

# Endnotes

<sup>1</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila, Article 19.

<sup>2</sup> During ADF VII negotiations, a study of the impact of ADF operations was suggested. In response, two separate reports have been prepared. The first report assessing activity under ADF I–V was completed in December 2001 (ADB. 2001. *A Review of the Asian Development Fund I–V Operations*. Manila). The main findings of the ADF I–V report are summarized in Appendix 1.

<sup>3</sup> Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka.

<sup>4</sup> Cambodia, Lao PDR, and Viet Nam.

<sup>5</sup> Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

<sup>6</sup> Indonesia and the Philippines.

<sup>7</sup> Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

<sup>8</sup> Infrastructure includes telecommunications and transport—roads, railways, seaports, airports, dams, bridges, and tunnels.

<sup>9</sup> ADB. 1992. *Medium-Term Strategic Framework (1992–1995)*. Manila.

<sup>10</sup> The classification system allowed disaggregation into economic growth projects, projects aimed directly at social concerns (identified as human development, poverty reduction, and WID), and projects directly aimed at environment and natural resources management (see the President’s memo on Guidelines for the Classification of Loan Projects in Terms of the Bank’s Strategic Development Objectives, March 1995).

<sup>11</sup> The goals, targets, and indicators are at [http://www.developmentgoals.org/About\\_the\\_goals.htm](http://www.developmentgoals.org/About_the_goals.htm).

<sup>12</sup> During ADF VI–VII, TA Special Fund resources consisted of direct voluntary contributions by members, allocations from the net income of OCR, ADF contributions, and revenue from investments and other sources. In ADF VI, 3.3% of total contributions to ADF (\$147.3 million at Resolution Date) was allo-

cated to the TA Special Fund. Donors did not make a similar allocation in ADF VII.

<sup>13</sup> All commitments drawn from ADB. 1997. *Sixth Replenishment of the Asian Development Fund*. Manila; and ADB. 2000. *Seventh Replenishment of the Asian Development Fund*. Manila. It was understood that while many of the agreements reached related directly to ADF operations, they should equally apply to operations financed from ADB’s OCR.

<sup>14</sup> ADB. 1995. *Guidelines for the Classification of Loan Projects in Terms of the Bank’s Strategic Development Objectives*. Manila. It states, “All projects supported by ADB seek broadly to promote economic growth; therefore, it is not needed to indicate economic growth as a secondary objective.”

<sup>15</sup> Loan 1768-PNG(SF): *Microfinance and Employment Project*, for \$9.6 million, approved on 19 October 2000, was classified as having economic growth as a secondary objective. Its primary objective was poverty reduction.

<sup>16</sup> The membership of these countries brought additional and unforeseen challenges to the limited ADF resources and their allocation. Kazakhstan and Uzbekistan had only limited access to ADF, but the Kyrgyz Republic and Tajikistan faced significant development challenges requiring greater support from ADF.

<sup>17</sup> Loan 1497-TON(SF): *Tonga Power Development II Project*, for \$4.9 million, was canceled on 28 October 1999.

<sup>18</sup> Some examples are Loan 1444-KGZ(SF): *Road Rehabilitation Project*, for \$50 million, approved on 13 June 1996; Loan 1630-KGZ(SF): *Second Road Rehabilitation Project*, for \$50 million, approved on 10 September 1998; Loan 1853-KGZ(SF): *Third Road Rehabilitation Project*, for \$40 million, approved on 31 October 2001; Loan 965-LAO(SF): *Agriculture Program*, for \$20 million, approved on 3 August 1989; Loan 1180-LAO(SF): *Second Agriculture Program*, for \$30 million, approved on 8 October 1992; Loan 1344-VIE(SF): *Red River Delta Water Resources Sector Project*, for \$60 million, approved on 13 December 1994; and Loan 1855-VIE(SF): *Second Red River Basin Sector Project*, for \$70 million, approved on 13 November 2001.

<sup>19</sup> Loan 593-BAN(SF): *Bhola Irrigation Project*, for \$27.2 million, approved on 4 November 1982.

<sup>20</sup> ADB. 2001. *Project Completion Report on the Second Bhola Irrigation Project in Bangladesh*. Manila.

<sup>21</sup> ADB. 2001. *Project Completion Report on the Secondary Towns Integrated Flood Protection Project in Bangladesh*. Manila.

<sup>22</sup> ADB. 2000. *Project Completion Report on the Jamuna Bridge Project in Bangladesh*. Manila.

<sup>23</sup> Renamed the Japan Bank for International Cooperation.

<sup>24</sup> ADB. 2002. *Project Performance Audit Report on the Nam Ngum-Luang Prabang Power Transmission Project in the Lao People's Democratic Republic*. Manila.

<sup>25</sup> ADB. 2002. *Project Performance Audit Report on the Theun-Hinboun Hydropower Project in the Lao People's Democratic Republic*. Manila.

<sup>26</sup> ADB. 2002. *Project Performance Audit Report on the Ulaanbaatar Airport and National Air Navigation Development Projects in Mongolia*. Manila.

<sup>27</sup> ADB. 2001. *Project Completion Report on the Roads Development Project in Mongolia*. Manila.

<sup>28</sup> Risk mitigation is also a factor in enabling individuals and families to develop their capabilities to earn income without being thrust back into poverty by various catastrophes.

<sup>29</sup> A policy paper on population was adopted in June 1994 in support of ADB activities and commitments in this area.

<sup>30</sup> Loan 1173-BAN(SF): *Bangladesh Open University Project*, for \$34.3 million, approved on 4 August 1992; Loan 1786-KGZ(SF): *Skills and Entrepreneurship Development Project*, for \$25 million, approved on 28 November 2000; Loan 1373-PAK(SF): *Technical Education Project*, for \$60 million, approved on 19 September 1995; Loan 1706-PNG(SF): *Employment-Oriented Skills Development Project*, for \$20 million, approved on 28 October 1999; and Loan 1595-UZB(SF): *Basic Education Textbook Development Project*, for \$20 million, approved on 17 December 1997.

<sup>31</sup> ADB. 1999. *Project Completion Report on the Pearl Industry Development Project in the Cook Islands*. Manila. This project was the only unsuccessful human development project supported by ADF VI. The main difficulty was that beneficiaries did not support the project-designated regulatory authority for the pearl industry. When an industry-based replace-

ment agency was instituted using wider consultation among the pearl farmers, it also failed to gain the support of the majority of them, especially the larger holders. In addition, a major cyclone created significant damage and diverted attention away from the Project toward more immediate problems. The pearl industry is crucial to the Cook Islands economy and serious environmental management issues need to be addressed if this industry is to be sustainable.

<sup>32</sup> Loan 1786-KGZ(SF): *Skills and Entrepreneurship Development Project*, for \$25 million, was canceled on 5 June 2002.

<sup>33</sup> The “at risk” concept was introduced in ADB’s monitoring system to identify actual problem projects (partly satisfactory or unsatisfactory ratings for either implementation progress or development objectives) and potential problem projects with issues in four or more important parameters such as poor compliance with covenants, delays in fielding consultants, and shortage of counterpart funds. This is to provide an early warning that the projects are in danger of becoming problems.

<sup>34</sup> ADB. 2001. *Project Performance Audit Report on the Social Action Program (Sector) Project in Pakistan*. Manila.

<sup>35</sup> Addressing poverty concerns has been one of ADB’s key objectives starting with the first MTSF (1992–1995) and emerged as the declared overarching objective at the end of ADF VII. The MTSF stated that, “The development process must look beyond growth to a reduction of poverty and greater equity, to progress in education, health, nutrition and population planning, and to the protection of the environment.”

<sup>36</sup> The MTSF (1992–1995) stated that, “The route to improving the living standards of the poor is primarily through access to employment and income-generation opportunities and social services. Accordingly, ADB will pursue policies that ensure that there are no anti-labor biases built into DMCS’ policies and the Bank’s project designs, so that employment opportunities are generated from growth...and give the target groups access to education, health and family planning services, and to markets and credit.”

<sup>37</sup> ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila.

<sup>38</sup> ADB. 2001. *Implementing ADB’s Poverty Reduction Strategy*. Manila.

<sup>39</sup> Thirty-seven other agriculture projects were classified as having poverty reduction as their secondary SDO.

<sup>40</sup> Toward the end of ADF VII in May 2000, the Japan Fund for Poverty Reduction was established to

pilot innovative, participatory, and direct poverty reduction projects related to ADB loans. As of December 2002, 29 projects for a total of \$81 million had been approved.

<sup>41</sup> Loan 1645-KGZ(SF): *Social Services Delivery and Finance Project*, for \$10 million, approved on 27 November 1998; and Loan 1705-TAJ(SF): *Social Sector Rehabilitation Project*, for \$20 million, approved on 26 October 1999.

<sup>42</sup> ADB. 1999. *Special Evaluation Study of the Effectiveness of ADB Approaches and Assistance to Poverty Reduction in Bangladesh, Kyrgyz Republic, Lao People's Democratic Republic, Nepal and the Philippines*. Manila.

<sup>43</sup> During ADF VI and half of ADF VII, almost all of ADF went to group A countries, which had a 20% cost-sharing limit prior to the introduction of the graduation policy. Section IVC discusses this policy and its impact.

<sup>44</sup> This is an estimate as households were assumed to have an average size of five persons. The exact number is 29,448,509 individual beneficiaries and 1,967,945 households.

<sup>45</sup> The criteria for a primary poverty reduction project are that two thirds of the beneficiaries must be poor, or more than 50% of the expenditures are targeted toward the poor (Appendix 4).

<sup>46</sup> ADB. 2003. *Country Assistance Program Evaluation for Bangladesh*. Manila.

<sup>47</sup> Loan 1435-PHI(SF): *Rural Microenterprise Finance Project*, for \$20 million, approved on 23 April 1996.

<sup>48</sup> IFAD. 2002. *Rural Microenterprise Finance Project: Interim Evaluation*, Volume I Main Reports. The assessment also used the results of an ADB impact survey in the project area.

<sup>49</sup> There is significant literature that discusses agriculture in DMCs and the issue of prices and subsidies, with particular attention to the economic impact of price subsidies in the developed world on agriculture in less developed countries. The findings in this report reflect the present situation in this sector and do not dispute the validity or the merits of these arguments.

<sup>50</sup> ADB. 2002. *Policy on Gender and Development: Interim Progress Report*. Manila.

<sup>51</sup> ADB. 2001. *Special Evaluation Study on Gender and Development*. Manila.

<sup>52</sup> "...ADB has not yet succeeded in increasing the number of loans that directly benefit women. In this respect, ADB is failing to meet an explicit goal of the GAD policy. This lack of progress in increasing the

number of loans with GAD as a strategic objective or thematic priority could result from various factors: (i) insufficient effort is being made to address gender concerns in loan processing; (ii) other thematic priorities are being given greater weight; or (iii) efforts are being made to address gender concerns in new loans, but project staff are reluctant or disinclined to give the loans a GAD classification."

<sup>53</sup> It has been argued that the 80% refers to the portion of the project where males and females have equal access to benefits. However, the activities of women, especially in the poorest areas, are often circumscribed to the home rather than the public areas. Benefits that accrue to the broader public usually accrue to men and benefits that accrue to the home or family such as improved access to services such as electricity, clean water, and health may be more equally shared. The question posed is whether this is sufficient to merit the WID/GAD classification

<sup>54</sup> Loan 1539-PAK(SF): *Korangi Wastewater Management Project*, for \$70 million, was canceled in September 1999.

<sup>55</sup> ADB. 1998. *Special Evaluation Study of Factors Affecting Project Performance in the Agriculture and Social Sectors: A Review of Postevaluation Reports Between 1991 and 1997*. Manila; ADB. 1999. *Sector Synthesis of Evaluation Findings in Rural and Agricultural Credit*. Manila; ADB. 1998. *Sector Synthesis of Postevaluation Findings in the Fisheries Sector*. Manila; and ADB. 1996. *Sector Synthesis of Postevaluation Findings in the Industrial Crops and Agro-Industry Sector*. Manila.

<sup>56</sup> Loan 1204-SRI(SF): *Urban Development Sector Project*, for \$27 million, approved on 8 December 1992.

<sup>57</sup> Loan 1240-NEP(SF): *Kathmandu Urban Development Project*, for \$12 million, approved on 29 June 1993.

<sup>58</sup> ADB. 2003. *Project Performance Audit Report on the Participatory Forestry Project in Sri Lanka*. Manila.

<sup>59</sup> The ceiling was also raised to 20% calculated on a 3-year moving average. ADB. 1999. *Review of ADB's Program Lending Policies*. Manila.

<sup>60</sup> ADB. 2001. *Special Evaluation Study on Program Lending*. Manila.

<sup>61</sup> ADB. 1999. *Reforms in the Pacific: An Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*, Pacific Studies Series No. 17. Manila; Papanek, G. F. 1994. *The Social Impact of Program Lending*. ADB, Manila; ADB. 2001. *Toward a Political Economy Approach to Policy-Based Lend-*

ing. Manila; and ADB. 2001. *Integrating Poverty Impact Assessment in Policy-Based Lending*. Manila.

<sup>62</sup> ADB. 2000. *Program Performance Audit Report on the Industrial Sector Program in Mongolia*. Manila.

<sup>63</sup> ADB. 2002. *Program Performance Audit Report on the Industrial Sector Program in Nepal*. Manila.

<sup>64</sup> International Monetary Fund. 2002. Working Paper “Institutions Role: The Primacy of Institutions Over Integration and Geography in Economic Development”; and World Bank. 2002. *World Development Report 2003*, Sustainable Development in a Dynamic World.

<sup>65</sup> For example, the Kyrgyz Republic enacted over 850 laws over the past 8 years. This is a massive legislative agenda that will take time to implement effectively.

<sup>66</sup> The Constitution of Tajikistan envisages a society that is culturally pluralistic and secular, with its governance founded on the recognition and respect of fundamental human rights; a market-based mixed economy and a public sector that serves the people; multiparty and pluralistic political system; and the separation, decentralization, and sharing of power.

<sup>67</sup> ADB. 2002. *Program Performance Audit Report on the Agriculture Sector Program in the Kyrgyz Republic*. Manila.

<sup>68</sup> ADB. 2002. *Program Performance Audit Report on the Agriculture Sector Program in Mongolia*. Manila.

<sup>69</sup> ADB. 2002. *Program Performance Audit Report on the Agriculture Sector Program in the Socialist Republic of Viet Nam*. Manila.

<sup>70</sup> Other multilateral development institutions have been facing similar criticisms of ineffective policies and the adverse impacts these best-practice policies have had on developing countries.

<sup>71</sup> MTSFs (1993–1996), (1994–1997), and (1995–1998). After the third revision, it was decided that the MTSF was sufficiently articulated as it had become mainstreamed to the country level. Future MTSFs would be demand driven and developed based on an assessment of changing institutional vision, direction, and circumstances.

<sup>72</sup> Population planning became part of a broader human resource development objective starting with the adoption of the MTSF (1995–1998).

<sup>73</sup> Association of Southeast Asian Nations, Asia-Pacific Economic Cooperation, and ADB’s Regional Economic Monitoring Unit.

<sup>74</sup> ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

<sup>75</sup> The Task Force comprised approximately 80 staff from various levels, was chaired by a Vice President and assisted by two external advisors—both former executive directors of ADB.

<sup>76</sup> ADB. 1994. *Report of the Task Force on Improving Project Quality*. Manila.

<sup>77</sup> Strategic Planning Unit, Social Dimensions Unit, and Private Sector Unit.

<sup>78</sup> The East region included the DMCs in the current regional departments of East and Central Asia and Southeast Asia. The West region included the DMCs that are now in the regional departments of South Asia and Mekong.

<sup>79</sup> This has been an evolving process. Early on, other documents were also important, such as the country operations policy paper, economic review and ADB operations papers, and the country economic review (which was still in use in 2002). However, the shift in country focus came about with the adoption of the COS/CAP approach.

<sup>80</sup> ADB was the first multilateral development bank to adopt a governance policy in 1995.

<sup>81</sup> ADB. 1996. *1996 Annual Performance Evaluation Program and Review of 1995 Activities*. Manila.

<sup>82</sup> As of December 2002, country assistance program evaluations had been completed for Bangladesh, PRC, Mongolia, Philippines, and Viet Nam.

<sup>83</sup> Integration of the COS study and CAP process to more closely link strategy with operations.

<sup>84</sup> ADB. 1994. *Report of the Task Force on Improving Project Quality*. Manila. There were two subsequent reports to the Board of Directors entitled *Report of the Task Force on Improving Project Quality, Implementation Status (1995–1996)*, and *Report of the Task Force on Improving Project Quality, Implementation Status March 1997*.

<sup>85</sup> ADB. 2001. *Special Evaluation Study on Selected Economic and Sector Work*. Manila. The study covered 50 ESW activities in four DMCs—India, Philippines, Samoa, and Vanuatu—undertaken during 1995–2000. The sample included studies on poverty assessment, sector analysis, public expenditure reviews and public sector resource management issues, capacity assessments, and institutional development.

<sup>86</sup> Program lending is an exception as ESW is often used

instead of PPTA for sector analysis and diagnostic work.

<sup>87</sup> ADB. 1998. *Evaluation Study on the Impact of Bank Project Preparatory Technical Assistance on the Agriculture Sector in Bangladesh*. Manila.

<sup>88</sup> Smith, K. 2000. *Study of Project Performance Reports; Quality of Data at Entry*. ADB, Manila.

<sup>89</sup> Smith, K. 2002. *Follow-Up Study on the Quality of Project "Development Objective" Statements, Indicators and Targets in the Project Performance Reports of Six Selected Countries*, Draft Report. ADB, Manila.

<sup>90</sup> ADB. July 2001. *Technical Assistance Performance Audit Report on Selected Technical Assistance for Strengthening Evaluation Capacity in Developing Member Countries*. Manila.

<sup>91</sup> Although introduced with the PPRs only in 1998, the "at risk" classification is of relevance for ADF VI–VII projects as most of them are still under implementation and, therefore, benefit from this monitoring mechanism. Indeed, 298 of the 318 ADF projects approved during this period were part of the ADB-wide implementation of the PPR system. The 20 other projects were closed before the mandatory 1 April 1999 adoption of the system.

<sup>92</sup> ADB. 1993. *Report of the Task Force on Improving Project Quality—Final Report of Working Group III: Feedback Mechanisms*. Manila.

<sup>93</sup> Prior to that, the responsibility for country portfolio reviews was with the Project Coordination Unit in the Central Operations Services Office.

<sup>94</sup> The performance of ADB's overall portfolio is analyzed in detail in ADB. 2002. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2001*. Manila.

<sup>95</sup> ADB. 1997. *1997 Annual Performance Evaluation Program and Review of 1996 Activities*. Manila.

<sup>96</sup> ADB. 1998. *1998 Annual Performance Evaluation Program and Review of 1997 Activities*. Manila.

<sup>97</sup> ADB. 1999. *1999 Annual Performance Evaluation Program*. Manila.

<sup>98</sup> ADB. 1999. *Toward Real Portfolio Management: Final Report of the Working Group on Spring Cleaning*. Manila.

<sup>99</sup> This is now pursued by the CSP approach under the new business processes.

<sup>100</sup> The PCR guidelines were revised in 2001 to align them with the revised PPAR guidelines. OED con-

ducts an in-depth review of about 50% of PCRs during their preparation.

<sup>101</sup> The more recent PCRs, from 2000 onward, are available on the ADB web site—<http://www.adb.org>. Older reports are available in hard copy, upon request from ADB.

<sup>102</sup> This has also been the experience of the World Bank as noted in the IDA 10–12 Review.

<sup>103</sup> The Evaluation Cooperation Group was established in 1996 by the heads of evaluation in five multilateral development banks: African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and the World Bank Group. The group now includes the International Monetary Fund, and the European Investment Bank also participates.

<sup>104</sup> ADB. 2000. *Guidelines for the Preparation of Project Performance Audit Reports*. Manila.

<sup>105</sup> For example, ADB. 2000. *Portfolio Management Action Plan: Framework for Implementation Arrangements*. Manila.

<sup>106</sup> There have been efforts to recruit staff with multidimensional expertise, and staff levels have increased. It may take more time for the real impact of these changes to be realized.

<sup>107</sup> ADB. 1977. *A Review of Criteria for Lending from Asian Development Fund*. Manila; and ADB. 1992. *Arrangements for Lending from ADF and TASF Operations Funded by ADF Contribution*. Manila.

<sup>108</sup> ADB. 1998. *A Graduation Policy for the Bank's DMCs*. Manila. The policy states that per capita income and debt repayment capacity are the guidelines for group classification. These can both be considered measures of DMC performance.

<sup>109</sup> ADB. 2001. *Policy on Performance-Based Allocation for Asian Development Fund Resources*. Manila.

<sup>110</sup> There was no consensus among donors on making ADF resources available for either the PRC or India in the ADF VI–VII replenishments. It was argued that given the needs of traditional ADF recipients and other eligible borrowers, it would not be possible to make ADF resources available to these two DMCs during the ADF VI–VII period.

<sup>111</sup> Indonesia, Kazakhstan, Philippines, and Uzbekistan had sector restrictions on ADF access. Projects in these DMCs had to be focused on poverty or the social sectors.

<sup>112</sup> Access to OCR was not disallowed. However,

given country conditions and the possible adverse portfolio impact on ADB by lending to DMCs with low creditworthiness, it has not been encouraged.

<sup>113</sup> Consideration was also given to situations where there might be constraints on ADF, and drawing on OCR may be appropriate even in ADF-only or blend countries. Under these situations, the scope of the project may contribute to the decision as to whether the DMC should have access to ADF. If projects are revenue generating in ADF blend countries, then consideration could be given to funding the project from OCR.

<sup>114</sup> ADF VII became effective on 24 September 1997.

<sup>115</sup> ADB adopted the same per capita GNP cutoff rates as used for the World Bank International Development Association funds.

<sup>116</sup> The only change was the Republic of Korea moving from group B to group C between ADF I and II.

<sup>117</sup> Given its development situation and initial status as a group A country, Pakistan has had less access than other DMCs to ADF resources since the establishment of ADF. Indeed, it is interesting that as a group A country in ADF I–VI, Pakistan borrowed an extraordinary amount from OCR. This continued under ADF VII when as a B1, ADF blend country, it was eligible for predominantly ADF supplemented by some OCR.

<sup>118</sup> ADB. 2002. *Review of Cost-Sharing Limits for Project Financing as an Element of ADB's 1998 Graduation Policy*. Manila.

<sup>119</sup> Article 2(ii) of the Charter states that in utilizing the resources at its disposal for financing the development of DMCs, ADB should give special regard to the needs of the smaller and the less developed ones.

<sup>120</sup> Desikachar, P. 1995. *Allocation of Aid Among Developing Member Countries: A Comparative Analysis of the ADB and the World Bank*. ADB, Manila, (manuscript).

<sup>121</sup> ADB, African Development Bank, Caribbean Development Bank, and Inter-American Development Bank moved toward this mathematical approach to resource allocation all about the same time.

<sup>122</sup> ADB. 1997. *The Allocation of ADF Resources Among DMCs*, Working Paper. Manila.

<sup>123</sup> ADB. 1998. *The Allocation of ADF Resources Among DMCs*. Manila.

<sup>124</sup> The first performance-based allocation was made in 2001 for 2002. It was followed in mid-2002 by the base allocations for 2003 that are subject to variation on the basis of performance triggers assessed at the end of 2002.

<sup>125</sup> The annual ADF lending data was normalized to adjust for differences in the total amount of ADF available.

<sup>126</sup> Particularly the Kyrgyz Republic and Tajikistan.

<sup>127</sup> United Nations. 2002. *The State of World Population Report*.

<sup>128</sup> As recommended in the special evaluation study on project performance management, one of the parallel studies prepared for the ADF midterm review.