	341	5	4	108	1
Cook Islands				1	9	0	1	15	0						
Fiji Islands	0	8	0	1	40	1				2	141		2	38	
Kiribati															
Marshall Islands															
Micronesia															
Nauru															
Palau							1	4	0						
Papua New Guinea	1	32	1	1	20	0				1	200	3	1	50	1
Samoa															
Solomon Islands															
Timor-Leste															
Tonga															
Tuvalu															
Vanuatu															
Regional													1	20	0
Southeast Asia	7	1,633	29	14	2,318	32	20	2,289	32	18	1,595	23	16	2,110	29
Cambodia															
Indonesia	3	728	13	5	880	12	5	570	8	4	360	5	4	490	7
Lao PDR															
Philippines	2	470	8	6	757	11	6	470	7	3	350	5	4	370	5
Thailand							2	100	1	1	50	1			
Viet Nam	1	129	2	3	681	10	4	1,025	14	9	780	11	7	750	10
Regional	1	305	5				3	124	2	1	55	1	1	500	7
ADB	30	5,592	100	53	7,161	100	77	7,213	100	78	7,011	100	81	7,208	100

Note: In 2011, an inputted figure of \$1.3 billion is used for PRC based on the Planning Directions 2009–2011.

Source: Asian Development Bank.

## MOBILIZING RESOURCES FOR MAINSTREAMING SECTOR AND THEMATIC PRIORITIES

1. Strategy 2020 emphasized the need for ADB to continue providing innovation, knowledge, new modalities of development assistance, financial resources, and experience to help its DMCs address development challenges. Towards meeting its long-term development agendas and operational goals, ADB has been mobilizing external grant resources to complement its own resources to fund technical assistance and investment programs.
2. To support ADB's aim to scale up its climate change actions on mitigation and adaptation, several funds have been established:
  - (i) Climate Change Fund addresses climate change impacts through a scaling-up of DMC's mitigation, adaptation, forest and land use management activities. It will invest in projects that lead to GHG emission reductions and climate change adaptation.
  - (ii) Clean Energy Financing Partnership Facility<sup>1</sup> helps provide financing to DMCs in achieving energy security and transitioning to low carbon economies through cost effective investments that result in GHG mitigation.
  - (iii) Asia Pacific Carbon Fund<sup>2</sup> acquires future flows of certified emission reduction credits on behalf of participants in return for upfront cofinancing payments.
  - (iv) Future Carbon Fund will provide project financing for carbon credits up to year 2020, enabling clean energy project developers to gain benefits now for GHG reductions.
  - (v) Small Grants for Promoting Climate Change Adaptation addresses the need to mainstream adaptation issues into investment planning, develop national capacity for adaptation, and coordinate and strengthen international community responses for adaptation.
  - (vi) Water Financing Partnership Facility under the Netherlands Trust Fund for the Water Financing Partnership Facility provides support for (among others) building climate change adaptation responses into water sector investments through technical assistance, knowledge management and regional cooperation.
  - (vii) Poverty and Environment Fund<sup>3</sup> promotes the mainstreaming of environmental considerations into development strategies, plans, programs and projects.
3. In addition to the above funds, ADB is also administering sector/thematic funds to support mainstreaming of gender and development, governance, information and communication technology, HIV/AIDS, and water in its operations.
  - (i) Gender and Development Fund helps strengthen the capacity of ADB and the DMCs to mainstream gender considerations in their policies, programs, and projects that will help reduce gender disparities, promote empowerment and make progress in meeting the MDGs.
  - (ii) Governance Cooperation Fund supports government-led governance reform activities and helps implement ADB's Second Governance and Anticorruption Action Plan.
  - (iii) E-Asia and Knowledge Partnership Fund aims to promote information and communication technology and bridge the digital divide, and facilitate the creation and sharing of experience, information and knowledge in ADB's DMCs.

---

<sup>1</sup> Financed through the governments of Australia and Norway.

<sup>2</sup> Financed through the governments of Belgium, Finland, Luxembourg, Portugal, Spain, Sweden; and the Climate Change Foundation.

<sup>3</sup> Financed through the governments of Norway and Sweden.

- (iv) Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific assists DMCs in developing effective response to the AIDS epidemics with a focus on areas where partnership with ADB can bring strategic value.
- (v) Cooperation Fund for the Water Sector promotes effective regional, subregional, and country water management policies and practices.

## Ordinary Capital Resource (Sovereign) and Asian Development Fund Pipeline 2005–2011 (Thematic Classification)

**Table A7.1: Ordinary Capital Resources**

Theme	% to Number of OCR Loans		% to Volume of OCR Loans	
	2005-2007 Average	2008-2011 Average	2005-2007 Average	2008-2011 Average
Capacity Development	29.2	15.5	32.6	13.6
Environmental Sustainability	26.9	44.4	11.7	33.5
Gender and Development	7.1	14.3	5.0	14.1
Governance	28.4	11.1	34.5	13.9
Inclusive Social Development	18.4	19.4	9.0	14.9
Private Sector Development	18.4	34.3	18.5	34.4
Regional Cooperation	4.8	11.1	7.4	14.1
Sustainable Economic Growth	88.1	80.6	88.9	79.0

OCR = ordinary capital resources

Note: Up to three themes can be chosen for each project, hence the sum of percentages may add to more than 100%.

Source: Asian Development Bank.

**Table A7.2: Asian Development Fund**

Theme	% to Number of ADF Loans & Grants		% to of ADF Loans & Grants	
	2005-2007 Average	2008-2011 Average	2005-2007 Average	2008-2011 Average
Capacity Development	29.9	15.5	26.1	11.0
Environmental Sustainability	12.8	31.8	10.2	32.6
Gender and Development	18.5	29.3	19.8	39.5
Governance	26.9	13.7	30.4	16.4
Inclusive Social Development	36.2	26.4	37.3	24.9
Private Sector Development	11.4	29.7	8.7	34.8
Regional Cooperation	10.6	20.4	10.8	22.8
Sustainable Economic Growth	70.2	65.5	64.2	55.4

ADF = Asian Development Fund

Note: Up to three themes can be chosen for each project, hence the sum of percentages may add to more than 100%.

Source: Asian Development Bank.

**Table A7.3: Technical Assistance Operations**

Theme	% to Number of Technical Assistance		% to of Technical Assistance	
	2005-2007 Average	2008-2011 Average	2005-2007 Average	2008-2011 Average
Capacity Development	27.8	28.9	29.2	29.3
Environmental Sustainability	19.9	30.8	23.1	31.8
Gender and Development	5.6	16.0	6.3	21.2
Governance	36.2	25.1	35.2	18.0
Inclusive Social Development	26.1	17.8	23.4	14.5
Private Sector Development	16.8	28.8	16.3	31.0
Regional Cooperation	20.0	25.3	22.6	33.0
Sustainable Economic Growth	67.5	64.0	72.2	59.2

TA = technical assistance

Note: Up to three themes can be chosen for each project, hence the sum of percentages may add to more than 100%

Source: Asian Development Bank.

## PROJECT AND PROGRAM LOAN DISBURSEMENTS (OCR AND ADF)

**Table A8.1 OCR Disbursement Projections, 2005-2011**  
(\$ million)

Department	2005	2006	2007	2005-2007 (average)	2008 (Estimate)	2009	2010	2011
Central and West Asia	408	604	606	539	1,089	1,420	1,405	1,410
East Asia	875	985	1,190	1,016	1,084	1,133	1,189	1,237
Pacific	29	24	33	29	26.2	48.6	166.5	33.0
Private Sector	204	358	491	351	700	900	1,200	1,500
South Asia	768	829	1,433	1,010	1,542	1,915	2,107	2,317
Southeast Asia	1,215	1,620	1,483	1,439	1,552	1,533	2,163	2,974
<b>ADB</b>	<b>3,498</b>	<b>4,420</b>	<b>5,235</b>	<b>4,385</b>	<b>5,993</b>	<b>6,950</b>	<b>8,231</b>	<b>9,471</b>

ADB = Asian Development Bank, OCR = ordinary capital resources  
Source: Asian Development Bank.

**Table A8.2 ADF Loans and Grants Disbursement Projections, 2005-2011**  
(\$ million)

Department	2005	2006	2007	2005-2007 (average)	2008 (Estimate)	2009	2010	2011
Central and West Asia	354	407	654	472	729	445	510	565
East Asia	30	29	24	28	32	35	38	41
Pacific	18	27	18	21	25	28	43	47
Private Sector								
South Asia	398	494	528	474	689	700	720	750
Southeast Asia	447	396	443	429	557	643	741	850
<b>ADB</b>	<b>1,247</b>	<b>1,352</b>	<b>1,668</b>	<b>1,422</b>	<b>2,032</b>	<b>1,851</b>	<b>2,052</b>	<b>2,253</b>

ADB = Asian Development Bank, ADF = Asian Development Fund  
Source: Asian Development Bank.

**Table A8.3 OCR and ADF Disbursement Projections, 2005-2011**  
(\$ million)

Department	2005	2006	2007	2005-2007 (average)	2008 (Estimate)	2009	2010	2011
Central and West Asia	762	1,011	1,260	1,011	1,818	1,865	1,915	1,975
East Asia	905	1,014	1,214	1,044	1,116	1,168	1,227	1,278
Pacific	46	51	51	49	51	77	210	80
Private Sector	204	358	491	351	700	900	1,200	1,500
South Asia	1,166	1,323	1,961	1,484	2,231	2,615	2,827	3,067
Southeast Asia	1,662	2,016	1,926	1,868	2,109	2,176	2,904	3,824
<b>ADB</b>	<b>4,745</b>	<b>5,773</b>	<b>6,903</b>	<b>5,807</b>	<b>8,025</b>	<b>8,801</b>	<b>10,283</b>	<b>11,724</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources  
Source: Asian Development Bank.



## MULTITRANCHE FINANCING FACILITY APPROVALS 2005-2007 AND PROGRAM 2008-2011

Country	Project Name	Total MFF Amount (\$ mn)						Periodic Financing Requirement (\$ mn)												
		2006		2007		2008		2009		2010		2011		2010		2011				
		OCR	ADF	OCR	ADF	OCR	ADF	OCR	ADF	OCR	ADF	OCR	ADF	OCR	ADF	OCR	ADF	OCR	ADF	Total
South Asia		2,320	0	2,320	0	287	0	287	334	0	334	0	334	215	0	215	0	215	0	215
IND	Integrated Renewable Energy Development I	200	200	200	200	33	33	33	49	31	49	31	49	31	31	31	31	31	31	31
IND	Assam Energy Efficiency Enhancement	200	200	200	200	16	16	16	49	49	49	49	49	31	31	31	31	31	31	31
IND	India Infrastructure Finance Facility II	500	500	500	500	62	62	62	62	62	62	62	62	49	49	49	49	49	49	49
IND	Agribusiness Infrastructure Devt Proj in Maharashtra & Bihar	250	250	250	250	26	26	26	26	26	26	26	26	31	31	31	31	31	31	31
IND	Integrated Flood and River Erosion Management (Assam)	120	120	120	120	33	33	33	33	33	33	33	33	31	31	31	31	31	31	31
IND	Railway Sector Improvement II	500	500	500	500	49	49	49	49	49	49	49	49	74	74	74	74	74	74	74
IND	North East Region Capital Cities Devt - Phase I (Assam and other state)	200	200	200	200	20	20	20	20	20	20	20	20	39	39	39	39	39	39	39
IND	Disaster Readiness Enhancement Infra Dev Prog in Tamil Nadu and Kt	50	50	50	50	16	16	16	16	16	16	16	16	25	25	25	25	25	25	25
IND	Inclusive Tourism Infrastructure Devt Investment Program	300	300	300	300	33	33	33	33	33	33	33	33	49	49	49	49	49	49	49
Southeast Asia		2,160	20	2,180	20	189	20	209	250	0	250	0	250	305	0	305	0	305	0	305
IND	Energy Efficiency	150	150	150	150	25	25	25	25	100	100	100	100	100	100	100	100	100	100	100
IND	Regional Road Development	500	500	500	500	10	10	10	10	100	100	100	100	100	100	100	100	100	100	100
PHI	Road Sector Improvement	660	660	660	660	50	50	50	50	50	50	50	50	200	200	200	200	200	200	200
VIE	Higher Education Sector Development	250	250	250	250	50	50	50	50	50	50	50	50	105	105	105	105	105	105	105
VIE	Ho Chi Minh City Mass Rapid Transit Line 2 Project	500	500	500	500	20	20	20	20	20	20	20	20	0	0	0	0	0	0	0
REG	GMS Nabong-Udon Than Power Transmission and Interconnection (LAO)	100	100	100	100	54	54	54	54	54	54	54	54	0	0	0	0	0	0	0
2010		4,490	0	4,490	0	495	0	495	495	0	495	0	495	188	0	188	0	188	0	188
Central and West Asia		900	0	900	0	50	0	50	50	0	50	0	50	50	0	50	0	50	0	50
PAK	Sindh Water Resources Development	400	400	400	400	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
PAK	Power Transmission 2	500	500	500	500	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
South Asia		1,930	1,930	1,930	1,930	285	0	285	285	0	285	0	285	138	0	138	0	138	0	138
IND	State Renewable Energy Development	300	300	300	300	49	49	49	49	49	49	49	49	31	31	31	31	31	31	31
IND	Integrated Flood and River Erosion Mgmt - Arunachal Pradesh	80	80	80	80	20	20	20	20	20	20	20	20	0	0	0	0	0	0	0
IND	Sustainable Coastal Protection and Management	300	300	300	300	20	20	20	20	20	20	20	20	0	0	0	0	0	0	0
IND	North Eastern States Roads Investment Program	200	200	200	200	25	25	25	25	25	25	25	25	15	15	15	15	15	15	15
IND	Rural Roads Sector III Project	150	150	150	150	49	49	49	49	49	49	49	49	62	62	62	62	62	62	62
IND	India Infrastructure Project Financing Facility III	500	500	500	500	39	39	39	39	39	39	39	39	31	31	31	31	31	31	31
IND	North Eastern Region Capital Cities Development II	200	200	200	200	34	34	34	34	34	34	34	34	0	0	0	0	0	0	0
IND	Support to the National Capital Region Planning Board	200	200	200	200	49	49	49	49	49	49	49	49	0	0	0	0	0	0	0
Southeast Asia		1,660	0	1,660	0	160	0	160	160	0	160	0	160	0	0	0	0	0	0	0
IND	Flood Management in Selected River Basins	150	150	150	150	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60
VIE	O Mon 4 Thermal Power Project	610	610	610	610	40	40	40	40	40	40	40	40	0	0	0	0	0	0	0
VIE	Soc Trang 2 Thermal Power Project	900	900	900	900	60	60	60	60	60	60	60	60	0	0	0	0	0	0	0
2011		3,650	0	3,650	0	3,472	475	3,947	2,429	355	2,784	2,532	470	2,532	470	3,002	0	3,002	0	3,002
Central and West Asia		500	0	500	0	559	0	559	559	0	559	0	559	100	0	100	0	100	0	100
PAK	Power Distribution 2	500	500	500	500	559	559	559	559	559	559	559	559	100	100	100	100	100	100	100
South Asia		1,850	1,850	1,850	1,850	209	0	209	209	0	209	0	209	0	0	0	0	0	0	0
IND	Jammu and Kashmir Clean Power Development Project	300	300	300	300	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
IND	State Integrated Water Resources Development	200	200	200	200	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
IND	M.P. State Roads III	500	500	500	500	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
IND	MFF - Urban Transport	50	50	50	50	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
IND	Kolkata Environmental Improvement Project - II	200	200	200	200	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
IND	Rajasthan Urban Development Phase III	200	200	200	200	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
IND	Urban Environmental Improvements (MIP)	200	200	200	200	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
IND	Urban Poverty Reduction and Inclusive Development	200	200	200	200	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Southeast Asia		1,300	0	1,300	0	250	0	250	250	0	250	0	250	0	0	0	0	0	0	0
IND	Java Irrigation Modernization	500	500	500	500	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
IND	Sumatra - Java Interconnection Project	300	300	300	300	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
VIE	Southern Power Transmission Sector Project	500	500	500	500	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
TOTAL 2009-2011		14,120	420	14,540	420	3,472	475	3,947	2,429	355	2,784	2,532	470	2,532	470	3,002	0	3,002	0	3,002

ADF=Asian Development Fund, AFG=Afghanistan, AZE=Azerbaijan, BAN=Bangladesh, IND=India, INO=Indonesia, MIF=multifaceted financing facility, PAK=Pakistan, OCR=ordinary capital resources, PHI=Philippines, PRC=People's Republic of China, VIE=Viet Nam. Source: Asian Development Bank

## COUNTRY/REGIONAL STRATEGIES AND OPERATIONS BUSINESS PLANS

Group/Dept	DMC	2008				2009				2010				2011			
		CPS	RCS	COBP/ ROBP	CPS-R	CPS	RCS	COBP/ ROBP	CPS-R	CPS	RCS	COBP/ ROBP	CPS-R	CPS	RCS	COBP/ ROBP	CPS-R
TOTAL																	
Operations Group 1																	
Central and West Asia																	
	Afghanistan	Oct															
	Armenia					Q3					Q3						Q2
	Azerbaijan			Q4				Q2		Q4							
	Georgia	19-Mar						Q2					Q3				
	Kazakhstan																
	Kyrgyzstan			Q4													
	Pakistan <sup>b</sup>	Oct										Q2					Q3
	Tajikistan <sup>c</sup>					Q3						Q4					Q3
	Turkmenistan <sup>d</sup>																
	Uzbekistan			Oct						Q3				Q4			
	Regional																
South Asia																	
	Bangladesh			11Aug					Aug	Oct							Aug
	Bhutan			25Jul						Oct							Aug
	India	Sep										Aug					Aug
	Maldives			11Jul									Aug				Aug
	Nepal			Aug		TBD							Aug				Aug
	Sri Lanka	Sep											TBD				Aug
	Regional			Aug						Q1							TBD
Operations Group 2																	
East Asia																	
	Mongolia					Jun							Oct				Oct
	People's Republic of China	25Apr						Oct		Oct							Oct
Southeast Asia																	
	Cambodia			Sep				Sep		Q4							Aug
	Indonesia			Sep				Aug		Sep							Aug
	Lao PDR			Aug					Aug				Aug		Sep		
	Malaysia					Q1							Aug				Aug
	Philippines			Sep				Sep		Sep							Aug
	Thailand			30Jun				01Jul						01Jul			Jul
	Viet Nam			Sep					Jul	Oct							Aug
	REG-aSEA						Q1						Oct				Oct
	REG-GMS			Sep				Sep			Jun						Aug
Pacific																	
	Cook Islands	15Jul08							Aug09						Aug10		
	Fiji Islands					TBD											
	Kiribati			Oct08		Nov09							Aug10				
	Republic of Marshall Islands			Sep08										Aug11			
	Federated States of Micronesia					Feb09							Mar10				Mar11
	Nauru					Jul09				Jul10							
	Palau	22Oct08						Oct09									
	Papua New Guinea								Feb09	Nov10							Aug11
	Samoa	08Oct08						Aug09									
	Solomon Islands			16Jul08		Sep09											Jul11
	Timor Leste					Jun09							Aug10				Aug11
	Tonga			Sep08				Aug09									
	Tuvalu	08Oct08						Aug09									Aug11
	Vanuatu			18Jul08		Sep09											Jul11
	Regional							Oct09					Oct10				

aSEA - Archipelagic Southeast Asia; CPS - country partnership strategy; CPS-R - country partnership strategy mid-term review; COBP - country operations business plan; GMS - Greater Mekong Subregion; RCS - regional cooperation strategy; ROBP - regional operations business plan; tbd - to be determined.

<sup>a</sup> Joint Country Support Strategy.

<sup>b</sup> Full country partnership strategy scheduled this year but slipped to 2008. Country Operations Business Plan prepared for India and Sri Lanka (under preparation).

<sup>c</sup> Country operations business plan 2007-2009 approved by the President on 28 May 2007. Country operations business plan 2008-2009 approved by the President on 4 October 2007.

<sup>d</sup> Economic Report and Interim Operational Strategy approved by the Board on 4 June 2002.

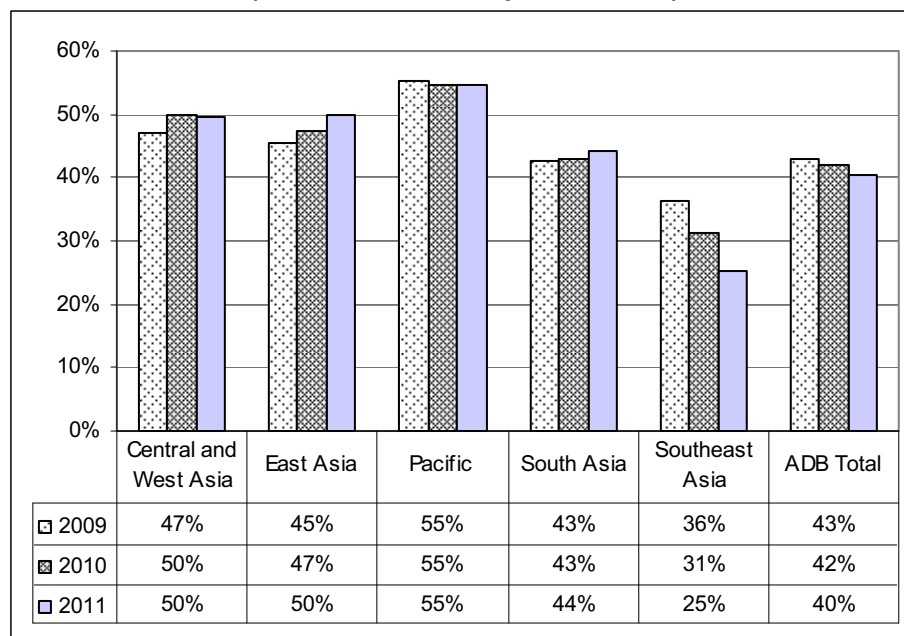
<sup>e</sup> In lieu of country operations business plan, a Board information paper will be prepared for Indonesia considering that its country partnership strategy was just approved in October 2006.

<sup>f</sup> Not applicable. With no projects to be approved in 2007, no country operations business plan will be prepared for this year.

Source: Asian Development Bank

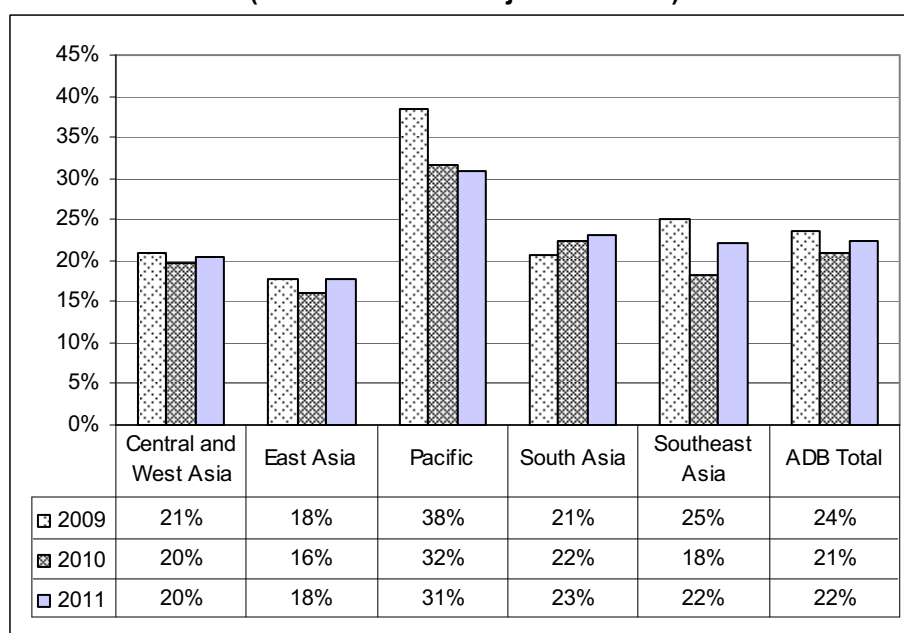
### Delegation of Asian Development Bank Projects to Resident Missions 2009–2011

**Figure A11.1: Percentage of Loan and ADF Grant Projects Delegated for Administrative Purposes to Resident Missions (% of Number of Projects to Total)**



ADB = Asian Development Bank, ADF = Asian Development Fund.  
Source: Asian Development Bank.

**Figure A11.2: Percentage of Technical Assistance Projects Delegated for Administrative Purposes to Resident Missions (% of Number of Projects to Total)**



ADB = Asian Development Bank.  
Source: Asian Development Bank.