

ADF VII: PROGRESS REPORT

**REPORT THROUGH THE BOARD OF DIRECTORS
TO THE BOARD OF GOVERNORS**

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ABBREVIATIONS

ADF	-	Asian Development Fund
CAP	-	country assistance plan
DMC	-	developing member country
EACA	-	expanded advance commitment authority
GAD	-	gender and development
GEF	-	Global Environment Facility
GNP	-	gross national product
IDA	-	International Development Association
Lao PDR	-	Lao People's Democratic Republic
NGO	-	nongovernment organization
OCR	-	ordinary capital resources
PDMC	-	Pacific developing member country
PPMS	-	project performance management system
SDR	-	special drawing right
TA	-	technical assistance

NOTE

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

EXECUTIVE SUMMARY

In the January 1997 Donors' Report for the Asian Development Fund (ADF) VII, the Bank was requested to prepare a comprehensive midterm progress report on the implementation of the ADF VII objectives and recommendations, and to submit it to the Board of Governors through the Board of Directors for review in conjunction with the Bank's 1999 Annual Meeting. Specifically, the progress report should formulate detailed recommendations on the issues of access criteria, performance evaluation, and allocation methodology, and report on completed Bank policy reviews and changes with regard to lending terms, graduation, and financial policies.

Accordingly, this report first reviews the long-term objectives and strategy for ADF in general, and the policy and financial framework for ADF VII in particular. It emphasizes that ADF is, first and foremost, a long-term development assistance process for poverty reduction in the Region. The long-term vision of ADF comprises two complementary goals: (i) catalyzing and accelerating the pace of poverty reduction in the Region by supporting broad-based and equitable growth in developing member countries (DMCs), and (ii) accelerating the pace at which ADF becomes self-financing.

The first goal envisages ADF as a principal means to catalyze and sustain well designed and concerted actions by poor DMCs to improve their living conditions and quality of life. With such improvements, the capacity of a DMC to access nonconcessional official development assistance such as the Bank's ordinary capital resources (OCR) and eventually, also commercial financing, is envisaged to improve over the long term. Such progression to enhanced access to nonconcessional funds is reflected in the Bank's graduation policy adopted in 1998 which sets out the criteria for different levels of eligibility for ADF and OCR. In this context, the Bank's newly adopted graduation policy is seen as an important addition to its policy framework for long-term development assistance and for more effective use of the limited ADF resources.

The report next focuses on the operational priorities set out in the Donors' Report and discusses how ADF VII is directly targeting and emphasizing those priorities in the framework of Bank policy initiatives such as those on environmental protection, cooperation between the Bank and nongovernment organizations (NGOs), indigenous peoples, gender and development, and anticorruption. The effectiveness of ADF in addressing the priority areas through a process of country-based strategic planning is reviewed. In particular, the responsiveness of ADF to DMC needs is enhanced through the Bank's newly adopted allocation framework, by which scarce resources are carefully targeted at DMCs that need the resources most and, based on country performance, are most likely to use them effectively. In this context, country performance is evaluated in terms of the effort made by a government to strengthen its policies and institutions. Governance aspects are taken into account across all components of country performance and receive due emphasis in country performance evaluation.

The continued relevance of ADF to its borrowers' needs is ensured by the increased country-focus in the Bank's operations, together with the mainstreaming of Bank support for policy reform, capacity building and good governance, and participatory development processes. These initiatives, and the Bank's new project performance management system, are expected to enhance the quality of ADF operations, as measured primarily in terms of sustainable development impact.

The report provides a summary profile of country allocations and development objectives targeted in the actual loan approvals during the first half of the ADF VII implementation period, and illustrates the range of projects and beneficiaries supported.

The report then proceeds to address the second goal of making ADF self-financing in the long term. Toward that goal, starting with ADF VII, priority is being given to maximizing the Bank's internal capacity to generate additional commitment authority through nondonor resources in a prudent and sustainable manner. Further, the synergy between donor and nondonor resources will be strengthened to increase the volume of commitment authority from nondonor resources. In this context, ADF resource management has undergone important and significant changes in the first half of the ADF VII term. These changes include adoption of the expanded advance commitment authority (EACA) and the associated establishment of a new financial planning framework for the management of ADF resources, as well as amendments in the terms of new ADF loans. The report describes the positive impacts of the new policies, and identifies areas and issues in relation to financial management that require further study and action.

The report takes note of the significant adverse impact of the Asian financial crisis on ADF VII. It highlights the negative effect of the crisis on the growth prospects of ADF borrowers and their resulting need for additional concessional aid to cushion the prolonged social impacts of the crisis. The adverse impact of the crisis on the supply side of ADF VII resources is also noted, including the detrimental effect of the dramatic exchange rate movements on the United States (US) dollar equivalent of ADF VII resources. Despite the crisis, the Bank has and continues to make its best efforts to maximize the amount of EACA available under ADF VII.

The report concludes that, at the midterm of the ADF VII period, the Bank has met, in a timely manner, all of its policy and financial commitments as specified in the Donors' Report. The long-term ADF framework established in the Donors' Report has achieved an effective starting basis to meet the increasing challenges on both the demand and supply sides of ADF resources. Further efforts on mobilization of donor support must be undertaken during the second half of the ADF VII term, with the goal of achieving the targeted donor contribution commitments to ADF VII and closing the existing funding gap.

Given the increasing demand for ADF, partly due to the need of affected DMCs to address medium-term social impacts in recovering from the backsliding effects of the financial crisis and partly based on the longer term requirements of new ADF borrowers from the Central Asian Republics, the Bank should aim for subsequent replenishments to be at least at the ADF VII level of \$6.3 billion, or higher. This is particularly important if the Bank is to maintain threshold levels of ADF lending to retain leverage as an effective broad-based development institution in the poor DMCs and to promote competitive pluralism with the World Bank's International Development Association (IDA) operations.

Since ADF VII is expected to end in December 2000, the report recommends the start of planning for ADF VIII, which should become effective in 2001.

I. INTRODUCTION

1. In the January 1997 Donors' Report for Asian Development Fund (ADF) VII,¹ which was adopted by the Board of Directors, the Bank was requested to prepare a comprehensive midterm progress report on the implementation of the ADF VII objectives and recommendations, and to submit it to the Board of Governors through the Board of Directors for review in conjunction with the 1999 Annual Meeting of the Board of Governors. This progress report fulfills the Donors' Report request to (i) formulate detailed recommendations on the issues of access criteria, performance evaluation, and allocation methodology; and (ii) report on completed policy reviews and changes with regard to lending terms, graduation, and financial policies

2. For the recommendations and the progress achieved to date to be appreciated in their proper context and perspective, this report provides a comprehensive review of the financial and policy framework for ADF VII. Thus, the second section recapitulates and reviews the long-term nature and time horizon of ADF planning and implementation. This report emphasizes that ADF represents, first and foremost, a process for assisting in the reduction of poverty in the Bank's Region, and ADF VII represents but a part of that long-term process. Section III shows that the Bank has established appropriate policies and procedures to ensure the effective use of ADF resources, and reports on how the operational priorities set out in the Donors' Report are being addressed and achieved through Bank policy initiatives. Section IV reports on the actual application of ADF VII resources during the first half of its implementation period. Section V reviews the status and difficulties facing full ADF VII financing, discusses the issues facing the remaining two years of ADF VII, and identifies the emerging issues facing ADF financial management beyond ADF VII. This report concludes with a recommendation on the next major steps in the ADF process.

3. The Asian financial crisis has added a new dimension to the demand and supply of ADF VII resources. On the demand side, the crisis has added to the requirements for ADF. The DMCs that were immediately and directly affected by the crisis received financing from the Bank's ordinary capital resources (OCR) for alleviation of adverse impacts, and hence did not place additional demand on the ADF. However, some of the other DMCs that are ADF borrowers and whose growth prospects are affected by fall out effects of the crisis, have looked to the Bank for increased ADF assistance to cushion the adverse and prolonged social impacts of the crisis. On the supply side of ADF VII resources, the Asian financial crisis has had three adverse impacts. First, actual movements in exchange rates of currencies of regional donor members in 1997 and 1998, along with a more general appreciation of the United States (US) dollar against most ADF donor currencies, substantially reduced the US dollar equivalent of donor contributions to ADF VII. The exchange rate movements also reduced the US dollar equivalent of the basket of currencies for ADF loan repayments supporting the expanded advance commitment authority (EACA), which in-turn lowers total EACA availability during ADF VII. Second, when considering proposals for amending (i.e., hardening) ADF loan terms, the Board of Directors requested that because of the Asian financial crisis, the amended terms should not have any medium-term negative impact on ADF-borrowing DMCs; consequently, the terms approved by the Board in December 1998 will not provide additional resources for increasing EACA during ADF VII. Third, the Bank responded quickly to members in distress with levels of OCR-financed assistance that

¹ R15-97: *Sixth Replenishment of the Asian Development Fund*, 18 February.

were not previously planned for; this has resulted in deterioration in the Bank's decisive financial indicators, thereby constraining OCR excess net-income transfers to ADF after meeting reserve and technical assistance (TA) special fund requirements. All of these negative impacts of the crisis point to further challenges for ADF financial management in the remaining term of ADF VII and beyond.

4. At the same time, an added challenge to the Bank is to maintain threshold levels of ADF lending to retain leverage as an effective broad-based development institution in the poor DMCs and to promote competitive pluralism with the World Bank's International Development Association (IDA) operations.

II. LONG-TERM VISION AND STRATEGY FOR ADF

5. By their nature, the development objectives and corresponding financial strategy of the ADF are long term. Consequently, the progress achieved thus far in ADF VII and the issues facing the remainder of the ADF VII term can be meaningfully and fully evaluated only against a long-term framework. This section reviews that framework, as set out in the ADF Donors' Report, covering 15 years (a time horizon of half a generation), of which ADF VII represents the initial 4-year time slice.

6. ADF VII was planned and designed to assist DMCs in achieving their overriding goal of freeing themselves from absolute poverty and to address the financial constraints increasingly limiting the multilateral assistance system. Accordingly, the donors have endorsed as the long-term vision of ADF, the complementary goals of (i) catalyzing and accelerating the pace of poverty reduction in the Region by supporting broad-based and equitable growth in DMCs, and (ii) accelerating the pace at which ADF becomes self-financing.

A. Catalyzing and Accelerating Poverty Reduction

7. ADF is the principal means by which the Bank can catalyze and sustain well-designed and concerted action by low-income DMCs to improve their living conditions and quality of life. ADF must contribute to the relaxation of financial, institutional, and policy constraints so as to enable the poorer DMCs to progressively address poverty, gender inequity, and environmental degradation by themselves and progress towards accessing nonconcessional official development assistance such as the Bank's OCR for sectors such as physical infrastructure or areas where the Bank's assistance provides additionality in terms of policy leverage, capacity building, regional cooperation, or resource mobilization. A further, gradual progression will be toward accessing of commercial financing. Such a progression to enhanced access to nonconcessional funds will allow the poorest DMCs to use ADF more for social and environmental projects to benefit the poorest and most vulnerable sections of society.

8. To facilitate the progression outlined above, the Bank adopted a formal graduation policy in December 1998.² Under the new policy, a systematic application of the criteria of per capita gross national product (GNP) and debt repayment capacity are used to determine ADF eligibility, resulting in the DMCs being classified into four groups with varying levels of access to ADF and OCR: (A) ADF-only; (B1) ADF with limited

² R204-98: *A Graduation Policy for the Bank's DMCs*, 23 November.

amounts of OCR; (B2) OCR with limited amounts of ADF; and (C) OCR-only. As DMCs move out of Group A and progress toward Group C, they will have increasing access to OCR. As DMCs move further along the development path, the policy envisages graduation of such DMCs from regular Bank assistance; here, the criteria are per capita GNP, extent of reliance on commercial sources of external financing, and stage of development of economic and social institutions. Cost-sharing limits for projects have been revised in line with the new groupings and new cost-sharing norms have been introduced for Bank technical assistance (TA) to enhance DMC ownership. The formal graduation policy is an important addition to the Bank's policy framework for development assistance in general, and the role of ADF in particular.

9. As a result of the new graduation policy, the status of eligibility for ADF and OCR has changed for many of the DMCs. Effective 1 January 1999, the following DMCs graduated from ADF-only to ADF-with-limited-OCR status: Bangladesh, Cook Islands, the Federated States of Micronesia, Pakistan, the Republic of Marshall Islands, Sri Lanka, Tonga, and Viet Nam. Indonesia is on a watchlist for graduation out of ADF. People's Republic of China (PRC) and India are classified as Group B2 countries eligible for OCR with limited amounts of ADF; however, as mandated by the donors, PRC and India would not have access to ADF during the ADF VII period. Kazakhstan, Papua New Guinea, Philippines, and Uzbekistan graduated from ADF-OCR blend to OCR-only, with a two-year period allowed in the case of Papua New Guinea for graduation to take effect. Thailand ceased to have ADF access in 1983 and this status is formalized by graduation to Group C. Finally, four DMCs, Hongkong, China; the Republic of Korea; Singapore; and Taipei, China have been graduated from regular Bank assistance altogether. They would, however, be eligible for emergency assistance from the Bank, as necessary.

10. Even as the classification under the graduation policy recognizes the progress made by DMCs in the past, donors appreciate the vast need for social and economic reform programs and associated investments required in poorer DMCs to eradicate absolute poverty. Having been instrumental during ADF VI in focusing the planning of development assistance on a broader and more comprehensive framework, donors recognize that significant financial support from them is essential to enable ADF to accelerate the pace of economic development and poverty reduction in the Region through the continued implementation of the Bank's strategic development agenda.

B. The Self-Financing Objective

11. The second thrust of the vision for ADF is to make ADF progressively self-financing in the long term. While donors recognize that their continued financial support is necessary to help ADF achieve this long-term goal, they would like to see such support combined with a larger generation of nondonor resources over time, so that nondonor resources account for a greater share of total resources to finance the Bank's concessional operations. Replenishments by donors, while remaining critical in the near to medium term, would be supplemented by other major sources of funds to sustain ADF. The strategy for ensuring progress towards this long-term goal of self-financing is to integrate the gradual progression of countries noted in para. 7 and the strengthening of the financial management of ADF.

12. In support of this second thrust of the ADF vision and strategy, the Bank has recently adopted new policies to strengthen the efficiency and effectiveness of financial

management of ADF. These new policies include (i) establishment of a new financial planning framework for the management of ADF resources, including adoption of the EACA scheme; (ii) hardening of loan terms for new loans to ADF borrowers; (iii) treatment of ADF loan savings and cancellations to increase EACA; and (iv) interpretation of the Bank's Charter by the Board of Directors confirming that—under certain terms and conditions—the allocation of OCR net income to ADF is possible. These new policies and their impacts on the management of ADF resources toward the long-term goal of self-financing are discussed further in Section V (Financial Management).

III. OPERATIONAL PRIORITIES

13. ADF VI and the General Capital Increase (GCI) IV resulted in a fundamental reorientation of the Bank's strategic objectives and operational priorities, with the Bank placing greater emphasis on targeted investments in the social sectors and in poverty reduction, in parallel with efforts to stimulate broad-based economic growth that enhanced the role of the private sector. In their report, the ADF VII donors endorsed the continued validity of these operational priorities and recommended that ADF VII should build on the policy agenda and institutional strengths built up during ADF VI and GCI IV, and provide a bridge to a longer term strategic time horizon for ADF.

A. Areas of Emphasis

14. In particular, donors requested the Bank to focus on poverty reduction and pay increasing attention to efforts in human development, gender equity, protection of the environment, promotion of good governance, and promotion of broad-based and sustainable economic growth and development. They emphasized that effective implementation of policy and operational changes introduced thus far and the consolidation of the Bank's achievements in these areas over the last few years should form a primary focus of ADF VII. Through its strategic planning process, the Bank had formally adopted five strategic development objectives: (i) promoting economic growth, (ii) reducing poverty, (iii) supporting human development (including population planning), (iv) improving the status of women, and (v) protecting the environment.³ The donors urged the Bank to incorporate monitorable performance indicators in performance assessments on the achievement of these objectives. They requested the Bank to intensify its efforts to reach the poorest and most disadvantaged segments of society, invest in human capital of the poor and women, and cooperate with nongovernment organizations (NGOs) and other grass-roots level organizations to provide assistance to the most disadvantaged groups. They looked forward to the policy papers on poverty reduction, indigenous peoples, and women-in-development, which the Bank was preparing.

15. The serious slowdown that the regional financial crisis is causing in the economies of many DMCs that remain ADF borrowers (e.g. Lao PDR and Viet Nam) and the consequent social impacts they must address (e.g. on urban low fixed-wage earners as well as more disadvantaged social segments) are adding urgency to the attention the Bank needs to pay on these areas of emphasis.

³ IN.75-94: *The Bank's Medium-Term Strategic Framework (1995-1998)*, December.

16. Since the completion of ADF VII negotiations, the Bank has stressed the implementation and mainstreaming of its operational policies on cooperation with NGOs, incorporation of social dimensions in Bank operations, involuntary resettlement, assistance to the population sector, environmental considerations and procedures, role of women in development, and good governance. The Bank has also established a framework for mainstreaming participatory development processes into its operations. A critical review of the Bank's private sector operations was undertaken in 1998, leading to a strengthened **strategy** on private sector operations to be reviewed in 1999. And, as planned in 1998, major new or enhanced Bank policy initiatives were approved for the following areas of emphasis: (i) cooperation between the Bank and NGOs, (ii) indigenous peoples, (iii) gender and development, and (iv) anticorruption. **The operational objectives of these policy initiatives are elaborated below.**

17. **Protection of the Environment.** Key steps were taken in 1997-1998 to develop measurable environmental performance indicators for Asian countries.⁴ Following further pilot tests in their application and measurement, these performance indicators will be used in regular environmental assessments of DMCs. In 1998, Bank assistance was provided to countries directly hit by the Asian financial crisis to assess the impact of the crisis on the environment; across all countries, more than 50 summary environmental assessment reports were prepared. Transboundary environmental issues were addressed at the subregional, regional, and **global** levels, including the problems of climate change and acid rain, and the impact of atmospheric haze caused by forest fires, the latter through collaboration with the Association of Southeast Asian Nations (ASEAN) and thorough coordination with bilateral and international organizations.

18. **The Bank and NGOs.** The Bank's updated policy, approved in 1998, recognizes the significant changes in the Bank and the NGO environment since the initial policy was approved in 1987.⁵ The Bank has since adopted an operational strategy that continues support for integrated, growth-oriented development projects and, in addition, strongly supports projects focused on human development, social development, and environmental protection. At the same time, the NGO sector has significantly strengthened its operational capacity and its role, impact, and influence in development processes have grown dramatically. The updated policy affirms that an expanded program of cooperation with NGOs in Bank operations should be pursued to strengthen the effectiveness, sustainability, and quality of development services that the Bank provides. The expanded program of cooperation identifies, in addition to loan and TA activities, operational programming and country-level work and policy development work, areas not explicitly envisaged in the 1987 policy. To facilitate closer operational relationships with NGOs, the Bank has started to significantly strengthen its internal capacity for NGO cooperation, through staff training, skills development, and other related activities.

19. **Indigenous peoples.** The Bank's new policy on indigenous peoples⁶ incorporates key elements to ensure equality of opportunity for indigenous peoples in development interventions and to ensure that Bank interventions affecting indigenous peoples are (i) consistent with their needs and aspirations; (ii) compatible in substance and structure with their culture and social and economic institutions; (iii) conceived,

⁴ TA REG 5800: *Measurement of Environmental Performance*, for \$441,000, approved on 24 July 1998.

⁵ R54-98: *Cooperation between the Asian Development Bank and Nongovernment Organizations*, 27 March.

⁶ R55-98: *The Bank's Policy on Indigenous Peoples*, 27 March.

planned, and implemented with their informed participation; (iv) equitable in terms of development efforts and impact; and (v) not imposing the negative effects of development on indigenous peoples without appropriate and acceptable compensation. The policy also ensures that the process of initial social assessment mandated in Bank operations includes specific consideration of indigenous peoples as a potentially affected population. If an initial social assessment identifies indigenous peoples specifically as a significantly and adversely affected population, or vulnerable to being so affected, the policy ensures that an indigenous peoples plan is prepared by the government or other project sponsors.

20. **Gender and Development.** Since it first adopted a policy on the role of women in development (WID) in 1985, the Bank has progressed significantly to a gender and development (GAD) approach that allows gender to be seen as a cross-cutting issue influencing all social and economic processes.⁷ Thus, the Bank's revised policy, approved in 1998, adopts mainstreaming of GAD considerations into all Bank activities as a key strategy in promoting gender equity, including macroeconomic and sector work, and lending and TA operations. Accordingly, the Bank's focus of activities under the revised policy are to (i) provide assistance to DMCs in the areas of policy support, capacity building, GAD awareness, and promotion and implementation of programs directed at improving the status of women; (ii) facilitate gender analysis of proposed Bank-supported projects and ensure that gender issues are considered at all the appropriate stages of the project cycle; (iii) promote increased GAD awareness within the Bank; (iv) assist the DMCs to implement commitments made at the Beijing World Conference on Women; and (v) explore opportunities to directly address new and emerging issues for women in the Region.

21. **Anticorruption.** With the approval in 1998 of a formal anticorruption policy,⁸ the Bank established the framework and joined an active fight to combat corruption, which has had notable adverse impacts on development. Specifically, the Bank's anticorruption policy is centered on three objectives: (i) supporting competitive markets and efficient, effective, accountable, and transparent public administration as part of the Bank's broader work on governance and capacity building; (ii) supporting promising anticorruption efforts on a case-by-case basis and improving the quality of the Bank's dialogue with its DMCs on a range of governance issues, including corruption; and (iii) ensuring that the Bank's projects and staff adhere to the highest ethical standards. Most of the Bank's effort is directed toward two components: first, seeking to reduce the scope of direct government intervention in an economy, on the conviction that markets are efficient, competitive, and have as few barriers to entry and exit as possible; and second, supporting improvements in public administration and public sector management, in the areas of management information systems, audit functions, procurement reform, civil service management, improved procedures for recruitment and promotion, and reengineering and streamlining of business processes. With regard to the Bank's internal policies and procedures, a policy update of the Bank's guidelines for procurement and introduction of anticorruption provisions in the Bank's guidelines on use of consultants were also approved in 1998.

⁷ R74-98: *The Bank's Policy on Gender and Development*, 21 May.

⁸ R89-98: *Anticorruption Policy*, 11 June.

B. Effectiveness of ADF

22. The second major change following ADF VI and GCI IV, after the broadening of the Bank's strategic development objectives and agenda, was the adoption of a systematic and rigorous process of country-based strategic planning. Underlying the donors' appreciation of this change in the Bank's way of doing business was their concern that the effectiveness of ADF operations needed to be increased. In particular, they focused on (i) responsiveness (setting appropriate goals in relation to borrowers' needs and the Bank's institutional priorities); (ii) relevance (devising the right instruments and deploying them in proper sequence to achieve agreed goals, e.g., best practice in policy and institutional reform); and (iii) quality (assuring that services delivered to DMCs meet or exceed Bank policies and standards).

23. **Responsiveness.** Donors emphasized that the country focus in ADF allocations must be accompanied by a careful review of each economy's performance record in poverty reduction, economic and social development, and in its supporting policy environment. Where performance is not satisfactory, efforts to accelerate growth would be less effective in attaining the ultimate objective of poverty reduction, and may prove to be unsustainable over the longer term. Therefore, a key element in determining country allocations of Bank resources is a borrowing country's strong commitment to address poverty and cross-cutting concerns, including adequate allocation of resources to and effectiveness of the relevant policies and programs. With the Bank placing increasing emphasis on a sound policy environment in the DMCs, the correspondence between the Bank's policy concerns and its actual lending commitments needs to be reinforced. This was highlighted by donors who urged the Bank to examine the possibilities of (i) introducing a more formal allocation system, and (ii) strengthening the link to more rigorous performance evaluation based on measurable indicators.

24. To this end, the Bank's management has recently approved an allocation framework⁹ that refines and systematizes the allocation process by (i) identifying indicators for measuring country performance and needs, and (ii) linking the indicators to arrive at a composite formulation that provides guidelines for relative and differentiated allocations among countries that have access to ADF resources. The framework responds, in particular, to the donors' vision of Bank concessional operations in which scarce resources are carefully targeted at DMCs that need the resources most and are most likely to use them effectively. Specifically, while the allocation framework that is being adopted maintains the validity of the existing allocation criteria (per capita GNP, population, performance, and absorptive capacity), the linkage between these criteria and actual allocations is strengthened as follows:

- (i) In previous practice, there was no explicit linkage between per capita GNP and allocation. The newly adopted framework ensures a negative relationship between GNP per capita and planned allocations.
- (ii) Other factors being the same, a DMC with a larger population will generally get a higher total allocation but a lower per capita allocation.
- (iii) A more formal assessment of country performance will be adopted so that allocations are increasingly performance driven.

⁹ IN.284-98: *Allocation of ADF Resources among DMCs*, 7 December.

25. For purposes of performance assessment, the Bank's framework uses measurable or assessable indicators of short-term macroeconomic management; longer term economic management with focus on structural issues; progress in alleviating human deprivation including poverty reduction, human development, and improving the status of women; progress in protecting the environment; and Bank portfolio performance. In this context, country performance is evaluated in terms of the effort made by a government to strengthen its policies and institutions. Governance aspects are taken into account across all components of country performance and receive due emphasis in country performance evaluation. The Bank's governance policy¹⁰ affirms the direct relevance of governance issues to development performance. All of the Bank's country assistance plans (CAPs), which cover three-year rolling program time frames and represent the core business planning documents of the Bank, now start with a section on country performance assessment. In the interest of accountability and transparency, the Bank's CAPs are now available on the worldwide web.

26. **Relevance.** Donors appreciated the fundamental refocusing of Bank operations, reflecting and reinforcing the transformation of the Bank from a mere project financier supporting specific capital investments to an overall development catalyst and agent for change. Donors strongly supported this wider operational agenda, and urged the Bank to strengthen the emphasis on policy reform and capacity building in all operations. In this context, donors emphasized that the catalytic and leveraging role of the Bank constitutes one of its major strengths, and is a key distinctive characteristic vis-à-vis commercial sources of capital as well as other external agencies. Donors urged the Bank to further emphasize its catalytic role and impact throughout its operations.

27. Keeping the above in mind, the Bank has mainstreamed programs to support policy reform and capacity building into the increasingly broad spectrum of its development services, which today include non-lending activities such as upstream country economic and sector work as well as downstream TA and lending projects. In its ongoing redesign of operational business processes, which have significantly increased in relevance to DMC needs since a strong country focus was adopted as a key operating principle, policy support and governance and capacity building are key considerations and components of country operational strategies, sector assessments, country assistance programs, project selection and preparation, detailed project design, and project implementation. Taking account of each DMC's particular circumstances, needs, and absorptive capacity, the Bank's CAPs give due significance to medium-term strategies for sectoral policy support and capacity building in arriving at the lending and TA programs.

28. The relevance of ADF operations is also being ensured by a significantly increased degree of stakeholder participation in the Bank's business processes. The Bank's adopted framework for mainstreaming participatory development processes guides how participatory processes are being systematically incorporated into Bank practices.¹¹ As a major step in its commitment to the participatory approach, the Bank held a regional workshop involving high-level government officials as well as representative NGOs from the DMCs in early 1999 in Manila, to identify concrete and

¹⁰ R151-95: *Governance: Sound Development Management*, 17 August.

¹¹ Asian Development Bank. 1996. *Mainstreaming Participatory Development Processes*.

realistic ways to enhance DMC stakeholder inputs in the Bank's planning process and project cycle.

29. **Quality.** Donors recognized that the Report of the Task Force on Improving Project Quality was a milestone in Bank operations.¹² The recommendations of the task force have been incorporated in the Bank's operational processes and procedures, with increased emphasis on borrower ownership and capacity building, improved feedback from postevaluation, greater incorporation of participatory approaches, and increased attention to project implementation and results. Together, these initiatives have resulted in a marked shift in emphasis, from project approvals and lending volume to the quality of Bank-financed projects, their relevance to beneficiary needs, and their actual impact in the field. Donors commended this shift in emphasis, and urged the Bank to sustain and reinforce efforts to improve the quality and development impact of its operations. In this context, and in the light of the serious impact of the Asian financial crisis on several DMCs, the Bank will consider as an indicator of quality the sustainability of social gains from its operations and their robustness to withstand the pressures of financial cycles and shocks.

30. An issue to which donors attached great importance was how to measure the development impact of Bank operations. This issue is common to all multilateral and bilateral development agencies, and had been highlighted by the Development Committee Task Force on Multilateral Development Banks. Donors urged the Bank to work with other agencies to develop common performance indicators for development impact. Accordingly, at the project level, the Bank has recently introduced a project performance management system (PPMS) to serve as a management tool for designing, planning, monitoring, managing, and evaluating progress and impact during the entire project cycle. The goal of PPMS is to lift the success rate of projects. It is a system, based on the project logical framework, that generates critical management information on projects so that it is possible to know whether a project is capable of achieving its expected outputs and impacts (both short and long term), and if not, to stimulate management action in time to remedy the problem. The PPMS includes preparation of the project performance report, a new approach to reporting on ongoing projects based on the project's logical framework. It includes a revised approach to rating a project's overall performance, an approach that combines implementation progress with indicators of development impact. The PPMS and its performance reporting framework will be applied to Bank programs as well as projects.

IV. USE OF ADF VII RESOURCES TO DATE

31. In the first half of the ADF VII period, 1997-1998, \$2.6 billion of new ADF loans were approved. The largest borrowers were Viet Nam and Bangladesh, each accounting for more than \$600 million; together, they used close to 50 percent of the total ADF lending. Sri Lanka, Pakistan, Kyrgyz Republic, Nepal, and Lao People's Democratic Republic (PDR) were next (Table 1). Based on the current classification of DMCs under the graduation policy approved in December 1998 (para. 9), Group A countries, as a whole, accounted for \$618 million or about 24 percent of the total; Group B1 countries accounted for \$1,873 million or 72 percent of the total. Group B2 countries (i.e., Indonesia) received only \$30 million or 1 percent of the total; and Group C countries

¹² Sec.M14-94: *Report of the Task Force on Improving Project Quality*, 14 March.

received \$79 million or 3 percent, in their final access to ADF before effectivity of the graduation policy.¹³

32. A total of 68 projects and programs were assisted through the ADF in 1997-1998 (Appendix 1). For these projects, the \$2.6 billion of ADF lending, accompanied in part by \$0.6 billion of OCR blend lending and equity investment, leveraged the mobilization of another \$0.9 billion in cofinancing and \$1.3 billion in government and beneficiary counterpart financing, for a total of \$5.4 billion of project financing. In other words, for every \$1.00 of ADF financing, \$1.07 of non-ADF resources was mobilized for the projects approved in 1997-1998.

33. All Bank assistance is intended to contribute to poverty reduction, either directly or indirectly. In terms of the Bank's strategic development objectives, around \$1.1 billion or 44 percent of the total went toward more traditional growth-oriented projects in which the poverty reduction objectives are implicit, while \$1.5 billion, or 56 percent, funded projects with explicit environmental and social objectives, including specific poverty reduction objectives. Of the latter grouping, \$790 million (30 percent) funded projects primarily aimed at the social concerns of women in development, human resource development, and access for the poor to income/employment opportunities and human development services; and \$214 million (8 percent) was for projects directly aimed at protection of the environment. Another \$450 million (17 percent) financed growth-oriented projects that incorporated explicit social or environmental targets as secondary objectives. This 1997-1998 project profile continues the trend since earlier in the decade toward an increasing number of Bank projects with explicit social and environmental objectives set at the project design stage.

¹³ Papua New Guinea, which is classified as a Group C country under the graduation policy, will, however, continue to have access to ADF through the year 2000.

Table 1: ADF Projects by Strategic Development Objective
(Loan approvals in \$million)
1997-1998

Country	Growth ^a	Social ^b	Environment ^c	Growth with Social/ Env ^d	Total
Group A					
Bhutan	8.0	5.7	0.0	0.0	13.7
Cambodia	40.0	0.0	0.0	0.0	40.0
Kiribati	0.0	10.2	0.0	0.0	10.2
Kyrgyz Republic	106.5	42.7	0.0	5.0	154.2
Lao PDR	76.0	20.0	27.0	0.0	123.0
Maldives	7.0	6.3	0.0	0.0	13.3
Mongolia	62.7	0.0	0.0	0.0	62.7
Nepal	77.0	20.0	0.0	30.0	127.0
Samoa	7.5	0.0	0.0	0.0	7.5
Solomon Islands	26.0	0.0	0.0	0.0	26.0
Tajikistan	20.0	0.0	0.0	0.0	20.0
Vanuatu	20.0	0.0	0.0	0.0	20.0
Subtotal	450.7	104.9	27.0	35.0	617.6
Group B1					
Bangladesh	190.0	202.3	37.0	174.0	603.3
Cook Islands	0.0	0.0	0.0	0.8	0.8
Marshall Islands	12.0	0.0	0.0	0.0	12.0
Micronesia, Fed. States of	18.0	0.0	0.0	0.0	18.0
Pakistan	5.0	76.0	70.0	100.0	251.0
Sri Lanka	130.0	165.0	16.6	35.0	346.6
Viet Nam	330.0	173.0	33.0	105.0	641.0
Subtotal	685.0	616.3	156.6	414.8	1,872.7
Group B2					
Indonesia	0.0	15.0	15.0	0.0	30.0
Subtotal	0.0	15.0	15.0	0.0	30.0
Group C					
Kazakistan	10.0	10.0	0.0	0.0	20.0
Papua New Guinea	0.0	15.0	0.0	0.0	15.0
Philippines	0.0	8.8	15.0	0.0	23.8
Uzbekistan	0.0	20.0	0.0	0.0	20.0
Subtotal	10.0	53.8	15.0	0.0	78.8
Total	1,145.70	790.0	213.6	449.8	2,599.14

^a Projects whose primary objective is to promote economic growth through investments that increase economic production capacity and/or enhance economic efficiency.

^b Projects whose primary and direct objective is to reduce poverty, to support human development (including population planning), or to improve the status of women.

^c Projects whose primary aim is to promote sound management of natural resources and the environment.

^d Economic growth projects designed to also target, as a secondary objective, poverty reduction, human development, improvement in the status of women, or protection of the environment.

34. There are many good examples from among the ADF projects approved in 1997-1998 that were driven by the operational priorities discussed in the last section and that demonstrate the effective use of ADF resources during the first half of ADF VII. The Bank's significant partnership with its Pacific DMCs (PDMCs) to support wide-ranging reforms provides other good examples of effective use of ADF. Five projects were selected to indicate the wide breadth of development issues in which ADF is playing a long-term role:

- biodiversity conservation in Bangladesh;
- financial sector intermediation in Bhutan;
- rural microfinance in Nepal, targeted particularly at households headed by women;
- basic education in Lao PDR; and
- flood emergency rehabilitation in Kyrgyz Republic.

A. Bangladesh: Sundarbans Biodiversity Conservation

35. The first example for which an ADF loan was approved during 1997-1998 directly addresses one of the priority areas identified by donors for Bank environmental lending: environmentally sound forest management and conservation of biological diversity. A sustainable management and biodiversity conservation system for Bangladesh's Sundarbans Reserved Forest (SRF), part of the world's largest remaining contiguous mangrove area, will be supported by a \$37 million ADF loan approved in November 1998.¹⁴ A globally significant ecosystem, the SRF contains habitats for fish, shrimp, birds, and other wildlife, including the world's largest remaining population of the highly endangered Bengal tiger. The 6,000 square kilometer mangrove area provides a subsistence living to 3.5 million people, offers protection from cyclones in southwest Bangladesh, and is rich in biodiversity and natural resources. It has significant ecotourism potential.

36. The resources of the forest are being depleted with increasing use by commercial wood processors, rural communities bordering the forest, and subsistence fisherfolk from the Bay of Bengal. The government-owned Khulna Newsprint Mills complex contributes to the problem through the nonsustainable use of a key mangrove species as pulp in newsprint manufacture and by disposing of untreated effluent upstream of the forest. The Bank is providing a TA grant of \$570,000 to determine options, including the financial viability and environmental sustainability of Khulna Newsprint Mills continued operations. Strict loan conditionalities have been agreed with the Government to ensure that the environment will be protected; these include sustainable limits on the use of the SRF and phasing out of commercial users.

37. Reversing the trends of deforestation and biodiversity loss requires financial resources; a significant improvement in the institutional capacity of the Ministry of

¹⁴ Loan BAN 1643: *Sundarbans Biodiversity Conservation*, for \$37 million, approved on 27 November 1998.

Environment's Forest Department; and a new management approach based on research, community participation, greater environmental awareness, scientific planning, and applied research. Modern management systems will be introduced that will involve all stakeholders in the 17 subdistricts around the forest. A participatory system will conserve and manage the forest and its biodiversity as a multidimensional resource. A Sundarbans Stewardship Commission has been established and environmental monitoring of the SRF will be done by the World Conservation Union.

38. The total project cost is \$82.2 million. Apart from the Bank, financing will also be provided by the Government. A \$12.2 million grant from the Global Environment Facility (GEF) has been approved by the GEF Council, the first time that the GEF has supported a Bank-financed loan. The GEF will support (i) priority biodiversity conservation initiatives and improved forest management; (ii) increased institutional capacity; (iii) measures to reduce poverty of the 3.5 million people living in the impact zone bordering the SRF through expanding economic opportunities, improving social infrastructure, improving organization for resource-users, and facilitating stakeholder participation in resource management; and (iv) adoption of a supportive set of policies, especially related to the pricing for access to SRF resources. NGOs have also indicated their intention to provide funds. The Palli Karma-Sahayak Foundation (the Poverty Foundation in Bangladesh) will provide microfinance for sustainable resource use and alternative income-earning opportunities for the users of the SRF.

B. Bhutan: Financial Sector Intermediation

39. The second project demonstrates how ADF resources are used, even at a small scale, to create effective mechanisms for resource mobilization in DMCs. Sustained economic growth in Bhutan will require greater participation of the private sector. Moreover, expanding the private sector is necessary if future inflows of better-educated workers are to contribute fully to their country's development. An efficient and competitive financial sector will be needed to mobilize savings and channel long-term capital to meet the demand of private entrepreneurs. The Bank's Financial Sector Intermediation Facility (FISIF) is designed to ensure that an adequate policy and institutional framework are in place to promote private sector development and investment.¹⁵

40. The FISIF consists of four components: (i) a program loan of \$3.9 million in ADF funds, (ii) a development finance loan of \$4.0 million in ADF funds, (iii) a TA grant, and (iv) a small equity investment to privatize the Bhutan National Bank. The objectives of the policy loan are to improve the efficiency and competitiveness of the financial sector and to assist the government in developing policies conducive to private sector development. The development finance loan provides an umbrella credit line for private financial institutions to provide funds for industrial and commercial agriculture projects in the private sector. Key policy reforms will rationalize government controls on business activities, liberalize the interest rate structure and improve its management, rationalize controls on foreign exchange transactions, strengthen the legal framework for financial system and private business operations, and raise the human resource abilities of the financial and private sectors.

¹⁵ Loan BHU 1565: *Financial Sector Intermediation Facility (Policy Loan)*, for \$4 million, approved on 23 October 1997.

41. The primary beneficiaries of the FISIF are private sector entrepreneurs because the increased competition and improved efficiency in the financial market will provide them with easier access to credit facilities. Policy reforms will create an environment more conducive to market-based industrial development. The project will also provide workers with broader opportunities in the nontraditional sectors and widen the base for resource mobilization.

42. To date, progress has been made on many fronts. Interest rates have been liberalized and the Bank has finalized its equity participation—along with Citibank—in the Bhutan National Bank. This should help to improve services in the financial sector through increased competition and to move lenders away from collateral-based lending toward project finance based on cash flow. The Cabinet is currently drafting resolutions concerning real and personal property, negotiable instruments, bankruptcy, and foreign direct investment. These policy changes will provide a transparent legal framework for the interaction between the financial sector and private entrepreneurs.

C. Nepal: Rural Microfinance

43. The donors have emphasized the importance of projects targeted at reaching the very poor and disadvantaged through microfinancing. The third project example is one targeted specially at women among the rural poor. The Bank approved the ADF Rural Microfinance Project loan to Nepal for \$20 million in 1998.¹⁶ The project will help achieve the objectives of the recently adopted Agriculture Perspective Plan, which forms the basis for both Bank and Government development programs, to increase participation of women and to reduce poverty by about 35 percent over a 20-year period. Women's access to microfinance is very limited, and households headed by women, in particular, depend mainly on moneylenders. Institutional credit to the poor constitutes only 24 percent of the total, and most funds go to nonpoor households that have collateral. There is a need to coordinate and streamline the delivery mechanisms for microcredit in a financially viable and sustainable way. The Government's microfinance operations need to be consolidated so that the Government can properly monitor, supervise, and regulate the sector.

44. The project aims to improve the socioeconomic status of women and increase employment opportunities and microenterprise development through the provision of rural financial services, including a revolving line of credit to finance viable farm and off-farm economic activities. The project will also support a program to improve women's investment opportunities and skills and strengthen the institutional and financial capabilities of microfinance institutions.

45. The project is expected to benefit about 270,000 households, of which 75-80 percent of the beneficiaries will be poor women, and the remainder will be men and women near the poverty line. Households headed by women will be particularly targeted. About 448,000 loans will be provided for farm and nonfarm income-generating microenterprises. The employment-generating impact will comprise additional full-time employment and part-time work. The project subloans will reach some of the poorest and most disadvantaged sections of society, primarily women, the landless, disadvantaged ethnic communities, and subsistence farmers. The project will also help

¹⁶ Loan NEP 1650: *Rural Microfinance*, for \$20 million, approved on 8 December 1998.

beneficiaries undertake more productive microenterprises, and thereby improve their incomes, access to decision making, and status in the household and community.

D. Lao PDR: Basic Education for Girls

46. The fourth example has improvement of the status of women in Lao PDR as a primary objective, and human development (including population planning) as a secondary objective, following the Bank's project classification system. The project, assisted by an ADF loan of \$20 million approved in 1998, will mainly benefit ethnic minority girls and provide education for boys.¹⁷ Over the course of the project, 375 villages will receive new multigrade schools with a total annual student capacity of about 29,000. Fifty villages will receive five-grade schools with a total annual student capacity of 10,000. The multigrade schools will particularly benefit girls of ethnic minorities, as they will be able to attend schools close to their homes. These schools will provide improved access and improved quality, which will encourage the students to complete school: about 300 ethnic minority teachers, mainly females, will be recruited and trained; 50 new pedagogical advisers will be appointed and trained in how to support teaching practices to meet the needs of minority children, especially girls, and children in multigrade schools; and 4,000 teachers and school principals will receive in-service training in ethnic minority and multigrade approaches.

47. Through the provision of facilities, more female teachers, relevant localized materials, better supervision, and village mobilization, the gross enrollment will increase by about 27 percent for boys and 46 percent for girls, and completion rates will increase by about 83 percent for boys and 103 percent for girls in project schools. More female primary education graduates will help improve women's status and active participation in socioeconomic activities and contribute to human development. Education will increase their chances to have paid employment, higher individual earnings, and greater agricultural productivity, and will increase the number of students qualified for secondary and higher education. It will help reinforce the strong association between the education of girls and family benefits, principally improvements in child and family health, nutrition standards, and population planning. In addition, a substantial number of Ministry of Education staff will benefit from in-house long-term and short-term training, and regional training.

E. Kyrgyz Republic: Flood Emergency Rehabilitation

48. The fifth project example demonstrates the continued capacity of ADF to respond to a DMC's priority needs in an efficient way. On September 1998, the Bank approved an ADF loan of \$5 million for the project to assist the Government of the Kyrgyz Republic in the efficient and expeditious rehabilitation of public infrastructure damaged by severe floods and landslides that occurred in May-June 1998 in Jalal-Abad and Osh provinces.¹⁸ The affected public infrastructure included roads and bridges, power transmission and distribution and hot water transmission lines, drinking water transmission lines and sewers, telephone lines, schools, and health care facilities. The Bank loan will finance about 79 percent of the total cost of the required works, which is estimated at \$6.3 million. The Government has conveyed its deep appreciation to the Bank for the prompt processing and approval of this emergency assistance. The

¹⁷ Loan LAO 1621: *Basic Education (Girls)*, for \$20 million, approved on 25 June 1998.

¹⁸ Loan KGZ 1645: *Flood Emergency Rehabilitation*, for \$5 million, approved on 24 September 1998.

assistance includes provision for (i) advance procurement, and (ii) retroactive financing of up to \$1 million equivalent for the project. These have enabled the Government to complete before the advent of winter most of the urgent civil works needed to temporarily restore the damaged public infrastructure. The major civil works for permanent rehabilitation of the damaged infrastructure is expected to commence in March 1999.

49. The project will ease the hardships that the affected communities are experiencing. It is estimated that more than 85,000 people will directly benefit from the project. It will provide proportionately more benefits to poor people in the affected areas.

F. Pacific DMCs: Partnerships with the Bank

50. While altogether the Pacific DMCs accounted for only \$110 million or less than 5 percent of total ADF lending in 1997-1998, the impact of such Bank assistance has been very significant because it has broadened in scope since formulation of the 1996 Strategy for the Pacific.¹⁹ Working in consultation and agreement with governments, the Bank has taken the lead role in the external funding community as a catalyst and facilitator of policy reform and capacity building in development management, while retaining the traditional role of project financier. Unlike other parts of the Region where the Bank normally works in tandem with the World Bank and the IMF in support of stabilization and adjustment programs, in the Pacific the Bank is often the major (and sometimes the only) multilateral financial institution providing support for macroeconomic and civil service reform. Economic reform programs in seven PDMCs have been undertaken with Bank technical and financial assistance during 1996-1998 (Cook Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, Nauru, Samoa, Solomon Islands, and Vanuatu). All of these programs aim at generating sustainable economic growth through the creation of a leaner, more efficient public sector and a better enabling environment for the private sector. Program effectiveness in improving governance and the economic policy framework also permits a refocusing on project-based and sector-specific lending. Such lending has been proven effective in good governance and policy environments.

51. Reform has usually been triggered by fiscal crises of varying degrees of severity, but government and community commitment to overall economic reform and improved governance has developed quickly in all cases. The Cook Islands Economic Reform Program, for example, is notable for local ownership from the outset, and for the creation of substantial and effective public participation in the reform process through the National Development Council and annual national retreats. New legislation has established principles of fiscal responsibility, accountability, and transparency. These principles have been reinforced by the formation of the independent Public Expenditure Review Committee with powers to review public finances and investigate any allegations of misuse of public resources. The concept of performance orientation has also been introduced to the public service. In Vanuatu, strong public participation in the Comprehensive Reform Program and a convergence of local ownership on the key theme of improved governance are striking features. The legislative framework for better fiscal and general governance has been established rapidly. A major improvement in public servants' autonomy and efficiency has occurred as a result of selection of

¹⁹ Asian Development Bank. 1996. *Strategy for the Pacific: policies and programs for sustainable growth*.

Directors-General on merit, the new independence of the Public Service Commission, and the introduction of a performance orientation.

52. In the Cook Islands and Vanuatu, periods of threatened macroeconomic instability have been avoided with Bank financial assistance, and progress toward fiscal balance has been made through public service restructuring. In the Cook Islands, where there were 18 government employees for every 100 residents, the number of public servants was reduced by 60 percent during 1996-1998, while in Vanuatu the number of ministries was reduced from 34 to 9 and the number of public servants reduced by 10 percent. Progress in creating an environment conducive to private sector growth has been made through removal of distortions in the tax systems and impediments facing foreign investors. In the Marshall Islands and the Federated States of Micronesia, substantial public service downsizing has been achieved as part of a reform process begun before commencement of renegotiations of block grant funding under the Compact of Free Association with the US. In Solomon Islands, Bank funds and TA are crucial support to a reformist government committed to addressing a severe fiscal crisis compounded by the impact of the Asian economic crisis. In Samoa, financial sector reform has occurred in a stable macroeconomic environment.

53. In broad terms, the reform programs supported by the Bank in the Pacific have aimed not only at macroeconomic stabilization and fiscal balance, but also at the reorienting of the entire public service towards results-based management. In some Pacific countries, the key policy action of the Government was the formulation of measurable or verifiable output targets as part of the budgeting exercise. In other contexts, the key step was the introduction of performance contracts to govern the employment arrangements of seniormost officials in the public sector. These contracts specify the "deliverables" of each senior official in government, and, in some cases, financial incentives are tied to actual accomplishment of the targets. These innovative arrangements, which have proven to be effective in private sector enterprises, contribute to good governance by helping to make public servants more accountable for results and for the resources that they manage.

54. Experience with reform programs in the Pacific shows that in partnership with government and other funding sources, and where appropriate, the Bank can generate the critical initial momentum for an economic reform process. It can support that momentum through the provision of TA and program loan funds that buy time for governments. Equally, it is clear that the Bank is involved in a learning process. Future design of reform programs will need to pay more attention to the careful and realistic prioritizing and sequencing of reform actions over time (in recognition that the reform process extends beyond the usual three-year life of a program loan). In this context, special attention will need to be paid to the suitability of new technologies and the domestic capacity to implement reforms and ensure their durability.

V. FINANCIAL MANAGEMENT

A. Long-Term Strategy for Financing ADF

55. ADF VII provides the Bank with an opportunity to begin defining a long-term strategy for financing its concessional operations. In this regard, the long-term objective is that ADF will become progressively self-financing. To this end, the Bank must maintain its

present capacity to mobilize concessional resources through multilateral replenishments that are equitable and sustainable, and strengthen the financial planning framework for ADF. Donors recommended that the major elements of the long-term strategy include (i) maximizing of commitment authority from nondonor resources²⁰ in a prudent and sustainable manner; (ii) broadening and strengthening the donor resource base; and (iii) identifying and adopting a replenishment structure that reflects the constraints facing the multilateral assistance system and is compatible with (i) and (ii) in strengthening the Bank's capacity to mobilize concessional resources from internal and external sources.

56. In that context, starting in ADF VII, priority is given to maximizing the Bank's internal capacity to generate additional commitment authority through nondonor resources in a prudent and sustainable manner. Further, the synergy between donor and nondonor resources is being strengthened in order to increase the volume of commitment authority from nondonor resources by adopting techniques that will increase (i) the volume of nondonor resources, and (ii) the efficiency with which nondonor resources are used to generate commitment authority. The adoption of these techniques should proceed prudently to ensure that they are compatible with maintaining and strengthening the Bank's developmental mandate and financial integrity as a whole over the long run. In so doing, donors recognized the need to introduce a new planning framework for the financial management of ADF resources. Donors appreciated that the initiatives in financial management to be undertaken during the ADF VII period, together with continued and substantial donor support over the next half a generation, would ensure that replenishments by donors will represent only one of the major sources of funds used to finance the Bank's concessional operations. The Bank remains fully committed to this long-term strategy for financing ADF.

B. ADF Resource Management

57. ADF resource management has undergone important and significant changes in the first two years of the ADF VII period. These changes are a consequence of the policy directions given to the Bank in the ADF VII Donors' Report and the ensuing Board approval of major policy recommendations presented to them by Management. This subsection summarizes the changes in policy and their impact on the management of ADF resources, as well the Bank's initial experience with the new policies and the implications for further work on ADF resource management.

58. Soon after the Board of Governors adopted the ADF VII Resolution in March 1997,²¹ the Board of Directors interpreted (on 15 April 1997) the Charter pursuant to Article 60 to confirm that: (i) in accordance with Article 40.1 of the Charter, the Board of Governors' allocation to ADF of current year OCR net income that is in excess of reserves that the Governors consider necessary or appropriate and that would otherwise be available for distribution to members, is justified within the context of the Bank's purpose and functions and is consistent with the Charter; and (ii) such net income transfers to ADF may be made consistently with the provisions of Article 10.1 of the Charter, which require

²⁰ Nondonor resources consist of (i) reflows, i.e., repayments of past ADF loans, revenue from service charges paid to ADF net of ADF administrative expenses, and investment income; (ii) residual resources from past replenishments; (iii) resources set aside from OCR; and (iv) OCR net income transfer.

²¹ Resolution No. 247 adopted by the Board of Governors on 22 March 1997.

the separation of the Bank's OCR and Special Funds operations.²² In line with the preceding, the Board of Directors recommended to the Board of Governors that \$230 million held as surplus be allocated to the ADF.²³ Moreover, the Board of Directors adopted the EACA and the associated establishment of a new financial planning framework for the management of ADF resources.²⁴

59. During 1998, the Board of Directors considered and approved the following further changes in policy concerning the management of ADF resources: (i) that resources made available as a result of annual loan savings and cancellations in the pre-ADF VII postreplenishment pool be allocated on an annual basis to the nondonor resource pool supporting EACA, thereby increasing EACA,²⁵ and (ii) that the loan terms for new loans to all ADF borrowers be amended with effect from 1 January 1999,²⁶ and that the service charge will be redesignated as an interest charge and will include a portion to cover administrative expenses and a portion that does not.²⁷

60. Together, the major impacts from these new policies for the management of ADF resources are considered to be positive. First, the efficiency in the use of ADF loan repayments and additional resource mobilization (other than new donor contributions to the current replenishment) to increase ADF commitment authority is maximized. Second, as a consequence, the Bank may continue to plan for progressive self-financing of ADF in the long term. Third, commitment authority in the current replenishment does not have to bear all risk associated with adverse movements in exchange rates affecting all ADF resources, as it has in previous replenishments. Fourth, ADF note encashment in the current replenishment is stable and predictable. Fifth, the Bank's financial planning framework for ADF is much more congruent with the policies and practices in IDA, to which many donors to ADF also contribute. However, it is important to point out that, with the limited degree of hardening of ADF loan terms as approved by the Board of Directors, it is difficult to attain the goal of ADF self-financing without substantial new donor contributions to future replenishments.

61. These positive features notwithstanding, the implementation of these new policies, particularly in the context of the Asian financial crisis, have had results that merit attention and perhaps further study. First, under the new financial planning framework, which separates resources for the current replenishment from those provided and allocated to past replenishments, a direct relationship exists between the amount and timing of donor-sourced commitment authority and installment payments in the current replenishment; however, EACA is available at anytime during the calendar year. In ADF VII, annual EACA in 1997-1999 was fully committed very early in the year.

²² R48-97, *Legality of OCR Net Income and Surplus Transfers to the Asian Development Fund*, 25 March, pages 6-7, para.13.

²³ R50-97, *Transfer of OCR Surplus to the Asian Development Fund*, 25 March. The Board of Governors adopted the associated Resolution on 28 May 1997.

²⁴ R49-97, *Review of the Financial Planning Framework for the Management of ADF Resources*, 25 March.

²⁵ R105-98, *Treatment of Loan Savings and Cancellations to Increase the Expanded Advance Commitment Authority (EACA) Under the New Financial Planning Framework for the Management of ADF Resources*, 9 July.

²⁶ For project loans, i.e., other than quick-disbursing program loans: 32-year maturity including an 8-year grace period, 1-percent interest charge during the grace period and 1.5 percent during the amortization period, equal amortization; and for quick-disbursing program loans: 24-year maturity including an 8-year grace period, 1-percent interest charge during the grace period and 1.5 percent during the amortization period, equal amortization.

²⁷ R205-98, *Review of the Loan Terms for the Asian Development Fund*, 23 November.

Given the projected annual levels of EACA and the provisions in the ADF resolutions, which do not require donors to deposit their promissory notes until the last quarter of each calendar year, ADF has experienced intra- and inter-year funding gaps: that is, some loans are approved by the Board during the year on the condition that the loan may not be signed until the President has determined there are sufficient financial resources (i.e., additional commitment authority) to finance the loan. This has often resulted in unanticipated delays in loan signing and initial project implementation. On these considerations, it would be appropriate for the Bank to review mechanisms to address the problem.

62. The new ADF financial planning framework continues the policies and practices whereby donor contributions are usually denominated and paid in members' currencies, and loan disbursements and repayments are generally made in relation to the basket of currencies that constitute the pool or stock of ADF resources (substantially equivalent to donor contributions to all ADF replenishments). The ADF unit of account is the same as the Bank's unit of account, i.e., the US dollar.²⁸ Thus, the US dollar valuation of commitment authority in the current replenishment—be it derived from donor contributions or EACA—will change in relation to changes in the exchange rate of donor member currencies against the US dollar. In ADF VI, for example, the net effect was a gain in commitment authority, which was one reason why the Bank was able to extend the ADF VI period by one year. However, as a result of exchange rate movements during the first year and a half of ADF VII there was an extraordinary reduction from the planned levels of donor-sourced commitment authority and EACA, as a result of adverse change in exchange rates which contributed substantially to an ADF VII financing gap projected at \$1.8 billion in relation to the agreed planned level of \$6.3 billion in ADF VII lending.²⁹ It is not assumed that the ADF VII period can be shortened in these circumstances. Therefore, in this context, and considering the need to maintain ADF's financial capacity to meet outstanding disbursement obligations over time valued in SDRs, the Bank should reexamine alternatives for minimizing ADF's vulnerability to adverse movements in exchange rates and the institutional and legal implications of such alternatives. Relevant policies and practices in IDA provide an important point of reference. The Bank plans to report to donors on alternatives during the end of 1999.

63. When approving recommendations on the new ADF financial planning framework in April 1997, several donor members did so on condition that the Bank perform an early review of the experience with the ADF VII fixed encashment schedule. While these members appreciated the enhanced predictability and stability in ADF note encashment offered by the ADF VII fixed encashment schedule, their national policy required them to provide, from time to time, only that amount of resources necessary to meet the near-term disbursement requirements of ADF-financed loans. The results of the Bank's experience with the ADF fixed encashment schedule in 1997 and 1998, and as currently projected for 1999, is given in Appendix 2. The appendix shows that actual ADF VII note encashment in 1997 and 1998 was insufficient to meet the donors' pro rata share of ADF VII disbursement requirements: a deficit of \$32.4 million had to be funded by temporary transfers from the resource pool supporting EACA. The table also shows a further deficit of \$26.45 million is projected in 1999, and will again have to be met from resources supporting the EACA. Furthermore, with the EACA resource pool temporarily

²⁸ However, ADF loan commitments are denominated in special drawing rights (SDRs).

²⁹ IN159-98, *Financing ADF VII*, 9 July. While originally prepared as an information paper, the Board discussed it in September 1998. The following subsection of Section V will provide an update on financing ADF VII at exchange rates at 31 December 1998.

meeting these deficits, EACA availability in ADF VII will be reduced by \$14 million. In this context, while it is intended to leave the ADF VII fixed encashment schedule unchanged, the Bank should formulate a different fixed encashment schedule for the next replenishment, to minimize the probability of annual deficits in note encashment set against the donors' projected pro rata share of disbursement requirements.³⁰

C. ADF VII Financing Structure and Burden Sharing

64. At the conclusion of the ADF VII negotiations in Tokyo, in January 1997, some members were not in a position to confirm their pledges, or the unit of obligation for their contribution, as reflected in Table 1 in *ADF VII: Report of the Donors*.³¹ Furthermore, while it was announced in Tokyo that Indonesia planned to provide a contribution to ADF VII, it was understood to be an additional contribution outside the formal framework of the ADF VII negotiations, which would require a separate acceptance by the Board of Directors, and therefore was not included in the Donors' Report. Table 2 provides an updated overview of financing ADF VII and burden sharing as of 28 February 1999. The table shows that all donors have confirmed their pledges to the Bank and have defined the unit of obligation for their contribution. Indonesia's additional contribution is also noted. The table shows total donor contributions amounting to \$2,658 million; this amount is \$342 million below the planned level of \$3,000 million in donor contributions to ADF VII.

³⁰ ADF is experiencing some difficulty with the nonfixed pre-ADF VII encashment system, in that some donors are not able for budgetary reasons to encash promissory notes at par upon demand to meet required disbursements. Donors may wish to consider adopting a fixed encashment schedule for the balance of ADF VI contributions to improve their budgetary planning while ensuring timely and adequate resource availability for existing pre-ADF VII loan commitments.

³¹ *Overview of Financing ADF VII and Burden Sharing*, January 1997.

Table 2: Overview of Financing ADF VII and Burden Sharing
(as of 28 February 1999)

A. Level of ADF VII Operations			6,300,000,000			
B. Nondonor Resources			3,300,000,000			
C. Donor Resources Required			3,000,000,000			
D. Burden-shared Replenishment			2,700,000,000			
<hr/>						
Member	Burden Share	Amount (US\$)	Supplementary/Additional Contributions (US\$)	Total Contributions (US\$)	Unit of Obligation	Amount in Unit of Obligation
<hr/>						
Austria	0.87	23,490,000		23,490,000	S	242,583,579
Belgium	0.72	19,440,000		19,440,000	BF	586,775,016
Canada	4.66	125,820,000		125,820,000	Can\$	172,258,904
Denmark	0.89	24,030,000		24,030,000	DKr	136,419,752
Finland	0.50	13,500,000	4,157,120	17,657,120	Fmk	80,000,000
France	5.00	135,000,000	5,000,000	140,000,000	F	704,853,800
Germany	6.56	177,120,000		177,120,000	DM	260,077,694
Italy	4.00	108,000,000		108,000,000	Lit	169,922,880,000
Netherlands	2.43	65,610,000		65,610,000	f	107,851,030
Norway	0.90	24,300,000		24,300,000	NKr	155,910,501
Spain	0.50	13,500,000		13,500,000	Ptas	1,669,693,500
Sweden	1.37	36,990,000	2,600,000	39,590,000	SKr	268,274,905
Switzerland	1.23	33,210,000	2,500,000	35,710,000	SwF	42,523,111
Turkey	0.56	15,120,000	1,000,000	16,120,000	US\$	16,120,000
United Kingdom	3.80	102,600,000		102,600,000	£	67,006,726
United States	14.81	400,000,000		400,000,000	US\$	400,000,000
Nonregional Subtotal	48.80	1,317,730,000				
Australia	6.49	175,230,000		175,230,000	A\$	231,588,699
Japan ^a	35.13	948,510,000	70,260,000	1,018,770,000	¥	107,777,715,840
New Zealand	0.65	17,550,000	5,000,000	22,550,000	NZ\$	33,541,073
Developed Asian Economies	42.27	1,141,290,000				
Hong Kong, China	0.57	15,390,000		15,390,000	US\$	15,390,000
Korea, Rep. of	2.01	54,270,000		54,270,000	W	42,489,665,370
Taipei, China	0.54	14,580,000		14,580,000	NT\$	399,579,480
Nonborrowing Economies	3.12	84,240,000				
Indonesia ^b			10,000,000	10,000,000	US\$	10,000,000
Malaysia	0.37	10,000,000		10,000,000	RM	25,492,000
Thailand	0.15	4,000,000		4,000,000	B	101,024,800
Borrowing Economies	0.52	14,000,000				
Regional Subtotal	45.91	1,239,530,000				
E. Burden Share Contribution Total	94.71	2,557,260,000				
F. Burden Share Gap (D-E)		142,740,000				
G. Supplementary/Additional Contributions		100,517,120				
H. Total Contributions (E+G)		2,657,777,120				

Note: This table is based on the exchange rates referred to in para.11 of Resolution No. 247.

^a Japan considers its historic burden share to be 33.69 percent but has agreed, solely for the purpose of ADF VII, to the higher burden share indicated.

^b Indonesia was not a participant in the ADF VII negotiations; however, it has provided an "additional contribution" of US\$10 million to ADF VII.

65. Appendix 3 provides information on individual donors on the status of deposit of ADF VII instruments of contribution and whether the instrument is considered to be unqualified or qualified,³² and on payment of the first and second installments, as of 28 February 1999. All donors have deposited their instruments of contribution and their first installment payment. Moreover, all donors that deposited unqualified instruments of contribution have made their second installment payment in full, with the exception of Italy.³³ The United States, which submitted a qualified instrument of contribution, has provided \$23 million (or 23 percent) towards its second installment payment. Therefore, US arrears during 1999 are expected to be \$77 million. In accordance with paragraph 9(c) of the ADF VII resolution, other donors may consider reducing the availability of their third tranche (i.e., the third installment equal to 25 percent of their contribution and payable on or before 1 November 1999) for operational commitments on a pro rata basis.³⁴ However, the US Administration's current request to Congress for the FY2000 Budget includes an amount that would clear the \$77 million balance of the second installment payment (and provide the full amount of the scheduled third installment). With this in mind, and further considering the direct relationship between additional donor-sourced commitment authority and receipt by the Bank of donors' installment payments, the exercise of pro rata rights would drastically reduce the Bank's ability to finance new ADF commitments in 1999. Thus, the Bank has requested, in writing, that other donors consider not exercising pro rata rights against the current outstanding balance of the second US installment payment to ADF VII.

66. Appendix 4 provides information (at 31 December 1998 exchange rates) on the projected overall financing for ADF VII. Total ADF VII resource availability is estimated to be \$4,966 million, which when set against the planned level of \$6,300 million for ADF VII operations, leaves a projected funding gap of \$1,334 million. In this context, the Bank will continue its best efforts to increase EACA in a prudent manner during the remaining period of ADF VII. At the same time, the Bank requests donors to make their best efforts to provide further supplementary contributions to ADF VII for progress towards the planned level of \$3 billion in donor contributions.

VI. CONCLUSIONS

67. With the submission of this progress report at the conclusion of the first half of the ADF VII period, the Bank has met in a timely manner all of its policy and financial commitments as specified in the Donors' Report. The Bank's policy actions have served the objective of increasing the effectiveness with which the Bank can put ADF resources to use. In particular, the Bank has addressed the issues of access criteria, performance evaluation, and allocation methodology with the approval of the new operational policy on graduation and the systematic framework for allocation of ADF resources among DMCs. During the first half of ADF VII, the Bank has also effectively implemented

³² The ADF resolution defines an unqualified instrument of contribution as a "commitment by the member to make payment of the contribution in the manner and on the terms set forth in or contemplated by the resolution," and defines a qualified instrument of contribution as one that "contains a qualification that payment of all installments of the contribution except the first is subject to subsequent budgetary appropriations."

³³ The Bank has been informed that the Italian Authorities are making efforts to ensure early second installment payment.

³⁴ Paragraph 9(c) in Resolution No.247.

several new policies for strengthening the financial management of all ADF resources, including a new financial framework that will facilitate the sustained progress towards ADF self-financing. As demonstrated by the use of ADF VII resources to date, the long-term ADF framework established in the Donors' Report has gotten off to an effective start. But the ADF challenge continues. On the demand side, even those ADF borrowers not so directly or immediately affected by the regional financial crisis are experiencing the widespread secondary effects of the crisis and consequently, also increased requirements for concessional resources to address, particularly, the medium-term social impacts of the crisis. Moreover, new members from the poorest of the Central Asian Republics are adding to the demand for concessional aid from the Bank. Also, it is necessary to maintain threshold levels of ADF lending to retain leverage as an effective broad-based development institution in the poor DMCs and to promote competitive pluralism with the World Bank's IDA operations. Taking these factors into account, the Bank should aim for subsequent replenishments to be at least at the ADF VII level of \$6.3 billion, or higher.

68. On the supply side, ADF continues to face a number of risks and issues, which must be carefully managed. In this regard, the Bank deems it appropriate to undertake further actions in relation to ADF financial management and to report on them to donors in the context of negotiations on the next replenishment. Specifically, the Bank proposes to: (i) establish appropriate mechanisms to give full effect to the new ADF financial planning framework; (ii) further examine various alternatives for minimizing ADF's vulnerability to adverse movements in exchange rates and the institutional and legal implications of such alternatives; and (iii) formulate a fixed encashment schedule for the next replenishment with a view to minimizing the probability of annual deficits in note encashment set against the donors' pro rata share of disbursement requirements.

69. Despite the detrimental effects of the Asian financial crisis, the Bank has and continues to make its best efforts to maximize, in a prudent manner, the amount of EACA available in ADF VII. Further efforts on mobilization of donor support must be undertaken during the second half with the goal of achieving the targeted donor contribution commitments to ADF VII and closing the existing funding gap. In particular, donors should consider providing further supplementary contributions to ADF VII. Finally, the interests of ADF would not be well served if other donors exercised pro rata rights against the current outstanding balance of the US's second installment payment to ADF VII.

70. Since the ADF VII period is expected to end in December 2000, there is a need to plan now for the next replenishment, ADF VIII, which should become effective in 2001. Accordingly, the ADF VIII negotiations should start in the second half of 1999 and be completed in the year 2000. It is expected that the number of meetings in the negotiations will be limited to four.

71. In approaching future ADF replenishments, the Bank will increasingly emphasize the framework of performance-based lending with the long-term vision and strategy for ADF in mind: promoting the acceleration of poverty reduction in the Region and, at the same time, accelerating the pace at which ADF can become self-financing.

APPENDIXES

Number	Title	Page	Cited on (page, para.)
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ADF Loan Approvals, 1997

DMC	Project Name	Approval Date	SDO Classification		ADF Amount (\$ m)	Total Project Cost
			Primary	Secondary		
BAN:	Third Rural Infrastructure Development	20 Nov	GRO	POV	70.0	181.0
BAN:	Capital Market Sector Development	20 Nov	GRO		80.0	80.0
BAN:	Jamuna Bridge Railway Link (Fourth Railways)	02 Oct	GRO		110.0	269.0
BAN:	Primary Education Sector II	22 May	HRD	WID	100.0	160.0
BAN:	Urban Primary Health Care	16 Sep	WID	POV	40.0	60.0
BAN:	Participatory Livestock Development Project	19 Jun	WID	POV	19.7	42.2
BHU:	Financial Sector Intermediation Facility	23 Oct	GRO		8.0	8.8
COO:	Cyclone Emergency Rehabilitation	8 Dec	GRO	POV	0.8	7.1
FSM:	Public Sector Program Loan	29 Apr	GRO		18.0	18.0
INO:	Coastal Community Dev. & Fisheries Resources	04 Nov	ENV	POV	15.0	71.0
INO:	Second Junior Secondary Education	06 Nov	HRD		15.0	300.0
KAZ:	Water Resources Management and Land Improvement	17 Dec	GRO		10.0	55.1
KAZ:	Basic Education	24 Sep	HRD		10.0	75.0
KGZ:	Corporate Governance & Enterprise Reform	25 Sep	GRO		44.0	44.0
KGZ:	Rural Financial Institutions	21 Aug	GRO		12.5	22.1
KGZ:	Education Sector Development Project	29 Sep	HRD		32.7	42.4
LAO:	Secondary Towns Urban Development	26 Jun	ENV	HRD	27.0	38.50
LAO:	Power Transmission and Distribution	30 Sep	GRO		30.0	58.3
LAO:	Xieng Khouang Roa Improvement	09 Sep	GRO		46.0	64.5
MLD:	Third Power System Development Project	09 Sep	GRO		7.0	22.7
MON:	Ulaanbaatar Heat Efficiency	25 Sep	HRD		40.0	55.7
MON:	Provincial Towns Basic Urban Services Project	30 Sep	HRD		6.8	8.5
MON:	Health Sector Development Program Loan	04 Nov	HRD		15.9	18.9
NEP:	Tribhuvan International Airport Development	23 Jan	GRO		27.0	47.5
PAK:	Korangi Sewerage and Wastewater Management	18 Sep	ENV	HRD	70.0	101.0
PAK:	Flood Protection II	13 Nov	GRO	POV	100.0	200.0
PAK:	Capital Market Development	06 Nov	GRO		5.0	507.0
PAK:	Secondary Science Education Sector	11 Sep	HRD	WID	40.0	75.0
PAK:	D.G. Khan Rural Development	04 Sep	POV		36.0	52.2
PHI:	Fisheries Resource Management	16 Oct	ENV		15.0	89.1
PNG:	Health Sector Development Program Loan	20 Mar	HRD		15.0	63.0
RMI:	Public Sector Reform Program Loan	30 Jan	GRO		12.0	12.0
SRI:	Upper Watershed Management	24 Sep	ENV	POV	16.6	23.7
SRI:	Second Perennial Crops	25 Sep	GRO		20.0	35.8
SRI:	Southern Provincial Roads Improvement	30 Oct	GRO		30.0	42.9
SRI:	Third Water Supply and Sanitation	06 Nov	HRD	POV	75.0	121.0
SRI:	Science and Technology Personnel Development	11 Sep	HRD		20.0	34.0
UZB:	Basic Education Textbook Development	17 Dec	HRD		20.0	106.9
VIE:	Forestry Sector Project	20 Mar	ENV		33.0	53.2
VIE:	Rural Infrastructure Sector	23 Oct	GRO	POV	105.0	150.0
VIE:	Central and Southern Viet Nam Power Trans.	27 Nov	GRO		100.0	140.0
VIE:	Second Provincial Towns Water Supply	27 Feb	HRD	ENV	69.0	92.0
VIE:	Lower Secondary Education Development	16 Sep	HRD		50.0	71.5
	Total				1,617.0	3,720.8

Note: Excludes VIE: Phuoc Hoa Multipurpose Water Resources (TA Loan) of \$2.6 million.

ADF Loan Approvals, 1998

DMC	Project Name	Approval Date	SDO Category		ADF Amount (\$ m)	Total Project Cost
			Primary	Secondary		
BAN:	Sundarbans Biodiversity Conservation	27-Nov	ENV	POV	37.0	82.2
BAN:	Flood Damaged Rehabilitation	16-Dec	GRO	POV	104.0	130.0
BAN:	Rural Livelihood	29-Sep	POV	WID	42.6	74.7
BHU:	Urban Infrastructure Improvement	30-Jul	HRD		5.7	8.2
CAM:	GMS: Phnom Penh-HCMC Highway	15-Dec	GRO		40.0	50.7
KGZ:	Flood Emergency Rehabilitation	24-Sep	GRO	POV	5.0	6.3
KGZ:	Second Road Rehabilitation	10-Sep	GRO		50.0	109.8
KGZ:	Social Services Delivery and Finance	27-Nov	HRD	POV	10.0	18.5
KIR:	Sanitation, Public Health & Environment Improvement	08-Dec	HRD	ENV	10.2	12.8
LAO:	Basic Education (Girls) Project	25-Jun	WID	HRD	20.0	33.0
MLD:	Postsecondary Education Development	30-Sep	HRD		6.3	10.5
NEP:	Community Groundwater Irrigation Sector	26-Feb	GRO	POV	30.0	42.8
NEP:	Second Agriculture Program Loan	22-Jan	GRO		50.0	50.0
NEP:	Rural Microfinance	08-Dec	WID	POV	20.0	30.6
PHI:	Early Childhood Development	27-Jan	HRD	POV	8.8	65.0
SAM:	Financial Sector Program Loan	19-Feb	GRO		7.5	7.5
SOL:	Public Sector Reform Program	27-Aug	GRO		26.0	26.2
SRI:	Tea Development	10-Nov	GRO	ENV	35.0	93.8
SRI:	Roads Network Improvement	08-Dec	GRO		80.0	123.3
SRI:	Urban Devt & Low Income Housing (Sector)	24-Sep	HRD		70.0	100.0
TAJ:	Post Conflict Infrastructure	10-Dec	GRO		20.0	20.0
VAN:	Comprehensive Reform Program	16-Jul	GRO		20.0	20.0
VIE:	Third Road Improvement	10-Dec	GRO		130.0	285.7
VIE:	GMS: Phnom Penh-HCMC Highway	15-Dec	GRO		100.0	144.8
VIE:	Vocational & Technical Education	11-Dec	HRD	WID	54.0	120.0
	Total				982.1	1,666.5

Note: Excludes NEP: Melamchi Water Supply Engineering of \$5.0 million.

ADV VII and ADF VI (carryover) Note Encashment vs ADF VII Loan Disbursement^a
(\$ million)

ADF VII Level of Lending and Commitment Authority (1997-2000)
As of 31 December 1998
(\$ million)

Item	Planned	Valued at Exchange Rates at Q1 1996 Tokyo ^a	Valued at Exchange Rates at 31 Dec 98
I. ADF VII Lending ^b	6,300	6,300	6,300
II. Commitment Authority (CA)			
a. ADF VII Donor Contributions	3,000	2,658 ^c	2,276 ^d
b. ADF VI Donor Arrears ^e	440	440	428 ^d
c. ADF VI Carryover of CA ^f	160	160	0 ^g
d. Planned EACA	2,400	2,400	2,046
e. Additional EACA	300	0	216 ^h
Subtotal	6,300	5,658	4,966
III. Funding Gap (I-II)	0	642	1,334

EACA - Expanded Advance Commitment Authority

^a Documents prepared for the Tokyo meeting stated that nondonor resources consisted of US\$2,700 million EACA, US\$160 million ADF VI carryover, and US\$440 million arrears and prorata releases by donors. However, there was a shared understanding that: US\$300 million additional EACA out of US\$2,700 million was not identified and that US\$160 million ADF VI carryover would be used up and not available for ADF VII.

^b As contemplated in the ADF VII Report of the Donors, para. 107.

^c Basic and supplementary contributions pledged at Tokyo plus Hong Kong China; Indonesia; and New Zealand's subsequent contributions valued at exchange rates prevailing as of date indicated.

^d Net of 6.50 percent contingency for disbursement risk.

^e Italy and US arrears; and amounts withheld by donors exercising prorata rights.

^f Expected carryover of ADF VI commitment authority.

^g The US\$160 million has been exhausted in order to finance pre-ADF VII operations.

^h Expected increase in EACA during ADF VII period are from ADF loan savings and cancellations; service charge net income; and reflows at 100%.