



**ASIAN DEVELOPMENT FUND X DONORS' REPORT:
TOWARDS AN ASIA AND PACIFIC REGION FREE OF POVERTY**

Asian Development Bank

May 2008

CURRENCY EQUIVALENTS

Currency Unit	–	special drawing right/s (SDR)
ADF VIII (2001–2004)		
SDR1.00	=	\$1.365931
\$1.00	=	SDR0.732101
ADF IX (2005–2008)		
SDR1.00	=	\$1.465278
\$1.00	=	SDR0.682464
ADF X (2009–2012)		
SDR1.00	=	\$1.586591
\$1.00	=	SDR0.630282

Exchange rates for Asian Development Fund (ADF) VIII and ADF IX are from the Board of Governors' resolutions. Exchange rate for ADF X is the average of the International Monetary Fund average daily exchange rate between 1 October 2007 and 31 March 2008.

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AfDF	–	African Development Fund
ANE	–	accelerated note encashment
CPIA	–	country policy and institutional assessment
DEC	–	Development Effectiveness Committee
DMC	–	developing member country
HIPC	–	heavily indebted poor countries
IDA	–	International Development Association
km	–	kilometer
LTSF	–	long-term strategic framework
MDB	–	multilateral development bank
MDG	–	Millennium Development Goal
MfDR	–	managing for development results
OCR	–	ordinary capital resources
ODA	–	official development assistance
OED	–	Operations Evaluation Department
PBA	–	performance-based allocation
TA	–	technical assistance
TASF	–	technical assistance special fund

NOTE

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

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EXECUTIVE SUMMARY

Poverty remains the greatest challenge in developing Asia and the Pacific. In countries with access to Asian Development Fund (ADF) assistance, about 100 million people still live in extreme poverty. Progress in achieving the non-income poverty Millennium Development Goals (MDGs) has been mixed. Moreover, new challenges such as rising food prices and climate change threaten to reverse recent gains that have been made. Growth in ADF countries must be accelerated while ensuring that the benefits of such growth are broadly shared. Attaining the levels of growth needed to achieve the MDGs in ADF countries will require considerable investment, with commensurate official development assistance. At the same time, donors are putting greater emphasis on the quality of development assistance, its impact, and partnerships.

Within an evolving aid architecture, ADF continues to focus on supporting the development plans of the poorest countries in the Asia and Pacific region. ADF has a strong track record of financing operations in a number of sectors to help achieve MDG outcomes in eligible developing member countries (DMCs). ADF-financed infrastructure investments contribute to poverty reduction by helping remove major infrastructure bottlenecks that constrain growth and delivery of social services as well as increasing aggregate demand and employment. Support for education, especially access, gender equality, and quality, has been an important priority in ADF operations. ADF has promoted gender equality through various project-specific operations. This has been done directly (such as investment in girls education) and indirectly (such as water supply and sanitation infrastructure). Improving governance is essential to promote efficient delivery of public services. ADF has helped governments improve economic management, governance, and public finance and expenditure management through reforms, as well as financial and other sector programs.

ADF has also played a special role in promoting regional cooperation, especially in the Greater Mekong Subregion and Central Asian Regional Economic Cooperation programs, primarily through cross-border infrastructure projects. These regional projects have helped reduce poverty through more trade and investment, greater employment, and higher incomes in participating countries.

ADB must build on past experiences, and draw on its inherent strengths, while addressing remaining institutional challenges to maximize ADF's development impact. ADB must become a more results-focused organization to succeed in supporting national programs for environmentally sustainable economic growth, inclusive social development, and good governance in the Asia and Pacific region. This will involve mainstreaming managing for development results in ADB and strengthening staff incentives for achieving development outcomes.

A vision of an Asia and Pacific region free of poverty is at the heart of ADB's long-term strategic framework (LTSF). To achieve this goal, ADB will focus assistance on three strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. These strategic priorities apply to ADF operations as well, with the activities suitably designed to meet the particular circumstances of individual ADF countries. Strategic priorities will be pursued through operations in sectors where ADB has a proven track record and comparative strength, especially infrastructure, environment, and education. At the same time, ADB needs to maintain some flexibility and capacity to selectively deliver quality assistance in a few other sectors to respond to varying country needs. Particularly relevant in this context are sectors such as health, and agriculture and natural resources, which are important for both inclusiveness as well as sustainability of growth.

The LTSF provides the corporate strategy to reshape ADB as a more effective and innovative development institution. The organization must build on the progress made in implementing the reform agenda adopted in 2004. The key elements of further consolidation of reforms will include:

- (i) mainstreaming managing for development results, with increased emphasis on operational quality,
- (ii) reviewing ADB's safeguards framework with a result that reflects strengthened protections,
- (iii) responding better and faster to clients through further decentralization and business process streamlining,
- (iv) transforming to a learning organization,
- (v) reinforcing the effectiveness and independence of the operations evaluation function,
- (vi) implementing the Paris Declaration on aid effectiveness,
- (vii) operating transparently through proactive communications with all stakeholders, and
- (viii) managing human resources better, including further professionalizing human resource management at ADB.

The development challenges in the Asia and Pacific region are considerable, so the demand for ADF remains strong. More than 80% of the ADF X program will be distributed through the performance-based allocation (PBA) formula to direct the limited funds to where they will be used most effectively. Two refinements will be made to the current PBA system. First, the PBA of blend countries (those that also have access to ADB's ordinary capital resources) will be modified to direct more assistance to poorer countries. A threshold of 14% of resources distributed under PBA per country will be set to determine which blend countries will be subject to the modified PBA. The 14% threshold will serve as a "soft cap" because blend countries with PBA greater than the threshold will retain half of the amount above the threshold. Second, the measure of portfolio performance will be revised to reduce the volatility of the ratings and to remove a disincentive to report potential problem projects.

As in ADF IX, 4.5% of the resources distributed under PBA will be earmarked for the Pacific countries. The two postconflict countries—Afghanistan and Timor Leste—will begin the 6-year phaseout period from exceptional postconflict assistance in ADF X. Up to 10% of the ADF program will be earmarked for subregional projects. For every dollar drawn from the subregional pool, each participating country will match it with 50 cents from its PBA. However, the required contributions from biennial PBA will be subject to a 20% ceiling. Beyond that amount, contributions from country PBA will not be mandatory.

The fourth regularized replenishment of the technical assistance special fund (TASF) will be completed in parallel with the ADF X replenishment. Management will develop explicit guidelines and criteria for the allocation of resources in the TASF to go into effect in January 2009. A comprehensive review of the TASF will also be undertaken at the midterm review of ADF X.

The replenishment will cover the 4-year period from 1 January 2009 to 31 December 2012. Donors agreed to a total replenishment size of SDR7.1 billion (\$11.3 billion), which consist of SDR6.9 billion for ADF X and SDR0.2 billion (equivalent to 3% of the total replenishment) for the fourth replenishment of TASF. The replenishment will be financed from

the following sources: (i) SDR2.6 billion from new donor contributions, (ii) SDR4.3 billion internal resources consisting of SDR3.2 billion reflow-based resources and SDR1.1 billion from liquidity drawdown, and (iii) SDR0.2 billion net income transfers from OCR, subject to annual approvals by ADB's Board of Governors. New donor contributions will comprise about 37% of the total replenishment, representing a 13% increase in SDR terms from the level of ADF IX.

The lost reflows from the provision of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative will be accommodated within ADF X resources and will not require specific earmarking of funds for this purpose. This issue will be reviewed in future replenishments. Donors reiterated that financing the costs of HIPC should maximize the use of internal resources of ADB while ensuring the financial integrity of ADB and without compromising the capacity of ADF. The foregone interest payments from the ADF grant framework will also not have a significant impact on ADF X, and like the cost of debt relief, do not require specific earmarking. Donors reiterated the commitment made in ADF IX to finance forgone principal repayments from ADF grants on a pay-as-you-go basis in future replenishments.

To ensure successful implementation of ADF X, it will be necessary to assess ADB's capacity and skill-mix to deliver on ADF X targets. The resource implications of delivering the ADF X program will be discussed with the Board of Directors as part of the annual budgetary process. Moreover, it is imperative to have a sound results framework to measure the performance of ADF X and monitor its implementation. To this end, the results framework being developed to monitor the implementation of ADB's long-term strategic framework forms the basis for the ADF X results framework. ADB will assess and report on progress in implementing ADF program through its annual *Development Effectiveness Review*. Progress on the implementation of ADF X will be reviewed by donors annually on the sidelines of ADB's Annual Meeting. In addition, a comprehensive midterm review of ADF X will be held in fourth quarter 2010.

I. POVERTY REDUCTION IN ASIAN DEVELOPMENT FUND COUNTRIES

A. Poverty in ADF Countries

1. Poverty is still the greatest challenge in developing Asia and the Pacific. Significant progress has been made in poverty reduction in the region, especially in the faster growing economies, but about 100 million people in Asian Development Fund (ADF) countries are still living on less than \$1 a day.¹ Another 300 million, about 60% of the population in these countries, survive precariously on less than \$2 a day. Moreover, the recent sharp rise in food prices has greatly intensified the deprivation among the poor in the region and elsewhere. The rising cost of food threatens to reverse recent gains in poverty reduction. The burden of such widespread economic deprivation is multiplied by the high prevalence of non-income poverty. Progress on meeting the Millennium Development Goal (MDG) targets has been mixed. It is anticipated that many MDG targets will not be achieved in ADF countries by 2015, including those that are specific to reducing gender inequality. Donors agreed that poverty reduction remains an unfinished agenda for ADF countries and should be the main objective of ADF operations.

2. The economies of many ADF countries have grown at 3% to 4% or less in recent years, compared to close to 7% for ADB's developing member countries (DMCs) as a whole. At these rates of growth, most ADF countries would remain below the per capita gross national income threshold for ADF eligibility in 2015.² Thus growth needs to be accelerated. However, high growth alone is not enough because there is also a disturbing trend of rising inequality in many ADF countries. *Inclusive* growth optimizes the impact of income growth on poverty reduction and to reduce the shortfall in achieving the MDGs. The emphasis on *inclusiveness* will help prevent social unrest and erosion of public support for the market-oriented policies that are necessary to enable rapid growth.

3. Among other major issues facing ADF countries, climate change poses a challenge to maintaining progress in economic growth and poverty reduction, and this risk needs to be urgently addressed. Another issue facing the ADF countries as a group is how best to take advantage of regional cooperation opportunities for integrating with the more developed and faster growing economies of the region to reinforce their own potential. These issues are discussed further below.

B. ADF Countries and Official Development Assistance

4. For the ADF countries to accelerate poverty reduction and achieve the MDGs, they will need to expand their development programs significantly and across a wide front, supported by institutional and policy reforms. However, these countries cannot achieve this on their own. Preliminary estimates of the additional resource requirements for achieving the MDGs in 14 least developed countries in the region amount to \$8 billion annually,³ implying a financing gap of about \$32 billion for the ADF X period. However, these 14 countries account for only about

¹ The term "ADF countries" in this paper refers to countries that are eligible for loans on concessional terms and grants from the ADF. The \$1 a day and \$2 a day thresholds are estimated at 1993 purchasing power parity prices.

² This ADF eligibility threshold is set at per capita gross national income (GNI) of \$1,065 in 2006, which is the same as that of the International Development Association (IDA).

³ ADB, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and United Nations Development Programme (UNDP). 2008. *A Future Within Reach 2008: Regional Partnerships for the Millennium Development Goals in Asia and the Pacific*. Bangkok. The 14 countries included in the assessment are Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic (Lao PDR), Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu.

one-third of total ADF assistance. Thus, for all 29 ADF countries, the shortfall could be close to \$100 billion. Attaining the large increase in investment needed to meet the MDGs would require that donors meet their commitments to provide official development assistance (ODA). This would also require a corresponding improvement in the quality and impact of development assistance and the DMCs' policy reforms it supports. This may be especially true for the poorest ADF countries that rely on concessional assistance because of their limited access to commercial financing. ODA accounts for 43% of total development expenditures in ADF-only countries (Table A1.1, Appendix 1). Trends in the volume—and quality—of development assistance could have a major impact on development outcomes in these countries.

5. However, the share of ODA going to ADF countries has declined in recent years—from 17% in 2001 to 13% in 2006 (Table A1.2, Appendix 1). While net ODA to ADF countries has grown from less than \$9 billion in 2001 to \$13 billion in 2006, the increase is much smaller than that of net ODA flows to all developing countries, which has more than doubled over the same period.⁴

6. Apart from these overall assistance trends, some key features of the evolving aid architecture have implications for the impact of ODA in ADF countries. These include

- (i) **Growing complexity.**⁵ This is characterized by (a) rising number of bilateral and multilateral agencies providing assistance;⁶ (b) emergence of new private and public donors; (c) growing earmarking of aid resources for specific uses through global programs or “vertical” funds;⁷ and (d) aid fragmentation—increasing number of donor-funded activities, each with decreasing financial size. While these trends might reflect the growing vitality of the donor community, the proliferation of donors and modes could raise transaction costs, thereby undermining aid effectiveness.
- (ii) **Shift of focus from infrastructure and production sectors to social sectors.** The share of the social sectors in the total sector allocable ODA to low-income countries has grown markedly since the early 1990s. The share grew from 29% in 1990–1994 to 52% in 2000–2004. On the other hand, the share of the infrastructure and production sectors dropped from 59% to 38% during the same period.⁸
- (iii) **Greater focus on impact through partnerships.** The development community has renewed its commitment to improving aid effectiveness through the 2003 Rome High-Level Forum, which identified a general framework for harmonization and alignment. In 2005, over 100 partner and donor countries and international agencies endorsed the Paris Declaration at the 2005 Paris High Level Forum on Aid Effectiveness, a framework of distinct commitments and operational targets

⁴ Net ODA disbursements include both net ODA and official aid (e.g., grant, loan, technical cooperation) on a disbursement basis (i.e. actual expenditures) from all bilateral and multilateral donors.

⁵ For a more detailed discussion, see World Bank. 2007. *Aid Architecture: An Overview of the Main Trends in ODA Flows*. Washington, DC.

⁶ The number of agencies increased from 12 in the 1960s to about 33 in the 2001–2005. See the reference cited in footnote 5.

⁷ Global programs or “vertical funds” dedicate their support to specific themes or issues that cut across more than one country or region of the world. This compares with a more “horizontal” country-based approach to development assistance typically taken by multilateral development banks. For more discussion on this subject, see footnote 5.

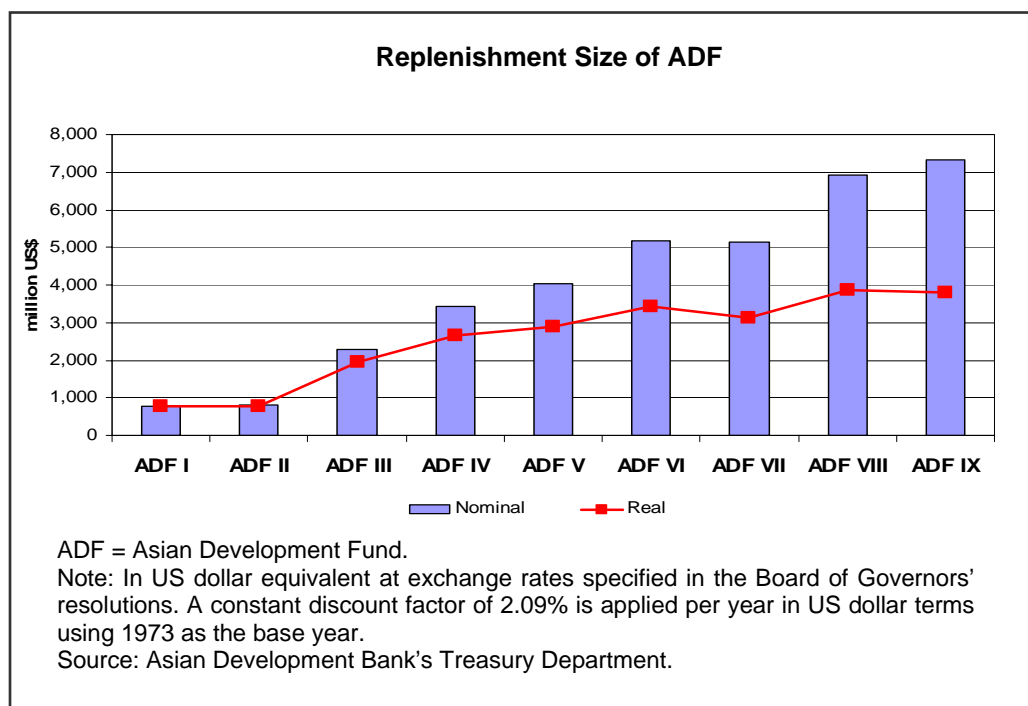
⁸ Production sectors include agriculture, forestry and fishery, industry and mining, and tourism. See the reference cited in footnote 5.

in ownership, alignment, harmonization, managing for results, and mutual accountability. Today, the Paris commitments serve as the common principles and targets which guide countries and donors in managing aid toward development results.

II. ROLE AND PRIORITIES OF ADF

A. Past Performance of ADF

7. Starting as a modest fund of \$770 million in ADF I (1973–1975), ADF has grown steadily to over \$7,300 million in ADF IX (2005–2008), as shown in the figure. An independent evaluation of ADF VIII and IX (2001–2008) by the Operations Evaluation Department (OED) noted that ADB generally achieved the commitments agreed to during these replenishments, including a greater emphasis on governance and capacity development in operations, and more partnerships with other development organizations. However, the study also notes that the absence of aggregated data makes it difficult to develop an overview of expected outputs and outcomes for ADF VIII and IX. The study also noted the problem of goal congestion during ADF VIII, which was dealt with in ADF IX.⁹



8. Since 2002, OED has evaluated 11 assistance strategies in countries with access to ADF using a methodology that is evolving. These strategies have been generally relevant to the government's development plans and to ADB's own corporate priorities. However, the country programs have often lacked focus, covering too many sectors or overlapping with those of other aid agencies. ADB was also sometimes seen as slow to respond to changing circumstances.

⁹ See ADB. 2008. *Special Evaluation Study on Asian Development Fund VIII and IX Operations*. Manila.

The effectiveness of ADB's operations has varied across countries. In some countries, the project and program outcomes were generally achieved but in others only partly so. In particular, programs in postconflict countries or countries with significant internal political instability were less likely to fully achieve their objectives. The country program assessments noted inefficiencies on the part of both government authorities and ADB that led to higher than anticipated transaction costs. The evaluations also expressed some concerns regarding the sustainability of outcomes. Overall, 5 of the evaluated country strategies were rated as broadly successful while the other 6 were partly successful. Lessons from OED's evaluations of past country strategies are systemically incorporated into new country strategies as they are prepared to ensure quality.

9. At the project level, the success rates of ADF operations, which were lower than those of ordinary capital resources (OCR) operations in the initial years of the fund, have steadily improved since the mid-1980s, and have now caught up with the rates of OCR operations. Project success rates were particularly high for ADF operations in transport, energy, and education. The rates for water supply and sanitation projects reached ADB's average level in the 1990s, but the rates continued to be lower for other sectors—finance, health and nutrition, industry and trade, and agriculture and natural resources. The OED study notes that the effectiveness of program loans has improved considerably since the mid-1990s. This suggests that continued learning and strengthening of project quality are beginning to bear fruit. Donors encouraged ADB management to continue to prioritize improvements in project quality.

10. Independent reports prepared by other institutions also indicate that ADB performs at a satisfactory level against available benchmarks.¹⁰ At the same time, the reports highlight issues that ADB should address to sustain this level of performance such as greater attention to portfolio management, streamlining business processes, and more proactive communications with stakeholders. Donors emphasized the importance of monitoring ADB's institutional effectiveness. They highlighted the need for robust monitoring systems to measure project performance. They also stressed the importance of strengthening the expertise and independence of OED to enhance the credibility of its independent assessments.

11. ADB has implemented successfully the performance-based allocation (PBA) policy—adopted in 2001 and refined in 2004—to maximize the poverty-reducing impact of assistance by allocating funds to countries according to their performance. Country allocations are now fully aligned with country performance. This allocation policy is also closely harmonized with that of International Development Association (IDA) and the African Development Fund (AfDF).

B. ADF Contribution to Development Outcomes

12. ADF has supported achievement of the MDG outcomes through the outputs delivered in several sectors during ADF VIII and IX.¹¹

13. **Accelerating Growth and Poverty Reduction.** Infrastructure investments contribute to poverty reduction by helping remove major infrastructure bottlenecks that constrain growth and

¹⁰ Multilateral development banks' effectiveness summaries published by the Department for International Development of the United Kingdom in December 2007; the independent 2006 ADB global perceptions survey; and One World Trust. 2007. *2006 Global Accountability Report*. London.

¹¹ In this period, a total of 181 ADF projects, amounting to \$7.34 billion, in 21 countries (including 6 Pacific countries), were completed. Output data are based on project completion reports prepared between January 2001 and September 2007.

delivery of social services as well as increasing aggregate demand and employment.¹² ADF operations in transport, energy, and rural infrastructure have helped to foster growth and reduce poverty, especially in rural areas.¹³ During ADF VIII and IX periods, ADF financed the construction or rehabilitation of more than 14,500 kilometers (km) of roads. The Cambodia Rural Infrastructure Improvement Project,¹⁴ for example, helped double the volume of goods and increase incomes of about half of the households through rehabilitating roads linking rural areas to towns and primary road networks. The project also improved the poor's access to basic services, including health care, skills and literacy training, credit, and extension services.

14. During the same periods, ADF projects provided over 810,000 new power connections, added more than 11,500 megawatts of power production capacity, and constructed close to 27,000 km of transmission and distribution lines. These projects include a recently completed Sustainable Rural Electrification Project in Bhutan,¹⁵ which provided more than 8,000 new rural consumers with access to electricity. In addition to increased productivity and incomes from the lighting, the project helped to reduce the consumption of fuelwood by about 80% and to replace kerosene lamps with electric lamps. Development of rural infrastructure is particularly important for enabling higher agricultural growth, rural employment generation, and reduction of rural poverty. During ADF VIII and IX periods, ADF projects provided irrigation and land improvement, including drainage and flood control, for more than 1.6 million hectares. For example, irrigation and flood control works financed by the Rajapur Irrigation Project in Nepal contributed to nearly doubling the average household income of small farmers in the project from NRs18,500 to about NRs34,500.¹⁶

15. **Promoting Human Development.** The goal of universal primary education by 2015 may not be met in as much as a third of ADF countries. Many countries are also unlikely to meet the MDG targets on gender parity in tertiary education. Support for education—especially access, gender equality, and quality—has therefore been an important priority in ADF operations. During ADF VIII and IX periods, ADF financed the construction of improvements of over 38,000 school facilities; trained over 900,000 teachers and other staff; distributed over 160 million books and other instructional material and school equipment. The Second Girls' Primary School Sector Project in Pakistan,¹⁷ for example, benefited more than 39,000 girl students by establishing more than 1,000 community model schools for girls. The project also helped improved the education standards through better curriculum, improved instructional materials, and training of teachers. ADF has also funded projects to promote sector reforms in education to improve quality and efficiency. By supporting the Mongolian Government's education reform program, the Education Sector Development Program helped transform the country's education system and contributed to an increase in primary education enrollment—from 82% in 1996 to 97% in 2002.¹⁸ The Second Primary Education Development Program in Bangladesh¹⁹—

¹² For example, 31% of their rural population has no access to an all-season road, and 36% of the region's population has no electricity connection. ADB. 2007. *Effectiveness of Asian Development Fund Operations*. Manila, a discussion paper presented at the first ADF X donors' meeting, Sydney, Australia, 13–14 September 2007.

¹³ ADB, Japan Bank for International Cooperation, and World Bank. 2005. *Connecting East Asia: A New Framework for Infrastructure*. Manila; ADB. 2006; Hettige, H. 2006. *When Do Rural Roads Benefit the Poor and How?* Manila: ADB's Operations Evaluation Department; and Chatterjee, S., T. Duncan, C. Narayanasuwami, and B. Prakash. 2004. *Scaling Up Poverty Reduction Potential of Infrastructure Projects: Lessons from the Asia–Pacific Region*. *ADB Poverty and Social Development Papers* 20. Manila (September).

¹⁴ ADB. 2005. *Project Completion Report on the Rural Infrastructure Improvement Project in Cambodia*. Manila.

¹⁵ ADB. 2007. *Project Completion Report on the Sustainable Rural Electrification Project in Bhutan*. Manila.

¹⁶ ADB. 2003. *Project Completion Report on the Rajapur Irrigation Project in Nepal*. Manila.

¹⁷ ADB. 2005. *Project Completion Report on the Second Girls' Primary School Sector Project in Pakistan*. Manila.

¹⁸ ADB. 2003. *Project Completion Report on the Education Sector Development Program in Mongolia*. Manila. See also ADB. 2008. *Asian Development Fund: Helping the Poorest, Changing Lives, Working for Results*. Manila.

supported by the Government and 11 development partners under a program-based approach—improved education systems and provided access for an estimated 750,000 additional students and helped increase gross enrollment from 94% in 1996 to 98% in 2002.

16. Most MDG health targets are also likely to be missed in ADF countries. A gender focus in delivering development assistance is particularly important for meeting the targets related to infant, child and maternal mortality. ADF-funded infrastructure projects have helped gain health benefits.²⁰ ADF operations have also invested in primary health care and access to clean water and improved sanitation which contribute more directly to improving health outcomes. During ADF VIII and IX periods, ADF projects have financed the construction or improvements of around 6,700 health facilities, and trained more than 73,000 health staff. ADF projects aimed at upgrading water supply and sanitation have played an important role in improving health conditions of the poor. ADF has provided more than 200,000 new household water connections, and about 1,700 km of new or improved pipes during ADF VIII and IX periods. In addition, ADF has financed the construction of over 10,000 km of drainage and sewage systems during the same periods. One of such projects, the Fourth Rural Water Supply and Sanitation Project in Nepal, benefited more than 670,000 poor living in remote areas by improving their access to safe water.²¹ A resulting increase in water consumption, together with community education campaigns, led to better hygiene practices, which in turn helped to lower the incidence of waterborne disease (diarrhea, typhoid, and cholera), eye infections, and skin diseases. The incidence of diarrhea decreased by 75% in the project areas.

17. **Empowering Women and Improving Gender Equality.** Through various sector operations, ADF has promoted gender equality. In addition to projects designed to specifically target women and correct gender imbalances (such as investing in girls education), ADF supported projects that incorporate features to facilitate women's access to, and benefits from the project. A typical example of such projects is a water and sanitation project. Better access to clean water and sanitation help save time for women and girls: they no longer need to spend hours collecting water, and spend less time caring for the sick due to a reduction in water-related diseases. This enables them to have better access to social services and income-earning opportunities. Two rural water and sanitation projects for Pakistan have given new hope to women and girls in 1,085 rural communities by relieving them from long hours of collecting water.²² Electrification also promotes gender equality. Greater use of electrical appliances (such as rice cookers) resulting from rural electrification projects enables women to save time and engage in income-earning activities to augment their family incomes. ADF has also helped mobilize benefits to women and girls by supporting a microcredit scheme. For example, a small loan extended through the Rural Microfinance Project in Nepal has empowered more than 22,000 poor women economically and socially in rural Nepal. Similarly, the Rural Livelihood Project in Bangladesh provided life-changing loans to more than 500,000 poor women in 15 rural regions.²³ ADB will continue to promote gender equality through various types of sector

¹⁹ ADB. 2005. *Project Completion Report on the Second Primary Education Development Program in Bangladesh*. Manila.

²⁰ Roads enable better access to health facilities and electrification enables better quality and longer operation of such facilities.

²¹ ADB. 2004. *Project Completion Report on the Fourth Rural Water Supply and Sanitation Sector Project in Nepal*. Manila.

²² These projects are (i) the Punjab Rural Water Supply and Sanitation Sector Project, approved in 1995, and (ii) the Punjab Community Water Supply and Sanitation Sector Project, approved in 2002. For details, see ADB. 2008. *Asian Development Fund: Helping the Poorest, Changing Lives, Working for Results*. Manila.

²³ For details on how these two microcredit projects improved the lives of poor women, see ADB. 2008. *Asian Development Fund: Helping the Poorest, Changing Lives, Working for Results*. Manila.

operations.²⁴ ADB management is fully committed to implement its gender and development plan of action²⁵ and the third organizational gender action program.

18. Promoting Better Governance and Building Capacity. Improving governance is essential to promote efficient delivery of public services. During the past two ADF periods, ADF funded projects and programs which focused on improving governance. These operations have helped governments implement reforms to improve economic management, and public finance and expenditure management through reforms, as well as financial and other sector reforms. The Mongolia Governance Reform Program is a good example of how ADF operations contribute to improving governance standards in the country. Among the results achieved through this program are an improved medium-term expenditure framework, integrated capital budget planning, results-based resource allocations, and streamlined public personnel management processes in Mongolia. ADF support for good governance has also promoted decentralization and capacity development of local governments. The Tuvalu Island Development Program, for example, supported the government reform program to decentralize and increase regional autonomy in managing the development of the outer islands.

19. Reducing Poverty through Regional Cooperation Projects. Most ADF-funded subregional projects completed to date have been implemented under the Greater Mekong Subregion program to support mainly infrastructure projects. Post-evaluation assessments indicate that subregional projects have helped to reduce poverty significantly. Poverty reduction results from more trade and investment, greater employment, and higher incomes in participating countries. The cross-border East-West Economic Corridor Project has resulted in a 35% drop in the incidence of income poverty in Savannakhet province in Lao PDR.²⁶ Another subregional project, the Champassak Road Improvement Project,²⁷ which rehabilitated a 200 km national road in southern Lao PDR bordering Cambodia and Thailand, has helped to increase the monthly household consumption levels in Champassak Province in Lao PDR more than 30-fold. In Central Asia, the recently completed Almaty-Bishkek regional road rehabilitation,²⁸ helped cut travel time in half while simultaneously increasing traffic volumes by 25% creating employment opportunities in trade and tourism. Donors noted the potential for ADB to assist member countries in other subregions, including the Pacific, to further pursue regional approaches to shared problems.

C. Inherent Strengths of ADB and Key Challenges for ADF

20. Donors reiterated their vision that ADB must become a results-focused organization if it is to succeed in supporting nationally driven environmentally sustainable economic growth, inclusive social development, and good governance in the Asia and Pacific region. They stressed that fully institutionalizing managing for development results (MfDR) in ADB and changing incentives for achieving development outcomes remain important parts of the

²⁴ The *Policy on Gender and Development* (1998) requires the explicit integration of gender considerations in all ADB operations. All projects are hence reviewed from this perspective and gender components included where needed. The figure reported in this paragraph represents projects that are designed to (i) specifically target women and correct gender imbalances, and (ii) mainstream gender by ensuring that design features promote and facilitate women's access to, and benefits from the project.

²⁵ ADB. 2007. *Gender and Development Plan of Action (2008–2010)*. Manila.

²⁶ For details, see the background paper, ADB. 2008. *Regional Projects in ADF: Impacts and Funding Issues*. Manila, circulated for the third ADF X donors' meeting in Manila, 13–14 March 2008.

²⁷ ADB. 2005. *Project Performance Evaluation Report on the Champassak Road Improvement Project*. Manila.

²⁸ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants to the Republic of Kazakhstan and the Kyrgyz Republic for the Almaty–Bishkek Road Rehabilitation Project*. Manila (approved in October).

unfinished reform agenda. They urged ADB management to build on past experience and draw on its inherent strengths to meet the institutional challenges remaining and to continue to work to maximize ADF's development impact.

1. Inherent Strengths

21. **Regional Specialization and Expertise.** One important value that ADB brings to its clients is its specialization in countries of the region over a long period. ADB has sustained assistance programs in different sectors in most countries over several decades. This has yielded an institutional stock of expertise and depth of knowledge in a number of sectors in each country. However, donors were concerned that in some of these sectors ADF programs had produced lower success rates. Against this background, they encouraged ADB to continue to focus ADF support on sectors where it has demonstrated a comparative advantage and where it is achieving better development results.

22. **Long-Standing Strategic Partnerships with DMCs.** ADB interventions are driven by a shared strategic vision, as reflected in country partnership strategies and operational business plans that are aligned with countries' own development priorities. This strategic alignment arises from the long-standing development relationships in each country, sustained policy dialogue, and the active role of DMC government representatives and other professionals in ADB's governance structure. This "relationship asset" has been strengthened by ADB's response to the devastating disasters that have struck many of its DMCs in recent years.

23. **Ability to Offer Integrated Solutions.** ADB has the capability to package finance and knowledge into integrated development solutions—supported by technical assistance (TA), grants, loans, equity, and guarantee operations. Furthermore, with its mandate to serve public and private clients, ADB can combine services to both sectors under one roof. This combination of services enables ADB to adopt a holistic approach in addressing development issues in DMCs.

24. **Institutional Commitment to Regional Cooperation.** In keeping with its charter mandate, ADB actively promotes regional cooperation in Asia and the Pacific. It has demonstrated its commitment to supporting subregional initiatives.²⁹ These initiatives are the platforms for ADB's regional-level policy dialogue and for implementing the four pillars of its regional cooperation and integration strategy. Cross-border infrastructure projects, which account for the bulk of ADB's subregional projects, constitute the first pillar of this strategy.³⁰ The other pillars are delivery of regional public goods, trade facilitation, and support for monetary and financial cooperation, which are supported mainly through technical assistance.

25. **Unique Role in the Pacific Subregion.** As mandated by its charter, ADB dedicates specific resources to engage with smaller and more vulnerable countries. This is especially relevant for the island economies in the Pacific. ADB is one of the leading multilateral development partners—and in some cases, the only multilateral partner—in these countries. ADB applies innovative and flexible approaches in providing assistance to these countries to meet their specific requirements.

²⁹ These initiative include GMS Economic Cooperation; South Asia Subregional Economic Cooperation; the Central Asia Regional Economic Cooperation; Brunei Darussalam, Indonesia, Malaysia, the Philippines-East ASEAN Growth Area; and Indonesia-Malaysia-Thailand Growth Triangle.

³⁰ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

2. Key Challenges

26. While drawing on its strengths, ADB needs to simultaneously overcome the key challenges that constrain its effectiveness.

27. **Remaining Relevant.** ADF's share of total ODA to ADF countries has been declining and today accounts for only about 6% (Table 1). ADB has coped with the strong demands and severe constraint of ADF allocations in various ways, including dropping projects from the pipeline, postponing project processing to later years, downsizing individual loans, and breaking a project into several time slices to fit into annual allocation limits. ADB's operational departments are concerned about this trend, and DMCs are increasingly voicing this concern themselves. Donors noted this but reiterated their view that a definition of need—or critical mass—is not a sufficient basis to justify resources. They agreed that providing effective development assistance is paramount. Improving quality of ADF programs and advice would deliver greater policy leverage in many DMCs.

Table 1: Share of Net ADF Disbursements in Net Official Development Assistance, 2001–2006
(%)

ADF Country Classification	2001	2002	2003	2004	2005	2006
ADF-Only	9.5	8.9	7.1	5.9	5.0	6.2
Blend ^a	8.9	9.0	8.1	5.6	6.9	6.3
All ADF Countries	9.1	9.0	7.7	5.7	6.1	6.2

ADF = Asian Development Fund.

^a Blend countries are those that can borrow from both ADF and ordinary capital resources.

Sources: Asian Development Bank Controller's Department; OECD, OECD.Stat database, downloaded on 1 February 2008; and Asian Development Bank estimates.

28. Donors agreed that the ADF X replenishment would enable ADF to remain relevant as a major source of development assistance in ADF countries. They agreed that the poorest and weakest countries should receive additional ADF resources. Moreover, as ADF X is the last replenishment during which projects relevant for MDG outcomes can be implemented, the substantially enlarged replenishment for ADF X will help bridge the financing gap in ADF countries. Under benchmark growth projections, most ADF countries would remain eligible for ADF until about 2020, by which time some major recipients such as Pakistan and Viet Nam are likely to graduate thus freeing up resources (Appendix 2).³¹

29. **Improving Institutional Effectiveness.** Another key challenge of paramount importance to donors is the continuation of institutional reforms. ADB has committed to consolidating reforms to meet emerging challenges over the ADF X period. While recognizing that ADB moved forward on the reform agenda adopted in 2004, donors emphasized that the pace of these reforms was of concern. ADB management and donors agreed that institutional weaknesses remain and these need to be urgently addressed. This requires sharpening ADB's focus on development results in managing its activities and resources, further streamlining business processes, fostering partnerships in line with Paris Declaration commitments. It is

³¹ Graduation is based on two criteria: per capita gross national income (GNI) and creditworthiness. The per capita GNI operational cutoff applied for ADF eligibility is the same as that of the International Development Association, i.e., \$1,065 in 2006, as estimated by the World Bank Atlas method. Creditworthiness is assessed based on multiple criteria. Countries are assumed likely to graduate within 4 years upon reaching the ADF GNI per capita cutoff.

particularly important for ADB to align its skills mix with its operational priorities and manage its human resources professionally with a view to nurture a results-based culture. Donors stressed that it will be important to assess the organizational requirements to effectively and efficiently deliver ADF X and to have a plan to implement any necessary changes. They also agreed that failure to address these issues would undermine ADB's ability to help its DMCs. ADB's progress and further steps on institutional reforms are discussed in Section F.

D. Implications for Maximizing ADF's Development Impact

30. Donors drew a number of distinct conclusions about how ADF resources can be deployed to maximize impact. Since resources are limited, ADB must be selective based on its comparative strengths and areas of responsibilities defined through donor coordination at the country level. It must continue to allocate ADF assistance efficiently based on performance, while meeting the needs of the poorest countries, which is the purpose of ADF. Furthermore, donors called on ADB management to continue the emphasis on reforms to improve institutional effectiveness and gain wide support from donors if it is to deliver increased resources effectively to meet the needs of ADF countries. These implications are further discussed below.

E. Roles and Priorities of ADF X

31. Replenishment negotiations for ADF X have proceeded in parallel with the review of ADB's Long-Term Strategic Framework (LTSF). The LTSF covers both OCR and ADF operations and its time horizon of 2020 extends beyond the 4-year period of ADF X. Nevertheless, donors emphasized that the role and priorities of ADF X should be consistent with those of the LTSF.

32. Given the persistence of widespread poverty in the region, ADB's vision under the new LTSF remains an Asia and Pacific region free of poverty.³² To achieve this vision, ADB will focus assistance on three strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. Under the new LTSF, ADB will prioritize operations based on its comparative strengths and their close linkages to the three strategic agendas. The core operational areas include infrastructure, environment, regional cooperation and integration, financial sector development, and education. To sharpen selectivity around these core operational areas, the LTSF urges ADB to operate on a more limited scale in health and agriculture and natural resources. In these latter areas, ADB will be highly selective and seek to work with other partners, particularly the specialized organizations, to leverage its impact. However, ADB's projects in its core operational areas will have beneficial impacts on these other sectors. For example, water supply and sanitation investments have clear health benefits; and irrigation, rural roads, and rural finance help promote agricultural development.

33. Donors expressed great concern about the recent sharp rise in the price of food grains which is causing severe distress, especially for poor people in the Asia and Pacific region and elsewhere in the world. Governments in ADF countries are dealing with the crisis and are implementing measures to minimize the distress. Donors emphasized that a coordinated international response to the crisis is very important, and appreciated ADB's engagement in various initiatives being discussed by the heads of the multilateral development banks (MDBs). Donors agreed that ADB should assist governments in ADF countries to cope with the crisis based on its mandate and comparative strengths in partnership with other multilateral

³² Discussion on the proposed LTSF in this draft is based on the W-paper discussed by the Board on 5 February 2008. ADB. *The Long-Term Strategic Framework of the Asian Development Bank (2008–2020)*. Manila.

institutions. Donors noted that in its immediate response, ADB is considering providing policy advice and program assistance in relevant areas. In the medium- to long-term, ADB should continue to support rural infrastructure and finance as envisaged under the LTSF.

34. The overall framework of the LTSF also applies to ADF operations. Thus, the strategic agendas of inclusive growth, environmentally sustainable growth, and regional integration will be the strategic priorities of ADF X. Similarly, the LTSF core and other operational areas will define the operational priorities of ADF X. However, operations will have to be suitably nuanced to meet the particular circumstances of ADF countries and enable them to graduate as soon as possible. Although embedded in the LTSF, the four-year time horizon of ADF X means operations will focus on achieving sustainable economic growth and poverty reduction to help eliminate shortfalls in achieving the MDGs. This is the last replenishment during which projects can be delivered before 2015. The contribution of ADF X operations towards meeting the MDGs will be assessed according to the results framework agreed for ADF X (para. 83).

1. Strategic Priorities of ADF X

35. To accelerate the pace of poverty reduction, ADF countries need to (i) achieve and maintain fast growth through higher investment rates supported by an improved investment climate for the private sector; (ii) promote social development to improve access to health, education, and productive employment opportunities for the disadvantaged; and (iii) mitigate the environmental costs of rapid growth. Donors agreed that ADB should focus its operations on areas where these priority needs of client countries for poverty reduction intersect with ADB's institutional strengths and operational success. It is also necessary to coordinate ADB's assistance with other stakeholders, such as development partners, private sector organizations, and civil society organizations. Particularly important in this context are understandings and partnership arrangements with other bilateral and multilateral development organizations under the Paris Declaration. Donors agreed that a priority for ADB is to scale down programs in sectors where it is not delivering development outcomes.

36. Priorities that belong to this intersection include the following:

a. Inclusive Growth

37. Growth is a powerful vehicle for reducing poverty, and ADF countries, especially those that are growing more slowly, must intensify their efforts to accelerate growth. However, one of the key failings of past economic and social policy has been their inattention to excluded populations for reasons of gender, age, race and ethnicity, disability, migration status or other features that marginalize groups. Growth has to be sufficiently broad-based and inclusive to ensure that vulnerable sections of society are not left behind. Higher growth will require higher rates of investment, especially in infrastructure. ADF operations will therefore continue to emphasize investment in infrastructure. Inclusiveness requires that such investment needs to involve not only large infrastructure projects such as highways, power plants, and high-voltage transmission systems, but also investment in rural infrastructure, such as rural roads, rural electrification, irrigation, and water resource management systems. This is because the bulk of the population and most poor people in many ADF countries belong to the rural economy. Investments in rural infrastructure will enable rural populations to be more broadly integrated into national markets and give them greater access to education and health facilities. As a result, these investments help reduce exclusion and poverty in rural areas through the improvement of their living conditions.

38. Furthermore, inclusiveness as defined in the LTSF envisages promoting equitable access to basic education and health services, along with opportunities for productive employment. Fundamental institutional and governance reforms aimed at addressing market, policy, and institutional failures would be required to improve access to these social services. Considering its comparative strengths, ADB will prioritize operations in education and health-preserving infrastructure, such as water supply, sanitation, and waste management.

39. **Gender equality** is fundamental to ensuring inclusiveness. Gender equality is an intrinsically important outcome. Additionally, women's empowerment has great instrumental value in facilitating the success of social development programs and the achievement of many of the MDG targets.³³ The region has made gains on women's access to education, health care and formal employment. Still, large numbers of women across the region remain excluded from contributing to and benefiting from economic growth. Progress has been particularly slow in rural areas and among the poor and disadvantaged. ADF operations will hence continue to emphasize gender and development as a key theme. ADB will promote this theme through sector operations that are designed to deliver specific gender outcomes, such as improved access for girls and women to education and health services, clean water and better sanitation, and basic infrastructure. In addition, ADB will aim at gender mainstreaming in designing projects across all the sectors. ADF operations will be guided by ADB's Gender and Development Policy³⁴ and the gender and development plan of action (footnote 25).

40. **Private sector development** is key to high growth since the bulk of production, employment, and investment in ADF countries is provided by the private sector, much of which consists of small businesses and household farms. ADF countries urgently need to improve the investment climate and attract more private investment. The required interventions include infrastructure improvements, policy and institutional reforms, deepening of financial markets, and adequate provision of a skilled workforce. To reinforce its support in this area, ADB introduced a new strategic framework for private sector development in 2006. Together with ADB's experience in infrastructure operations and policy-based lending, ADB is well-placed to expand its operations in this area. The financial sector is particularly important in this context. Past ADB operations in the sector that focused on providing directed credit through nodal domestic credit agencies were not very successful. However, recent policy loans for the sector have been more effective. These operations need to be intensified to help the development of robust financial markets in ADF countries. Direct private-sector lending should always have a broader development rationale, in line with ADB's mandate, and not crowd out private financing. ADB should continue its important work in improving the enabling environment for private investment and business creation.

b. Environmentally Sustainable Growth

41. While growth remains a high priority for ADF X assistance, its sustainability will depend on how its impact on the environment is managed. Countries that suffer a rapid deterioration of the environment cannot sustain growth or maintain social stability over time. ADF operations will help governments integrate environmental considerations into their development planning and programs, and support subregional environment programs. ADF X assistance will also

³³ ADB, UNDP, UNESCAP. 2006. *Pursuing Gender Equality through the Millennium Development Goals in Asia and the Pacific*. Manila.

³⁴ ADB. 1998. *Gender and Development Policy*. Manila.

incorporate measures to support climate change mitigation and adaptation.³⁵ The risks of climate change have now emerged as a major global concern. It is manifested directly in heat waves, rising sea levels, disrupted rainfall patterns and more frequent and severe storms and indirectly in consequent crop failures, floods, greater disease exposure, and other adverse impacts. There is growing awareness that it is the poorest people in the poorest countries who will suffer most from climate change.

c. Regional Cooperation and Integration

42. Promoting regional cooperation in the Asia and Pacific region is part of ADB's mandate. ADB has played a key role in supporting subregional initiatives, such as the Greater Mekong Subregion, Central Asia, South and Southeast Asia, and the Pacific. Regional cooperation and integration can leverage the growth potential of individual countries, particularly those growing more slowly, and enable them to achieve higher rates of growth. Cross-border projects make this possible by integrating these countries with neighbors who are growing more rapidly through backward- and forward-linkages. Regional infrastructure projects have contributed to accelerating growth and reducing poverty through promoting economic cooperation and cross-border flows of investments, goods, and people. ADF X assistance will build on the extensive experience and achievements ADB has accumulated over the past decades in promoting regional and subregional cooperation programs.³⁶

d. Special Considerations

43. **Good Governance and Capacity Development.** Good governance cuts across all aspects of development, and is fundamental to ensuring that the strategic priorities discussed above are met. Reducing corruption is a particularly important aspect of good governance. All projects in ADF X pipeline will comply with ADB's governance and anticorruption policies. To be tractable and effective, ADB's engagement in this field will be selective in line with its Second Governance and Anticorruption Action Plan adopted in 2006. The plan prioritizes public financial management—including procurement and public expenditure management—and legal and regulatory framework and capacity development in sectors where ADB is active. Capacity development is key to good governance, as well as the successful management of development programs in general. This is particularly so as ADF countries move towards graduation from ADF—and eventually ADB—and less aid-dependent patterns of development. Dissemination of best practices in good governance and strengthening domestic capacity will help increase the growth potential of ADF countries. Emphasis on good governance and capacity development also improves the implementation efficiency of projects, including those financed by ADF.

44. **Weakly Performing Countries.** Donors emphasized the need for special attention to weakly performing countries during the ADF X period. In line with ADB's approach to weakly performing countries adopted in May 2007,³⁷ ADF operations will emphasize partnerships (including harmonization and alignment), innovations and flexibility, country ownership, and

³⁵ For a detailed discussion, see the background paper, ADB. 2007. *ADB's Approach to Climate Change in Asian Development Fund Countries*. Manila, circulated for the second ADF X donors' meeting in Vientiane, Lao PDR, 26–27 November 2007.

³⁶ For a detailed discussion on the effectiveness of ADF-funded regional and subregional projects, see the background paper, ADB. 2008. *Regional Projects in ADF: Impacts and Funding Issues*. Manila, circulated for the third ADF X donors' meeting in Manila, the Philippines, 13–14 March 2008.

³⁷ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila. Available: <http://www.adb.org/Documents/Policies/Achieving-Development-Effectiveness/SecM30-07.pdf>.

sound diagnostics. ADB will employ differentiated modes of engagement and instruments based on specific country situations, including customized CPSs with simplified documentation, use of project implementation units when local capacities are weak, expanded use of grants (e.g., ADF grants and multi-donor trust funds), streamlined procurement arrangements, and use of longer-term or multiyear TA to build capacities. Donors noted the importance of developing appropriate mechanisms to evaluate and recognize staff performance in weakly performing countries. To build such mechanisms, ADB has established a WPC committee chaired by the director general of ADB's Strategy and Policy Department³⁸ to provide overall direction and guidance, and established a dedicated focal point to coordinate ADB-wide activities on weakly performing countries under the guidance of the committee.

45. **Partnerships.** Partnerships will remain an important platform for improving the impact of ADF. Given the importance of ODA for ADF countries, its limited volume in absolute terms, the need to maximize development outcomes, and the multiple channels and modes of aid flow, it is essential that ADB works closely with development partners to harmonize ADF operations, align them with country priorities in line with the Paris Declaration, and deepen partnerships around an agreed assistance strategy and division of responsibilities. Such partnerships will be sought at all levels, including harmonization with partner institutions, development of country strategies at the country level, and implementation of individual projects. In sectors where ADB's engagement remains limited during ADF X, partnerships will help to leverage the impact of ADB assistance. Such partnerships will take different forms, including intensified use of program- and sector-wide approaches, participation in trust fund operations coordinated by other partners, cofinancing projects, and parallel financing. Specific forms of partnerships will vary depending on country circumstances.

2. Priority Sectors

46. The foregoing strategic priorities will be pursued through operations in sectors where ADB has a proven track record, especially infrastructure and education. At the same time, ADB needs to maintain some flexibility and capacity to very selectively deliver quality assistance in a few other sectors to respond to varying country needs and priorities. Particularly relevant in this context are sectors such as health, and agriculture and natural resources, which are important for both inclusiveness as well as sustainability of growth. In these sectors, the impact of ADB's assistance could be leveraged considerably by expanding partnerships with bilateral and multilateral development partners, and civil society organizations.

47. The sector distribution of indicative project pipelines developed by the regional departments in line with the ADF strategic priorities and individual country strategies is shown in Appendix 3. Donors noted that these pipelines are for planning purposes only. The actual sector distribution will be based on performance-based country allocations and the country assistance programming process.

F. ADB's Institutional Effectiveness

48. ADB's vision is a region free of poverty. The LTSF provides the corporate strategy to reshape ADB as a more effective and innovative development institution towards achieving this vision. Management is committed to adapt the organization—its products and services, policies

³⁸ The committee is composed of the heads of ADB's five regional departments, Regional and Sustainable Development Department, the General Counsel, Office of Cofinancing Operations, and Central Operations Services Office.

and strategies, business processes, organizational structure, and staff skills mix—to successfully execute the LTSF. The necessary organizational changes will build on the progress made in strengthening ADB's institutional effectiveness through the reform agenda adopted in 2004.

49. Donors noted that the reform agenda is changing ADB in a tangible manner. Today ADB is more results-oriented, selective, responsive to clients, efficient, and transparent. It is a much better partner and it embraces a more systematic learning culture. At the same time, donors observed that the pace of these changes is slower than donors envisaged and much remains to be done. In particular, greater attention is needed to ensure full implementation of the managing for development results (MfDR) agenda, human resources reform, and further progress on Paris Declaration commitments. Donors emphasized that there is no room for complacency. As an institution serving the most dynamic region in the world, ADB needs to continue changing quickly to enable it to better respond to the evolving needs of clients. Donors emphasized that mainstreaming meaningful reforms is imperative to ensure the continued relevance of ADF and its ability to respond to the needs of its clients.

50. Donors highlighted that strengthening ADB's organizational capacity is essential to deliver an expanded ADF X program effectively (para. 29). Donors called on management to ensure that management practices, business processes, staff allocation and skills-mix, and modalities for partnership are appropriate to deliver the ADF X program. Donors also noted ADB management's commitment to take further steps towards completing the reforms and enhancing ADB's capacity to deliver the ADF X program. Donors emphasized that these reforms need to be aligned with its long-term goals as indicated in the new LTSF. ADB will measure the overall impact of reforms on its effectiveness through its results framework (para. 83), and will report progress through its annual *Development Effectiveness Review*. The *Review* would include a responsibility and accountability matrix on the implementation of the results framework. The resource implications of delivering the ADF X program will be discussed with the Board as part of the annual budgetary process.

51. Donors endorsed the following key elements of reform consolidation:

1. Managing for Development Results

52. Donors underlined the central importance they attach to the work on MfDR in ADB. A recent OED study on MfDR and ADB's own assessment highlighted key challenges facing ADB's MfDR agenda and its integration across the organization.³⁹ To meet these challenges, ADB will consolidate its performance reporting through a single *Development Effectiveness Review*, starting with the 2007 review. The *Review* will be guided by an ADB-wide results framework, with indicators that are largely harmonized with those of AfDF and IDA. The *Development Effectiveness Review* will be a vital instrument to inform management about ADB's performance. Management will use the *Review* to identify areas needing action. Moreover, the report will be an important input to formulating the 3-year rolling work program and budget framework. Because of this, the *Review* will be developed by the second quarter of each year, beginning with the 2008 *Review*. The *Development Effectiveness Review* will be submitted to the Board's Development Effectiveness Committee (DEC) for discussion. Following such discussion, the *Review* together with the DEC Chair's Summary will be submitted for the

³⁹ ADB. 2008. *Special Evaluation Study on Implementation of Managing for Development Results in the Asian Development Bank: A Preliminary Assessment*. Manila. Building on its preliminary assessment of MfDR, OED plans to conduct a full evaluation in 2009. ADB. 2007. *Managing for Development Results in ADB: Semi-Annual Progress Report to Development Effectiveness Committee*. Manila (November).

Board to discuss and take appropriate action. The *Review* will also be made available to the public. Donors agreed that the *Review* should be used as a tool to monitor, verify, and review progress on ADF operations; and they supported the process.

53. ADB will develop more coherent procedures for MfDR across operations departments, focusing initially on country partnership strategies, country portfolio reviews, use of country development effectiveness briefs, and sector results profiles to plan and assess ADB country operations.⁴⁰ To enhance leadership and senior staff commitment, ADB will promote learning among senior staff and sustain their capacity to manage for outcomes. ADB will continue with an MfDR colloquium with operations vice presidents and reinforce the MfDR learning and development curriculum targeted at senior staff. Donors stressed that it is the responsibility of management to deliver the MfDR agenda.

54. ADB's current MfDR action plan extends to the end of 2008. ADB will finalize a new action plan for MfDR by the last quarter of 2008 before the end of the current action plan. The new action plan will take into account OED's preliminary assessment of MfDR. Donors emphasized the importance of continued management commitment at the highest level on MfDR and its being further mainstreamed across the institution. Management has committed to implement in the ADF X period the specific actions enumerated in the report on MfDR to DEC, and the agreed actions following OED's assessment. These specific actions include: (i) continuing management leadership of MfDR, (ii) improved quality of MfDR instruments, (iii) learning and executive coaching in MfDR, (iv) more systematic implementation of MfDR in regional departments, and (v) full evaluation of MfDR by OED.

2. Updating Safeguard Policies

55. Donors noted that the safeguards policies are under review. Donors welcomed management's decision to provide a second draft for consultation with stakeholders, and to have the final review discussed and approved by the Board.

56. Donors agreed that the process for reviewing ADB's safeguards framework should result in a Safeguards Policy Statement (SPS), Operations Manual, and SPS Implementation Plan that reflect strengthened protections relative to ADB's existing policy, best international practice, and are broadly harmonized with the safeguard policies of other MDBs (particularly World Bank and International Finance Corporation). The final SPS and accompanying documents are expected to include the following: preparation and disclosure of environmental social assessments (not necessarily limited to indigenous people and resettlement impacts); cross-references to ADB's social policies to be applied in project preparation; benefit-sharing by affected communities as a stated resettlement objective; transparent and measurable procedures for ascertaining broad community support; specific policy guidance to clients on how to avoid adverse environmental and social impacts, not just to mitigate them; and incentives for borrowers to implement and ADB staff to ensure compliance with safeguards.

3. Responding Better and Faster to Clients

57. Donors observed that further strengthening of resident missions by having more staff based close to the clients is vital to improve ADB's service delivery. DMCs are increasingly

⁴⁰ Preparation of country development effectiveness briefs are being piloted for ADF countries. See <http://www.adb.org/ADF/development-effectiveness.asp>. For a sample sector profile, see ADB. 2007. *Progress on the Reform Agenda*. Manila (Appendix 2), a discussion paper presented at the second ADF X donors' meeting, Vientiane, Lao PDR, 26–27 November 2007.

demanding greater delegation of staff and responsibilities to the resident missions. Based on the ongoing review of resident mission operations, which will be completed in the first half of 2008, ADB will prepare short- and medium-term options to improve resident mission operations, including the resource implications. In the meantime, ADB will prioritize resident mission initiatives according to cost-effectiveness, and will (i) continue delegating the administration of additional projects to resident missions as feasible within the available resources; (ii) align the staff size and skills mix of resident missions more closely with the level and type of responsibilities being delegated; and (iii) expand the regional hub concept, which involves locating specialists in one place to cover several DMCs.⁴¹

58. ADB will also continue to improve its business processes—an area which clients and staff view as a weakness. ADB will streamline business processes for project preparatory TA processing,⁴² and continue rationalizing consultant selection and recruitment processes. ADB will also upgrade its project information system—and hence improve internal efficiency—through the project processing and portfolio management project under the Second Information Systems and Technology Strategy.

4. Transforming to a Learning Organization

59. As part of the LTSF implementation, ADB will accelerate its transformation into a more effective learning and knowledge-sharing organization. As essential steps to this transformation, ADB will prioritize research and dissemination through aligning its research agenda with priorities established in the new LTSF and collaborating more closely with external institutions, including ADB's regional knowledge hubs. To enable staff to update their knowledge and apply new ideas to operational work, ADB will improve internal dissemination of its own analytical work and reinforce the learning and development programs for staff.

5. Ensuring Effective and Independent Operations Evaluation Function

60. To enhance the overall effectiveness of ADF operations, donors highlighted the importance of ensuring OED's independence and improving its operations. Donors welcomed management's commitment to undertake a review of OED operations in consultation with the Board, which will be completed by the fourth quarter of 2008. Donors noted that a working group has been constituted for a comprehensive review of OED consisting of three members of ADB's Board of Directors and the managing director general. The working group has finalized the terms of reference for the review, in consultation with the Board. Among other things, the review will cover (i) OED's mandate and scope; (ii) Management accountability in responding to evaluation findings by OED and recommendations of the DEC; (iii) working relationships between OED, the DEC, the Board, Management, and staff; (iv) procedures for recruiting, appointing and dismissing the OED director general (DG); (v) the performance assessment of the DG; (vi) terms and nature of appointment of the DG; and (vi) the responsibilities and reporting arrangements of the DG.

⁴¹ In addition to the field offices in the Pacific and Thailand, ADB will open an office in Istanbul, Turkey, by early 2009 to serve as a regional hub for the Caucasus region. (ADB. 2008. *Proposal for the Establishment of a Regional Hub and Office Network for the South Caucasus and Central Asia*. Manila.) ADB will also expand the Almaty, Kazakhstan, office for the smaller Central Asian countries.

⁴² The proposed changes are contained in ADB. 2007. *Increasing the Impact of the Asian Development Bank's Technical Assistance Program*. Manila. The Board discussed this working paper on 15 January 2008. Management will submit the R-paper to the Board in April 2008.

61. Donors urged that the OED review consider the arrangements at other MDBs and draw lessons and best practices to apply to ADB as appropriate. In particular, Donors expressed the following preferences: (i) a 5-year non-renewable term for the DG, (ii) performance review of the DG conducted by the DEC, and (iii) DG of evaluation unit provides final clearance on publication of evaluation reports after providing appropriate time for comments by management. Donors expressed their expectation that the outcome of the review and its follow-up actions would reflect international best practices.

6. Implementing the Paris Declaration on Aid Effectiveness

62. As discussed earlier (para. 45), effective partnerships are key to maximizing the impact of ADF operations and reducing transaction costs. ADB has made progress in meeting the objectives of the Paris Declaration (ownership, alignment, harmonization, managing for development results, and mutual accountability) (para. 6 [iii]). In line with the commitments on harmonization, ADB will continue to optimize the use of common arrangements and procedures—including program-based approaches wherever feasible—and try to increase the number of joint missions through continued emphasis on joint country strategy, portfolio review, and country analytical work. However, ADB has also faced challenges which could delay the attainment of some of the targets. ADB has been actively participating in the comprehensive international arrangements to monitor, report and evaluate progress on implementation of the Paris Declaration. This process will culminate at the Third High Level Forum on Aid Effectiveness in Accra, Ghana, in September 2008. Concrete future actions will be enumerated in the Accra Action Agenda. This process will produce updated and more reliable data on the Paris commitments thereby enabling ADB to determine those additional Indicators of Progress under the Paris Declaration, if any, that may require tracking during ADF X. ADB's progress on the Paris commitments will be reported upon and analyzed in more detail in the *Development Effectiveness Reviews*.

63. The new LTSF highlights private sector development operations and cofinancing as important elements supporting ADB's business model. Donors noted the major development effectiveness gains to be secured through untying aid. Donors therefore asked ADB management to prepare a report analyzing the possibility of amending the legal provisions to enable universal procurement, with the intention to reduce transaction costs and remove an obstacle to closer collaboration with development partners through joint operations at the country level.

7. Operating Transparently

64. ADB will continue to implement its public communications policy, adopted in 2005, to sustain high compliance with its new disclosure requirements. ADB will implement a translation framework adopted in 2007 to make more information available to affected people in languages they understand. Management will continue to lead ADB's external communications programs to explain ADB's mission and activities, as well as to share views on the region's development challenges. ADB will continue to improve the quality of information of its website, a key external communication tool. ADB has also begun revamping its publication program and will continue to emphasize outreach programs in donor countries in line with the public communications policy. To drive a more strategic approach to in-country communications, ADB will continue to prioritize capacity building of external relations officers through training and knowledge sharing through the community of practice. ADB will conduct another global perceptions survey in 2009.

8. Managing Human Resources Better

65. While progress is being made, donors emphasized that ADB needs to continue improving how it manages its people to underpin the organizational changes. In this context, donors stressed the importance of successful implementation of the new human resource initiatives introduced in January 2008. Management has started implementing these measures such as (i) a more flexible recruitment practice, including the use of fixed-term contracts with differentiated employment conditions and salaries; and (ii) a more transparent appointment process for senior staff (levels 9 and 10), including simultaneous internal and external advertisement, and interviews as required for shortlisted internal and external candidates. The guidelines for flexible recruitment practices have been issued.

66. Donors noted that these human resources initiatives were only one phase in a continuing reform program. They noted that a staff engagement survey has been completed by external consultants, and the preliminary results have been shared with the Board of Directors and staff. The results of the survey and views of the Board have been used in the preparation of draft terms of reference of a comprehensive review of the human resources strategy to identify constraints and develop actions for improvements. The draft terms of reference has been circulated to the Board for comments and will be finalized in May 2008. The review will start by the second quarter of 2008 and is expected to be completed by the fourth quarter of 2008. Management will seek the assistance of external experts and consult closely with the Board of Directors during the process. Building on the results of the human resources strategy review, ADB will develop a revised action plan covering future human resources initiatives by first quarter of 2009. Henceforth, ADB will conduct staff engagement surveys every 2–3 years.

67. Donors strongly urged Management and the Board to use the human resources strategy review to take concrete actions to improve institutional effectiveness. They agreed that further professionalization of human resources management; merit-based personnel policies and practices; appropriate involvement of the Board in human resources policy; a more transparent system for recruitment, hiring, and promotion, particularly for senior appointments; and an institutional structure that effectively underpins these objectives will considerably enhance ADB effectiveness.

III. ALLOCATION OF ADF X RESOURCES

A. Revised Rules for Country Allocations

68. **Modified PBA for Blend Borrowers.** The PBA system provides a mechanism to ration scarce concessional funds among eligible countries, directing the funds to where they will be used most effectively. Yet the ADF regulations call for ADB to take into account the needs of the less developed members when distributing these resources. As such, there is an inherent tension in the PBA system between addressing the needs of the weakest countries while simultaneously upholding the principle of rewarding performance. The PBA system has worked well during ADF IX, but donors recognized that there is room for further refinement to better meet the needs of the poorest countries. Donors agreed to modify the PBA of blend borrowers to ensure an appropriate level of resources for poorer countries. A threshold of 14% of resources distributed under PBA per country will be set to determine which blend countries will be subject to the modified PBA. Blend countries with PBA greater than the threshold will retain half of the amount above the threshold. The resources freed up will be redistributed among the other ADF-eligible countries outside of the Pacific according to their PBA shares. Under this

approach, only the largest blend borrowers are expected to receive less than their regular PBA shares. The modified PBA preserves incentives even for blend borrowers with allocations above the threshold. At the same time, the approach will enable a larger flow of assistance to the poorest countries.

69. **Changes to Portfolio Performance Measure.** Flagging a project as having potential problems within the project performance management system is a useful early-warning device that allows managers to respond to project risks before actual problems materialize. However, the link with the ADF allocation system has created a disincentive to use this tool. Donors agreed that the proportion of projects at risk in the PBA system should be limited to projects actually experiencing problems to remove the disincentive to report potential problems. Furthermore, to reduce the volatility of the portfolio performance rating, donors agreed that a revised conversion scale will be used as illustrated in Appendix 4. The portfolio performance rating scale will be aligned with the country performance assessment rating results by matching the rating scale for the proportion of projects at risk with the distribution of country performance assessment ratings. This will ensure that the portfolio performance rating will be no more volatile than the country performance assessment rating. Both of these changes are in line with the approaches in AfDF and IDA.⁴³

70. **Support for the Pacific.** Countries in the Pacific are particularly vulnerable to natural disasters and other external shocks. They also have some of the greatest needs in terms of capacity development. However, even with the small-country bias built into the allocation formula, Pacific countries would not have programs large enough to provide meaningful support if they were to compete for resources with the larger ADF recipients. Recognizing this, the PBA policy established a separate pool for the Pacific, from which the countries receive their allocations based on the PBA formula. Donors agreed to continue earmarking 4.5% of ADF distributed through PBA (before the application of the grant framework) for the Pacific pool. Donors also agreed to allow Palau and Nauru access to ADF subject to Board approval of the revisions to ADB's graduation policy.⁴⁴ However, resources should only be provided to Nauru after its arrears with ADB are cleared and Palau's per capita national income should be monitored to make sure it meets the criteria requested to benefit from concessional assistance.

71. **Support for Postconflict Countries.** It was also agreed that ADB will generally follow IDA in terms of its treatment of postconflict countries, including the extension of the phaseout period from 3 to 6 years. Afghanistan will begin its phaseout from exceptional postconflict assistance beginning with the 2009–2010 allocation. The country will receive its PBA plus a premium as exceptional assistance. The premium will be based on its ADF IX allocation scaled up in proportion to the increase in ADF operations. Timor-Leste will be brought into the regular PBA system within the Pacific beginning with its 2009–2010 allocation. Although the quantity of assistance will be determined by the PBA formula, in light of its status as a postconflict country, the funds will be provided on a grant basis regardless of its debt distress status with the grant share declining during the postconflict phaseout period.⁴⁵ The treatment of the postconflict countries—in particular, the plans to phaseout exceptional assistance—will be reassessed during the ADF X midterm review.

⁴³ IDA. 2007. *IDA's Performance-Based Allocation System: Options for Simplifying the Formula and Reducing Volatility*. Washington, DC.

⁴⁴ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

⁴⁵ Timor-Leste would receive 100% of its PBA as grants in 2009–2010, 67% grants and 33% loans in 2011–2012, and 33% grants and 67% loans in 2013–2014 (the last year of the phaseout). In subsequent years, the ADF grant framework would determine grant eligibility.

B. Subregional Project Assistance

72. Donors agreed on the important role that ADB plays in promoting regional cooperation, and that assistance for this initiative in ADF countries needs to be increased. Therefore, it was agreed that the share of ADF operations earmarked for regional and subregional project assistance, including public goods, be increased from the ADF IX share of up to 5% to up to 10%. However, donors urged management to ensure the continued development effectiveness of these projects. To enhance country ownership of subregional projects, ADB will harmonize its eligibility requirements with that of IDA and AfDF. ADB confirmed that this revision would be suitable for the participating countries, especially because it would be easier for country and project authorities to administer projects supported by different donors based on harmonized systems. For a project to be eligible for financing from the subregional pool, every dollar drawn from the pool should be matched by at least 50 cents from the participating country's PBA. However, the required contributions from biennial PBA will be subject to a 20% ceiling, beyond which contribution from country PBA will not be mandatory. The biennial allocation to be considered for the purpose of setting the ceilings would be net of any discount from the application of the ADF grant framework. Donors agreed that the development effectiveness, impact, and outputs of regional cooperation projects will be comprehensively reviewed during the midterm review of ADF X. Donors also agreed to review the provisions at the time of the midterm review.

C. Use of ADF X Resources

73. Donors agreed on a replenishment size of SDR6.9 billion for ADF X. Of this the largest share of about 80% (approximately SDR5.5 billion) will be allocated to countries through the PBA system. Another 10% of the ADF X program (equivalent to about SDR0.7 billion) will be earmarked for subregional projects based on the principles outlined earlier.

74. Donors concurred that a decision should be taken on the use of ADF X contributions for grant financing of projects and programs of high development priority and to include an authorization to that effect in the Resolution. Countries will be eligible for grants in accordance with the revised framework for ADF grants approved by the Board of Directors in 2007. Donors noted that ADB will send them a request to obtain their consent to amend the ADF Regulations so that all ADF resources, including reflows, can be used for grants in accordance with the ADF grant framework.

IV. FOURTH REPLENISHMENT OF TECHNICAL ASSISTANCE SPECIAL FUND

75. **Use of Technical Assistance Resources.** TA is a key instrument for achieving development results. It is used for preparing investment projects, providing policy advice and developing capacity in ADF countries. The use of the resource has to be strategic to maximize its value. Demand for TA during the ADF X period is estimated at SDR591 million. This represents a 21% increase over ADF IX. The increase is attributed to the expanded TA needs of a larger ADF X program, ADB's commitment to provide more capacity development TA to weakly performing countries, and adjustment for inflation. Considering the demand estimate and the availability of funds from other sources, donors agreed to contribute 3% of the total replenishment size as the fourth replenishment of the technical assistance special fund (TASF).

76. Donors emphasized that ADB must ensure their contributions are directed to support only ADF countries and regional technical assistance for the benefit of ADF countries, following

the practice in previous TASF replenishments. Donors also noted that Management will develop explicit guidelines and criteria for the allocation of resources in the TASF to go into effect in January 2009. Such guidelines will detail the purposes for which TASF resources can be used, allocation criteria, and the process by which TASF resources will be provided to TA programs in ADF countries. Donors agreed that a comprehensive review of TASF operations will be prepared for the ADF X midterm review. This will include the origin of the TASF, the sources of financing, and effectiveness in utilizing TASF resources.

V. ADF FINANCIAL MANAGEMENT AND FRAMEWORK FOR THE NINTH REPLENISHMENT OF ADF AND THE FOURTH REPLENISHMENT OF TASF

77. Donors agreed on a total replenishment size of SDR7.1 billion, consisting of SDR6.9 billion for ADF X and SDR0.2 billion for the fourth replenishment of TASF. This is equivalent to \$11.3 billion, based on the average IMF exchange rate for the period 1 October 2007 to 31 March 2008.

78. **ADF Financing Framework.** The replenishment will be financed from the following sources: (i) SDR2.6 billion from new donor contributions, (ii) SDR4.3 billion internal resources consisting of SDR3.2 billion reflow-based resources⁴⁶ and SDR1.1 billion from liquidity drawdown,⁴⁷ and (iii) SDR0.2 billion net income transfers from OCR, subject to annual approvals by ADB's Board of Governors. New donor contributions will comprise about 37% of the total replenishment, representing a 13% increase in SDR terms from the level of ADF IX. The burden shares are provided in Table 2. Internal resources would make up 60% of the total replenishment size, marking an increase of 69% compared with ADF IX. The proposed OCR net income transfers would be double that of ADF IX.

79. Donors raised concerns on the compensation of lost resources due to Heavily Indebted Poor Countries (HIPC) debt relief and the ADF grant framework. The lost reflows from the provision of HIPC debt relief are small enough during ADF X not to require specific earmarking of funds for this purpose. This issue will be reviewed in future replenishments. Donors reiterated that financing the costs of HIPC should maximize the use of internal resources of ADB while ensuring the financial integrity of ADB and without compromising the capacity of ADF. The foregone interest payments from the ADF grant framework will also not have a significant impact on ADF X, and like the cost of debt relief, do not require specific earmarking. Donors reiterated the commitment made in ADF IX to finance forgone principal repayments from ADF grants on a pay-as-you-go basis in future replenishments.

80. **Donor Contribution to TASF Replenishment.** Donors agreed to allocate 3% of the total replenishment size (which is equivalent to about 8% of total donor contributions) to TASF.

⁴⁶ These reflows are estimated net of reflows foregone on an account of debt relief and grants. The estimates of lost reflows are presented in Appendix 6.

⁴⁷ Under the new financing framework of ADF, an enhanced prudential liquidity policy was introduced in November 2007. Together with the tranching approach to ADF's liquid assets, this has led to the identification of an estimated one-time \$2.30 billion (SDR1.45 billion) usable liquidity. Donors agreed to a partial use of such liquidity at this time. Further use of the remaining \$600 million (SDR378 million) in usable liquidity shall be discussed at the time of the midterm review, based on progress of the implementation of the new framework and an updated liquidity analysis.

Table 2: ADF X Financing Framework and Burden Shares

Item	ADF X Burden Share (%)	Currency		Basic Contributions			Supplementary Contributions/ Additional Contributions Through ANE			Total Contributions		
		Unit of Obligation	Unit per SDR ^a	SDR	\$	Unit of Obligation	SDR	\$	Unit of Obligation	SDR	\$	Unit of Obligation
Austria ^{b, c}	0.91	Euro	1.077372	26,507,788	42,057,018	28,558,749				26,507,788	42,057,018	28,558,749
Belgium ^b	0.72	Euro	1.077372	20,898,809	33,157,862	22,515,792				20,898,809	33,157,862	22,515,792
Canada ^b	4.50	Can\$	1.576820	130,617,556	207,236,638	205,960,374				130,617,556	207,236,638	205,960,374
Denmark ^{b, c}	0.43	DKr	8.032122	12,450,010	19,753,074	100,000,000	992,266	1,574,320	7,970,000	13,442,276	21,327,394	107,970,000
Finland ^b	0.72	Euro	1.077372	20,920,629	33,192,482	22,539,300				20,920,629	33,192,482	22,539,300
France ^b	3.48	US\$	1.586591	101,000,000	160,245,691	160,245,691				101,000,000	160,245,691	160,245,691
Germany ^d	4.82	Euro	1.077372	139,974,865	222,082,861	150,805,000				139,974,865	222,082,861	150,805,000
Ireland ^{b, c}	0.90	Euro	1.077372	25,989,166	41,234,177	28,000,000	2,552,136	4,049,196	2,749,600	28,541,302	45,283,373	30,749,600
Italy ^c	3.00	Euro	1.077372	87,078,371	138,157,759	93,815,798				87,078,371	138,157,759	93,815,798
Luxembourg	0.10	Euro	1.077372	2,902,612	4,605,259	3,127,193				2,902,612	4,605,259	3,127,193
Netherlands	2.34	Euro	1.077372	67,850,288	107,650,656	73,100,000				67,850,288	107,650,656	73,100,000
Norway ^c	0.97	NKr	8.526263	28,108,298	44,596,372	239,658,737				28,108,298	44,596,372	239,658,737
Portugal	0.60	Euro	1.077372	17,415,674	27,631,552	18,763,160	219,831	348,782	236,840	17,635,505	27,980,334	19,000,000
Spain ^b	2.80	Euro	1.077372	81,273,146	128,947,242	87,561,412				81,273,146	128,947,242	87,561,412
Sweden	1.37	SKr	10.063174	39,765,789	63,092,043	400,170,056				39,765,789	63,092,043	400,170,056
Switzerland ^{c, e}	1.04	SwF	1.756748	30,169,381	47,866,469	53,000,000				30,169,381	47,866,469	53,000,000
Turkey ^c	0.14	TL	1.900426 ^f	4,051,723	6,428,427	7,700,000				4,051,723	6,428,427	7,700,000
United Kingdom ^g	4.80	£	0.788413	139,325,393	221,052,414	109,845,951				139,325,393	221,052,414	109,845,951
United States	10.01	US\$	1.586591	290,560,075	461,000,000	461,000,000				290,560,075	461,000,000	461,000,000
Nonregional Subtotal	43.65			1,266,859,572	2,009,987,995		3,764,233	5,972,298		1,270,623,805	2,015,960,294	
Australia	6.49	A\$	1.766543	188,379,542	298,881,285	332,780,561				188,379,542	298,881,285	332,780,561
Brunei Darussalam ^b	0.12	BND	2.271920	3,521,251	5,586,785	8,000,000				3,521,251	5,586,785	8,000,000
China, People's Republic of	0.76	US\$	1.586591	22,059,876	35,000,000	35,000,000				22,059,876	35,000,000	35,000,000
Hong Kong, China ^h		US\$	1.586591									
Japan	35.00 ⁱ	¥	173.249017	1,015,914,323	1,611,840,521	176,006,157,797				1,015,914,323	1,611,840,521	176,006,157,797
Korea, Republic of	3.35	W	1,489.136290	97,237,514	154,276,164	144,799,910,493				97,237,514	154,276,164	144,799,910,493
Malaysia	0.13	RM	5.225914	3,798,419	6,026,537	19,850,209				3,798,419	6,026,537	19,850,209
New Zealand	0.70	NZ\$	2.044265	20,318,286	32,236,810	41,535,962				20,318,286	32,236,810	41,535,962
Singapore	0.12	US\$	1.586591	3,483,135	5,526,310	5,526,310				3,483,135	5,526,310	5,526,310
Taipei, China ^c	0.47	NT\$	50.751305 ^f	13,674,525	21,695,879	694,000,000				13,674,525	21,695,879	694,000,000
Thailand	0.08	B	52.642686	2,279,519	3,616,664	120,000,000				2,279,519	3,616,664	120,000,000
Regional Subtotal	47.22			1,370,666,389	2,174,686,956		0	0		1,370,666,389	2,174,686,956	
A. Total Burden Share Contributions	90.87			2,637,525,961	4,184,674,952		3,764,233	5,972,298		2,641,290,194	4,190,647,250	
B. Structural Gap (C - A)	9.13			265,086,390	420,583,681							
C. Burden Sharing Basis	100.00			2,902,612,351	4,605,258,633							
D. Filling the Gap												
1. Supplementary Contributions				219,831	348,782							
2. Additional Contributions Through ANE				3,544,402	5,623,516							
E. Total Donor Contributions (A + D)				2,641,290,194	4,190,647,250							
F. Internal Resources				4,252,000,000	6,746,184,932							
G. OCR Net Income Transfers				218,000,000	345,876,838							
H. Total Replenishment Size (E + F + G)^j				7,111,290,194	11,282,709,020							

ADF = Asian Development Fund, OCR = ordinary capital resources, SDR = special drawing rights.

^a International Monetary Fund (IMF) average daily rates from 1 October 2007 to 31 March 2008.

^b Several donors made their intention to participate in the ADF X ANE program as follows: (i) Austria and Finland to increase burden share, (ii) Belgium, Brunei Darussalam, Canada, France and Spain to meet burden share, and (iii) Denmark and Ireland to provide additional contributions.

^c These donors' contributions are subject to parliamentary/government/cabinet approval.

^d Germany's contribution depends on the following: (i) subject to entry into force of the 2009 federal budget law and parliamentary approval, (ii) in case an additional amount will be pledged, Germany's burden share will be adjusted accordingly, and (iii) unit of obligation will be decided by the German government at the time of deposit of its Instrument of Contribution at the latest.

^e The Swiss Government will determine the unit of obligation at the time of deposit of its Instrument of Contribution at the latest.

^f IMF daily rates are not available, ADB average daily rates from 1 October 2007 to 31 March 2008 were used instead.

^g The United Kingdom indicated its willingness to make a supplementary contribution based on benchmarks to be agreed with ADB management.

^h Hong Kong, China had indicated its intention to contribute to the replenishment, with the amount to be confirmed. ADB may accept an Instrument of Contribution from Hong Kong, China in an amount not less than the amount so confirmed by Hong Kong, China, and, upon such confirmation, the Table shall be deemed to have been amended accordingly.

ⁱ Japan considers its historic burden share to be 33.69%.

^j Donors agreed to allocate 3% of the total replenishment size to the Technical Assistance Special Fund (which is equivalent to about 8% of total donor contributions).

Source: Asian Development Bank's Treasury Department.

81. **ADF X Standard Encashment Schedule.** Based on the projected disbursement pattern, a 9-year standard encashment schedule for ADF X donor contributions has been derived as shown in Table 3. Donors agreed to comply with the schedule for timely encashment.

Table 3: ADF X Standard Encashment Schedule
(% of total donor contributions)

Year	Loans and Grants	TASF^a	Weighted^b Standard Encashment
2009	1.4	25.0	3.3
2010	5.4	25.0	7.0
2011	9.8	25.0	11.0
2012	14.4	25.0	15.2
2013	17.3		15.9
2014	16.7		15.4
2015	14.9		13.7
2016	11.8		10.9
2017	8.3		7.6
Total	100.0	100.0	100.0

ADF = Asian Development Fund, TASF = Technical Assistance Special Fund.

^a TASF allocation is 8% of total donor contributions.

^b The final encashment rates combine weighted encashment rates of loans, grants and TASF.

Source: Asian Development Bank's Treasury Department.

82. **Accelerated Note Encashment (ANE) Schedule.** Donors also agreed to include an accelerated note encashment (ANE) program as in ADF IX. Under the program, donors could accelerate at their option the encashment of their contributions and use investment income from the accelerated portion to (i) meet or increase their burden shares, or (ii) be treated as additional contributions. As shown in Table 4, a uniform SDR-based discount rate of 3.6% per annum will be applicable to all ANE participants regardless of currencies contributed.

Table 4: ADF X Accelerated Note Encashment Program
(% of total donor contributions)

Year	Standard Encashment Rates (a)	Accelerated Note Encashment Rates			
		Option 1 (1 year) (b)	Option 2 (2 years) (b)	Option 3 (4 years) (b)	Option 4 (6 years) (b)
2009	3.30	100.00	50.00	25.00	17.00
2010	7.00		50.00	25.00	17.00
2011	11.00			25.00	17.00
2012	15.20			25.00	17.00
2013	15.90				16.00
2014	15.40				16.00
2015	13.70				
2016	10.90				
2017	7.60				
I. Total	100.00	100.00	100.00	100.00	100.00
II. Discount Rate	3.60	3.60	3.60	3.60	3.60
III. NPV Equivalent	84.86	96.53	94.86	91.62	88.65
IV. Donors participating in ANE will receive either a credit or a discount (% of face value):					
(i) Credit [(III.b - III.a) / III.a]		13.76	11.78	7.97	4.47
(ii) Discount [(III.b - III.a) / III.b]		12.10	10.54	7.38	4.27

ADF = Asian Development Fund, ANE = accelerated note encashment, NPV = net present value.
Source: Asian Development Bank's Treasury Department.

VI. MANAGING ADF X IMPLEMENTATION

A. Results Management System

1. Results Framework

83. For the success of ADF X it is imperative to have a sound results framework that will make it possible to measure the performance of ADF X and monitor its implementation. ADB has been using a results framework since 2005, following the endorsement of the 2004 review of its poverty reduction strategy during the ADF IX negotiations. This framework, which was largely harmonized with that of IDA, has guided the assessment of ADB's performance—including progress on ADF—through the annual poverty reduction reports since 2004.⁴⁸ Building on this experience, and considering the updated frameworks of IDA and AfDF, ADB has refined its results framework for ADF X. Donors agreed that the results framework being developed to

⁴⁸ Progress reports on ADF IX using such a framework were presented at the ADF IX midterm review in 2006 and at the first ADF X donors' meeting in Sydney, Australia, 13–14 September 2007. ADB. 2007. *Effectiveness of Asian Development Fund Operations*. Manila.

monitor the implementation of the LTSF should form the basis for the results framework to assess the performance of ADF X, and supported the results framework.

84. The framework will assess results at four levels: (i) Asia and Pacific outcomes (level 1), (ii) ADB's contributions to those outcomes through key sector outputs (level 2), (iii) ADB's operational effectiveness (level 3), and (iv) ADB's organizational effectiveness (level 4). The results framework is in Appendix 5.⁴⁹

85. Level 1 results area corresponds to ADB's long-term vision and development outcomes: inclusive growth, governance and capacity building, gender equality, better environment management, and regional cooperation and integration. These outcomes depend on much more than ADB operations alone. However, tracking them is important, as they indicate development progress to which ADB operations aim to contribute. Level 1 indicators consist of a first group of selected MDG indicators ("poverty and human development indicators"), and a second group covering GDP, trade, infrastructure, business environment, governance and capacity, and environment ("other outcome indicators").

86. Monitoring of aggregated key sector outputs (level 2 results area) is a new element for ADB's results monitoring. Incorporating ADB's sector priorities, output indicators cover transport, energy, water, education and finance sectors. Most of these outputs are disaggregated by rural, urban, and regional categories to enable monitoring of operational emphasis on rural-urban equity (inclusiveness) and regional cooperation. Donors recognized that there are challenging methodological problems in directly attributing development outcomes to individual development agencies, and that all multilateral and bilateral agencies are currently grappling with this issue. They suggested that ADB instead demonstrate how its operational outputs contribute to different development outcomes. ADB will illustrate level 2 contributions to level 1 outcomes through specific project examples in a new corporate-level performance report, the *Development Effectiveness Review* (para. 52). Donors also noted that this can be done best at individual country level and supported making better use of the country development effectiveness briefs to strengthen the links between country outputs and outcomes in ADB's results management system.⁵⁰ Donors also emphasized that ADB needs to develop a more systematic approach to updating information and evaluating performance reported in the briefs, including clear reference to project-level baselines and outputs by which to measure aggregate project performance and impact on development.

87. The assessment of ADB's operational effectiveness (level 3 results area) continues to focus on five areas: (i) operational quality and portfolio performance, (ii) finance mobilization, (iii) gender mainstreaming, (iv) knowledge development, and (v) partnerships. While covering the same results areas as before, the new framework uses a more streamlined set of indicators.

88. Overall development effectiveness depends critically on ADB's organizational capacity to deliver its services and products effectively. Organizational effectiveness will therefore be assessed through level 4 indicators to track the efficiency in use of internal resources—both human and budgetary—and improvements in business processes and practices.

⁴⁹ A more detailed discussion on ADB's results management system, ADB. 2008. *Asian Development Fund Results Reporting and Management*. Manila was presented at the fourth ADF X donors' meeting, Madrid, Spain, 1–2 May 2008.

⁵⁰ Country development effectiveness briefs have been prepared for 13 DMCs (all of them ADF recipients); two other briefs have subregional coverage.

2. Assessing and Reporting Progress during ADF X

89. Donors agreed that ADB will assess and report on progress in implementing ADF program through its annual *Development Effectiveness Review*, starting with the 2007 review (para. 52). The *Review* will be guided by the results framework discussed above, and benchmarks and targets established for the indicators. The *Review* will provide unified performance reporting of ADB, consolidating the existing annual poverty reduction report, progress report on the reform agenda, and semiannual progress report on the MfDR action plan. Information on ADF operations will be presented separately, wherever feasible, along with ADB-wide information to enable annual monitoring of ADF operations. Management will use the *Review* to identify areas of ADF operations needing adjustment, which will then be reflected in the 3-year rolling work program and budget framework.

90. The *Review* will be submitted annually to the DEC for discussion. Following such discussion, the *Review*, together with the DEC Chair's Summary, will be submitted for Board to discuss and take appropriate actions. Comments at the DEC and the Board will serve as essential inputs for the preparation of the next 3-year work program and budget framework. The *Review* will be made available on ADB's external website after it is discussed at the Board.

91. Donors proposed reviewing the implementation of ADF X annually on the sidelines of ADB's Annual Meeting. The meetings will discuss an update of the ADF X implementation plan (Appendix 7).

92. The 2007 *Development Effectiveness Review* will be completed by the third quarter of 2008; subsequent reviews will be developed by the second quarter of each year. The 2009 *Review* will be prepared in time for the ADF X midterm review.

B. Planning for ADF X Midterm Review

93. Donors agreed that the ADF X midterm review be held during the fourth quarter of 2010. The midterm review will assess progress on the implementation plan of ADF X and also discuss the *Development Effectiveness Review*. With respect to regular reports within the monitoring parameters of the implementation plan, donors noted the importance of consistent reporting in order to create a time series of information over ADF X.

94. In addition, it is expected that the midterm review will cover the following topics:

- (i) strategic direction of ADF operations for promoting climate change mitigation and adaptation in infrastructure,
- (ii) stocktaking of the reform agenda (including updates on the human resources action plan and the independence of OED),
- (iii) review of the implementation of the approach to weakly performing countries,
- (iv) update on the status of debt relief (including possible participation in the Multilateral Debt Relief Initiative),
- (v) update on ADF financial issues (including the liquidity drawdown and financing for debt relief and grants),
- (vi) development effectiveness of regional cooperation initiatives,
- (vii) review of TASF operations, and
- (viii) review of the PBA system, including its incentives and development impacts.

OFFICIAL DEVELOPMENT ASSISTANCE IN ADF COUNTRIES

**Table A1.1: Average Share of Net Official Development Assistance in
Development Spending in ADF Countries, 2001–2006**
(%)

ADF Country Classification	2001	2002	2003	2004	2005	2006
ADF-Only ^a	52	46	45	42	41	43
Blend ^b	34	33	28	25	24	22
All ADF Countries^a	37	35	31	28	27	25

ADF = Asian Development Fund.

^a Excludes postconflict countries (Afghanistan and Timor-Leste).

^b Blend countries are those that can borrow from both ADF and ordinary capital resources.

Sources: Asian Development Bank (ADB). 2006 and 2007. *Key Indicators*. Manila; ADB Statistical Database System, downloaded on 20 February 2008; Organization for Economic Cooperation and Development (OECD), OECD.Stat database, downloaded on 1 February 2008; and Asian Development Bank estimates.

Table A1.2: Net Official Development Assistance by Recipient Country, 2001–2006

Recipient Country Group	2001	2002	2003	2004	2005	2006
All Developing Countries:						
Amount (\$ million)	51,582	60,235	70,340	78,793	107,292	105,292
Share of Total ODA (%)	100.0	100.0	100.0	100.0	100.0	100.0
All ADB DMCs:						
Amount (\$ million)	14,448	15,200	14,575	15,036	19,823	18,282
Share of Total ODA (%)	28.0	25.2	20.7	19.1	18.5	17.4
ADF Countries:						
Amount (\$ million)	8,550	9,671	10,217	11,237	12,874	13,233
Share of Total ODA (%)	16.6	16.1	14.5	14.3	12.0	12.6

ADB = Asian Development Bank, ADF = Asian Development Fund, DMC = developing member country, ODA = official development assistance.

Sources: Organization for Economic Cooperation and Development (OECD), OECD.Stat database, downloaded on 1 February 2008; and ADB estimates.

PER CAPITA GROWTH AND PROJECTED GRADUATION

Table A2.1: Benchmark Growth Rates and Income Levels for ADF Countries

ADF Country	ADB Country Classification ^a	Benchmark Per Capita GDP Growth ^b (%)	Per Capita GNI (2006 \$)
1. Azerbaijan ^c	Blend	16.4	1,850
2. Armenia ^c	Blend	13.2	1,930
3. Afghanistan	ADF-only	8.3	—
4. Georgia ^c	Blend	8.3	1,560
5. Cambodia	ADF-only	7.8	480
6. Tajikistan	ADF-only	7.0	390
7. Viet Nam	Blend	6.3	690
8. Maldives ^c	ADF-only	6.0	2,670
9. Mongolia	ADF-only	6.0	880
10. Bhutan ^c	ADF-only	5.4	1,420
11. Uzbekistan	Blend	5.0	600
12. Bangladesh	Blend	4.3	480
13. Pakistan	Blend	4.1	770
14. Sri Lanka ^c	Blend	3.4	1,300
15. Tuvalu	ADF-only	3.2	—
16. Samoa ^c	ADF-only	2.7	2,270
17. Lao People's Democratic Republic	ADF-only	2.7	500
18. Kyrgyz Republic	ADF-only	2.3	500
19. Tonga ^c	ADF-only	2.1	2,170
20. Solomon Islands	ADF-only	2.0	680
21. Palau ^{c,d}	Blend	1.4	7,990
22. Papua New Guinea	Blend	0.4	770
23. Nepal	ADF-only	0.3	290
24. Kiribati ^c	ADF-only	0.2	1,230
25. Micronesia, Federated States of ^c	Blend	0.1	2,380
26. Vanuatu ^c	ADF-only	0.0	1,710
27. Marshall Islands, Republic of ^c	Blend	(0.2)	3,060
28. Timor-Leste	ADF-only	(7.9)	840
29. Nauru ^{c,e}	ADF-only	—	2,640

— = not available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, GNI = gross national income.

^a Blend countries are those that can borrow from both ADF and ordinary capital resources. India and Myanmar currently do not have access to ADF.

^b Benchmark per capita real GDP growth estimates from ADB Economics and Research Department.

^c Although the country's per capita income exceeds the ADF operational cutoff (\$1,065 in 2006), it is classified as ADF eligible because of its lack of or limited creditworthiness.

^d Although Palau will have access to ADF financing, its per capita national income will be monitored to verify its need for concessional resources.

^e Access to ADF resources subject to clearance of arrears with ADB.

Sources: ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila; and ADB estimates.

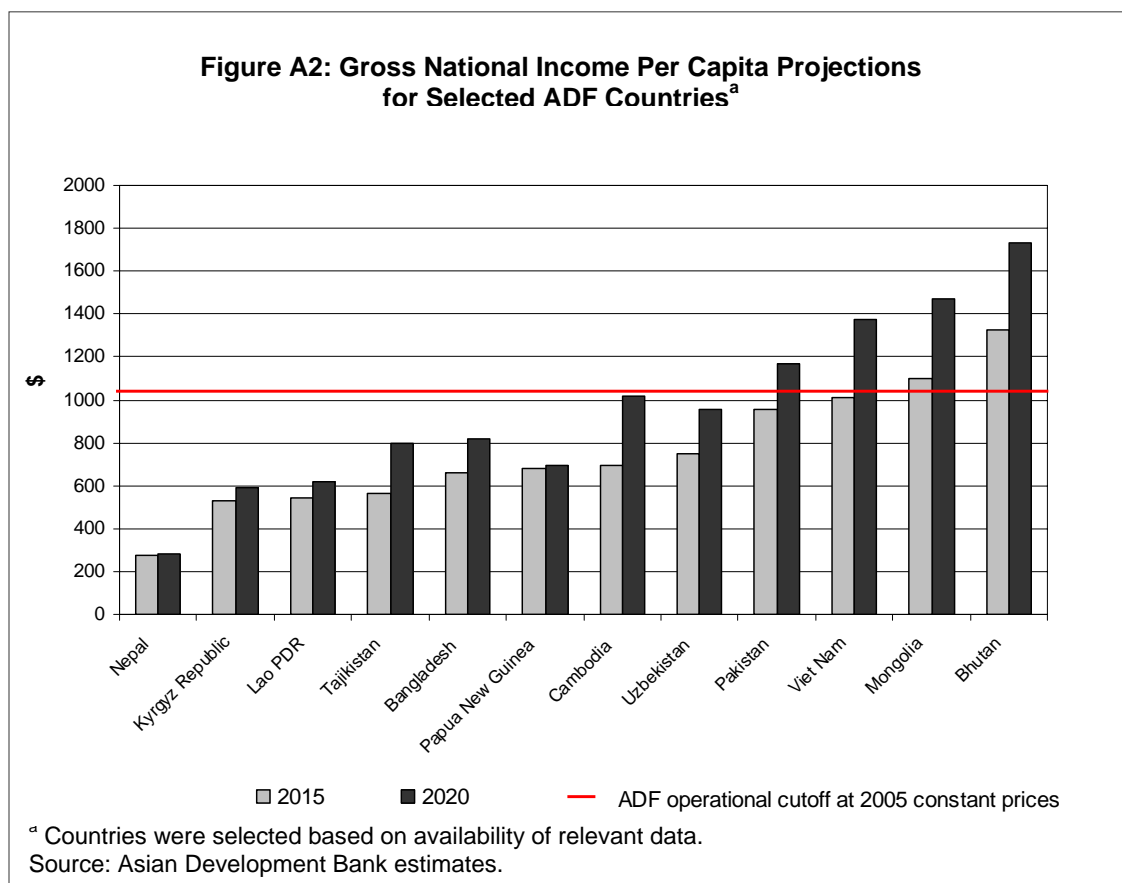


Table A2.2: Projected Graduation of ADF Countries

Timing	Growth Scenarios			Projected Graduation Among Exceptions
	Benchmark	Higher Growth	Lower Growth	
At end ADF IX (2008)	No country	No country	No country	Cook Islands Indonesia
At end ADF X (2012)	No country	No country	No country	Armenia Azerbaijan
At end ADF XI (2016)	No country	Viet Nam	No country	Georgia
At end ADF XII (2020)	Viet Nam Pakistan	Pakistan Uzbekistan	No country	

ADF = Asian Development Fund.

Notes: Graduation projection is based on two criteria: per capita gross national income and creditworthiness (ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila). The benchmark scenario projects per capita gross domestic product based on average growth rates of the last 5 years (2002–2006); the high-growth scenario uses growth projections 20% above the benchmark rates; and the low-growth scenario uses growth projections 40% lower than the benchmark rates.

Source: Asian Development Bank estimates.

**INDICATIVE TABLE OF ADF X OPERATIONAL PROGRAM
BY SECTOR BASED ON PROJECT PIPELINE**

Classification	ADF IX 2005–2008				ADF X 2009–2012			
	No.	%	SDR mn	%	No.	%	SDR mn	%
Infrastructure:								
Energy	15	7	332	6	21	9	907	13
Road Transport	30	15	869	17	38	16	1,228	17
Rural Infrastructure	22	11	619	12	32	14	990	14
Urban Infrastructure	17	8	423	8	36	15	1,036	14
Railways	4	2	104	2	1	0	16	0
Other transportation and Communication	6	3	65	1	3	1	48	1
Infrastructure subtotal	94	46	2,412	47	131	56	4,225	59
Education	19	9	397	8	21	9	731	10
Health	12	6	221	4	15	6	371	5
Agriculture and Natural Resources	23	11	604	12	18	8	388	5
Finance	16	8	305	6	15	6	462	6
Other Sectors	17	8	350	7	20	9	616	9
Multisector	22	11	882	17	15	6	356	5
Total	203	100	5,172	100	235	100	7,150	100

ADF = Asian Development Fund, SDR = special drawing rights.

Note: Other sectors include (i) law and the judiciary, (ii) public finance and economic management, (iii) trade and industry, and (iv) general government administration.

REVISION TO PORTFOLIO PERFORMANCE RATINGS METHODOLOGY

1. The portfolio performance rating has been the most volatile component of the performance-based allocation (PBA) formula. Because portfolio performance ratings can vary so much between years—particularly for countries with few ongoing projects—this indicator has had more influence on changes in Asian Development Fund (ADF) allocations than was intended. This issue was first raised during the ADF IX midterm review meeting. In the first ADF X donors' meeting in Sydney, Australia, donors agreed that the Asian Development Bank (ADB) should review the portfolio performance measure and consider alternatives within the context of the existing PBA policy.¹ At the third ADF X donors' meeting in Manila, Philippines, the ADB proposed adjusting the scale used to convert the proportion of projects at risk into a performance rating to solve this problem.² This note provides details on the proposed change.

2. **Current Approach.** The measure of portfolio performance within PBA is based on the proportion of approved projects “at risk”. The number of projects-at-risk is taken from the project performance reporting system and divided by the total number of ongoing approved projects. The average of the quarterly data from the period covered by the country performance assessment (CPA) exercise is used (September of the previous year through June of the current year). Because newer projects are less likely to be flagged as “at risk”, the ratio will overstate the quality of portfolios with a relatively high percentage of new projects. To correct for this bias, an age-adjustment factor is added to the average projects-at-risk ratio for portfolios that are younger than the average age of all ADF projects.

3. The age-adjusted percentage of projects at risk is converted to a portfolio performance rating using a linear formula. If “X” denotes the age-adjusted percentage of projects-at-risk for a given country averaged over the four quarters, then the portfolio performance score is determined by the formula $6-10X$ rounded to the nearest 0.5 (with a minimum score of 1). Table 1 shows the current conversion scale based on this formula. For countries with fewer than two ongoing projects in their portfolios, the average rating for all countries rounded to the nearest 0.5 is used to determine their PBA shares.

4. **Problem of Volatility.** The choice of conversion scale is somewhat arbitrary. While the ADB scale is linear, the International Development Association (IDA) used to use a nonlinear conversion scale with a 1–6 range in IDA14.³ However, both suffer from the problem that the portfolio performance rating is more volatile than the other performance indicators. CPA scores tend to change in small increments from year to year—movements of a full point on any indicator are rare. As noted in the first ADF X donors' meeting in Sydney (footnote 1), the project performance reporting system does not distinguish degrees of risk. Project performance reports consider a number of indicators of project implementation progress and project impacts and outcomes, but a project is only “at risk” when multiple elements are less than satisfactory. This can lead to wide swings in the percentage of projects at risk, especially in small portfolios. Between 2005 and 2006, the elements of the CPA had average absolute differences in ratings of 0.1–0.3 points. In contrast, portfolio performance had an average absolute difference in ratings of 0.8 points, and three countries experienced changes in scores of 2 or more points. The portfolio performance rating was meant to carry less weight in the allocation formula (as

¹ ADB. 2007. *Refining Performance-Based Allocation*. Manila. Discussion paper for the first ADF X donors' meeting, Sydney, Australia, 13–14 September 2007.

² ADB. 2008. *Allocation of ADF X*. Manila. Discussion paper for the third ADF X donors' meeting, Manila, Philippines, 13–14 March 2008.

³ IDA has begun using a new conversion scale in IDA15 that is in line with the approach discussed in para. 6 of this appendix.

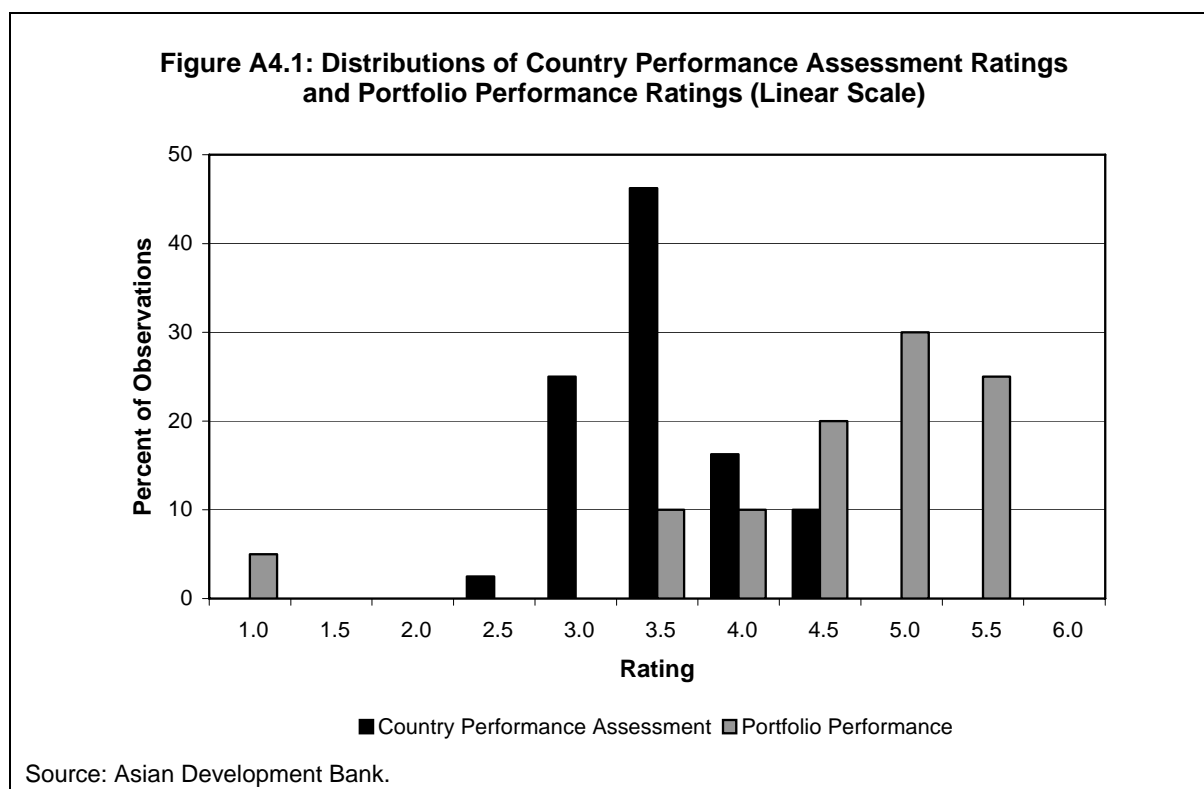
Table A4.1: Portfolio Rating Conversion Table

Projects-at-Risk (%)	Portfolio Performance Rating
0–2	6.0
3–7	5.5
8–12	5.0
13–17	4.5
18–22	4.0
23–27	3.5
28–32	3.0
33–37	2.5
38–42	2.0
43–47	1.5
48–100	1.0

Source: Asian Development Bank.

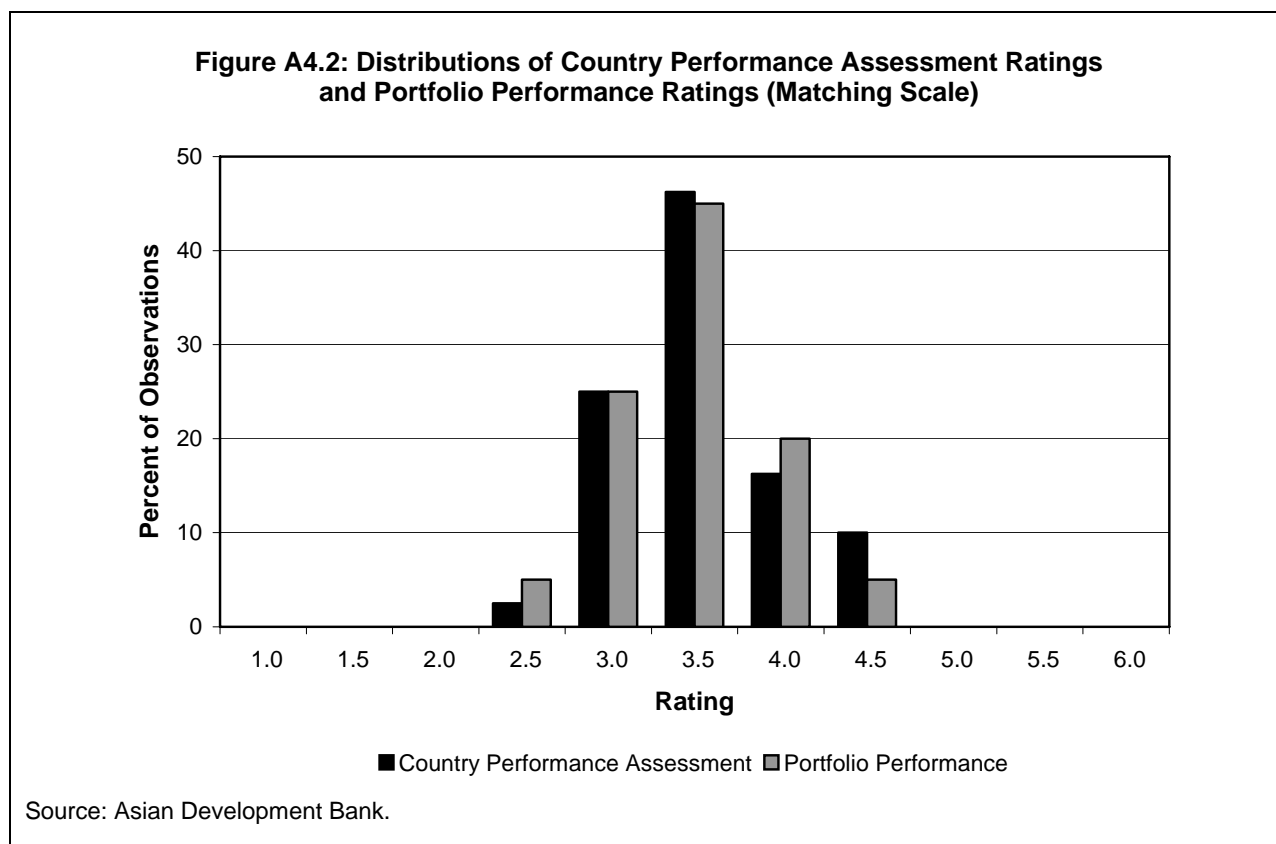
indicate by the lower exponent), but the larger changes in scores between years means it has greater influence on changes in allocations than was intended.

5. The volatility can be seen in the comparison of the distributions of CPA scores and portfolio performance ratings. The range of CPA scores is much narrower than the range of portfolio performance ratings. Although the individual scores for the CPA indicators all range from 1 to 6, no country scores at the top or bottom of the range on all indicators in practice. As a result, the average CPA scores are distributed in a tight cluster around the middle. Figure A4.1



shows the distribution of the CPA scores for all countries from 2005–2007. The distribution ranges from 2.5 to 4.5 and is nearly symmetric. The mean of the CPA distribution is 3.5—the middle of the range of possible scores—with a standard deviation of 0.48. Figure A4.1 also shows the distribution of the 2007 portfolio performance ratings using the current linear conversion scale. The portfolio performance rating distribution is skewed toward the higher scores—the average is 4.6—and it ranges from the 1.0 to 5.0. The standard deviation of 1.05 is more than double that of the CPA distribution.

6. **Adjusted Conversion Scale.** The approach to reduce the volatility of the portfolio performance ratings discussed in the Manila meeting (footnote 2) was to adjust the conversion scale. The portfolio performance rating scale would be aligned with the CPA rating results by matching the rating scale for the proportion of projects at risk with the distribution of country performance assessment ratings. The new scale would be derived as follows. First, the distribution of CPA scores is used to determine the range of portfolio performance ratings and the percent of countries that will fall within each rating category. Then the projects-at-risk ratios are matched with this distribution. Figure A4.2 illustrates this process using pooled CPA ratings for 2005–2007 and the portfolio performance ratings for 2007, as in Figure A4.1. To approximate the CPA distribution, the lowest portfolio performance scores (i.e., the ones with the highest percentage of projects-at-risk) were given a rating of 2.5 until the share of observations was approximately the same as the share of countries with average CPA of 2.5. Then the next lowest were given a score of 3.0 and so on. Because of the different numbers of observations for the two distributions, the fit is not exact. However, the result is that the portfolio performance rating on the matched scale has a mean and standard deviation that is similar to



the CPA distribution. With this matched scale, the portfolio ratings would be no more volatile than the country performance assessment ratings. The outlined change to the conversion scale is in line with the methodology currently used by the African Development Fund and IDA.

7. **Implementation.** The adjusted conversion scale for ADF X will be set after the 2008 CPA exercise is finalized in fourth quarter 2008. The CPA ratings distribution to be used will be the pooled CPA results from 2006–2008. Similarly, the pooled percentage of projects at risk for 2006–2008 will be used to determine the matching scale. By pooling multiple years, the revised scale should avoid the idiosyncrasies of any single year providing a more robust conversion scale. The matching scale will be applied to the 2008 project-at-risk ratios to determine the portfolio ratings to be used for the 2009–2010 biennial allocation. While it is expected that the adjusted scale will be used for the entire ADF X period, the scale will be assessed at the time of the midterm review to ensure it remains appropriate.

RESULTS FRAMEWORK OF THE ASIAN DEVELOPMENT FUND

Table A5.1: Asia and Pacific Outcomes (Level 1)^a

Indicator	Baseline Year	Baseline Value	2015 Target
Poverty and Human Development Indicators:			
• Population living below \$1 a day (%)	2005	15.50	15.25
• Primary education completion rate (%)	2005	80.43	100.00
• Ratios of girls to boys in			
- Primary education	2005	0.90	1.00
- Secondary education	2005	0.91	1.00
- Tertiary education	2005	0.71	1.00
• Women in wage employment in the non-agricultural sector (%)	2005	28.14	Increase
• Under-5 child mortality (per 1,000 live births)	2005	77.56	38.75
• Women (aged 15 and above) living with HIV (number, million)	2005	0.24	Halt/reverse
• Population with sustainable access to an improved water source (%)			
- Urban	2005	88.58	94.93
- Rural	2005	73.43	82.24
• Population with access to improved sanitation (%)			
- Urban	2005	76.12	83.96
- Rural	2005	42.46	63.19
	Baseline Year	Baseline Value	
Other Outcome Indicators:			
• Gross domestic product per capita (\$)	2006	682.2	
• Intraregional trade in Asia-Pacific's total trade (%)	2005	62.9	
• Fixed lines and mobile telephone subscribers (per 1,000 inhabitants)	2006	173	
• Access of rural population to an all-season road (%)	2003	67.5	
• Household electrification rate (%)	2003	69.8	
• Cost to start business (% gross national income per capita)	2006	46.5	
• Time to start business (days)	2006	45	
• Governance and public sector management assessment from country performance assessments	2006	3.27	
• Carbon dioxide emissions (metric tons per capita) ^b	2005	1.13	

^a Baseline and target values are for Asian Development Fund countries only.

^b This indicator will be used for information only, and will be consistent with the purpose of the United Nations Framework Convention on Climate Change (UNFCCC).

Sources: For "poverty and human development indicators": ADB, United Nations Development Programme, and United Nations Economic and Social Commission for Asia and the Pacific estimates based on data made available for *The Millennium Development Goals: Progress in Asia and the Pacific 2007*. For "other outcome indicators": ADB estimates based on Asia Regional Integration Center database; World Bank, World Development Indicators database; and United Nations database on MDG Indicators.

Table A5.2: Contribution to Country Outcomes: Key Outputs (Level 2)

Indicator	Cumulative Outputs ^a 2004–2007	Programmed Outputs ^b 2009–2012
Transport		
• Expressways built or upgraded (km)	463	490
• National, provincial, district, and rural roads built or upgraded (km)	12,904	29,970
• Railways constructed or upgraded (km)	128	103
• Number of beneficiaries from road projects	7,449,500	13,460,300
Energy^c		
• Installed energy generation capacity (megawatts)	11	4
• Transmission lines installed or upgraded (km)	330	1,288
• Distribution lines installed or upgraded (km)	15,090	3,176
• New households connected to electricity (number)	675,000	167,000
Water		
• Water supply pipes installed or upgraded/length of network (km)	1,153	2,570
• New households connected to water supply	700,400	1,366,800
• Wastewater treated (volume, m ³)	5,700	152,600
• Households served with new sanitation connections (number)	679,790	877,350
• Land irrigated or improved through drainage, floods, and irrigation works (hectares)	748,134	398,580
Education (at all levels)		
• Classrooms built or upgraded (number)	22,000	48,000
• Teachers trained (number)	325,000	552,000
• Students benefiting from above-mentioned improvements or receiving direct support through scholarships, feeding, or similar programs (number)	11,810,000	19,000,000
Finance		
• Microfinance loan accounts opened (number)	192,600	636,870
• Small and medium-sized enterprises loan accounts opened (number)	14,000	38,000

ADB = Asian Development Bank, ADF = Asian Development Fund, km = kilometer, m³ = cubic meter, PCR = project completion report.

^a Estimated using PCRs in 2004–2007.

^b Estimated based on reports and recommendations of the President approved by the ADB Board in 2003–2006.

^c An appropriate indicator on clean energy/energy efficiency will be identified by the midterm review of ADF X.

Source: ADB estimates.

Table A5.3: Operational Effectiveness (Level 3)

Indicator	Baseline Year	Baseline Value	Target 2012
Operational Quality and Portfolio Performance			
• Evaluation ratings of results-based CPS (% successful)	—	—	70
• Average annual combined ratings of PPERs and PCRs (% successful)	2004–2006 average	75.7	80
• Quality-at-entry rating of CPS (% satisfactory)	2006	33 ^a	At least 80
• Quality-at-entry rating of projects (% satisfactory)	2006	76	85
• Portfolio performance ratings at implementation (% satisfactory)	2004–2006 average	90.1	at least 90
• Partnership survey results: perception of ADB effectiveness regarding reducing poverty (% with excellent and good perception of ADB)	2006	45 ^a	at least 60
Finance Mobilization			
• Overall disbursement ratio for public sector loans (%)	2006	19.0	20
• Proportion of direct value-added cofinancing mobilized in loans and grants approved annually (%)	2004–2006 average	15.6	20
Gender Mainstreaming			
• Proportion of projects with gender mainstreaming (%)	2004–2006	TBD	TBD
Knowledge Development			
• Ratings of technical assistance completion reports (% successful)	2004–2006 average	72.3	80
• Annual MAKE survey assessment rating	2006	54.4 ^a	At least 60
Partnerships			
• Proportion of projects with NGO and/or CSO participation (%)	2006	80	At least 80
• New program-based approaches approved (number)	2006	4	8
• Proportion of CPS and CPR missions conducted jointly (with at least one other development partner) annually (%)	2006	40	60

— = not available, ADB = Asian Development Bank, CPR = country portfolio review, CPS = country partnership strategy, CSO = civil society organization, MAKE = most-admired knowledge enterprise, NGO = nongovernment organization, PCR = project completion report, PPER = project performance evaluation report.

^a Common for ADB and Asian Development Fund.

Source: ADB estimates.

Table A5.4: Organizational Effectiveness (Level 4)

Indicator	Baseline Year	Baseline Value	2012 Target
Use of Human Resources			
• Proportion of budgeted professional staff and national officers in operations departments (%)	2004–2006 average	52 ^a	56
• Proportion of budgeted professional staff and national officers in resident missions (%)	2004–2006 average	21 ^a	23
• Representation of women professional staff in total (%)	2007	29 ^a	35
• Staff engagement survey results (index)	2008	TBD ^a	TBD
Use of Budgetary Resources			
• Internal administrative expenses per \$1 million of public and private sector project approval (\$'000 in 2000 constant prices)	2004–2006 average	43.4 ^a	Maintain ^b
• Internal administrative expenses per loan project approved (\$ million in 2000 constant prices)	2004–2006 average	2.8 ^a	Maintain ^b
• Internal administrative expenses per \$1 million loan disbursement (\$'000 in 2000 constant prices)	2004–2006 average	61.2 ^a	Maintain ^b
• Internal administrative expenses per project under implementation (\$'000 in 2000 constant prices)	2004–2006 average	427 ^a	Maintain or Increase ^b
Business Processes and Practices			
• Average time from loan approval to first disbursement (sovereign operations) (months)	2006	13.3	11.5
• Average loan (sovereign operations) processing time (months from fact-finding to loan approval)	2006	23.6	20
• Proportion of loans and grants administered by field offices (%)	2006	38.4 ^a	43

^a Common for Asian Development Bank and Asian Development Fund.

^b Based on a set of assumptions: (i) total annual loan approval at the similar level as 2007 across the long-term strategic framework (LTSF) implementation period; (ii) total annual disbursement steadily increasing from 2007 over the LTSF period; and (iii) ADB's internal administrative expenses with a modest annual increase.

Source: Asian Development Bank estimates.

CONSOLIDATED FINANCIAL IMPACT OF DEBT RELIEF AND GRANTS
(\$ million)

Item	Replenishment Period										Total
	ADF IX	ADF X	ADF XI	ADF XII	ADF XIII	ADF XIV	ADF XV	ADF XVI	ADF XVII	ADF XVIII	
Likely Scenario											
Nominal Costs	1	16	228	730	929	896	806	659	479	141	4,884
Debt Relief	1	4	24	22	28	22	0	0	0	0	102
Grants	0	12	203	708	901	874	806	659	479	141	4,782
NPV of Costs	1	12	136	358	380	301	222	150	90	22	1,673
Debt Relief	1	4	18	13	14	9	0	0	0	0	59
Grants	0	8	119	345	366	292	222	150	90	22	1,614
High-Cost Scenario											
Nominal Costs	1	91	310	812	1,000	953	806	659	479	141	5,252
Debt Relief	1	79	107	104	100	79	0	0	0	0	470
Grants	0	12	203	708	901	874	806	659	479	141	4,782
NPV of Costs	1	81	202	415	422	331	222	150	90	22	1,935
Debt Relief	1	73	83	69	56	39	0	0	0	0	321
Grants	0	8	119	345	366	292	222	150	90	22	1,614

ADF = Asian Development Fund, NPV = net present value.

Note: The cost of debt relief under the likely scenario is for Afghanistan only. The cost of debt relief under the high-cost scenario is Afghanistan and the illustrative costs for Nepal. The cost of grants in all cases is the forgone principal and interest less the amount recovered from hard-term ADF earnings.

Source: Asian Development Bank.

ASIAN DEVELOPMENT FUND X IMPLEMENTATION PLAN

Objective	Proposed Actions	Monitoring Parameters	Target Date
A. Asian Development Fund (ADF) X Strategic Priorities			
1. ADF X program aligned with its priorities	1.1 ADF X program emphasizes operations contribution to the strategic agenda of the long-term strategic framework (LTSF): inclusive growth, environmental sustainability, and regional cooperation	<ul style="list-style-type: none"> • Work program and budget framework (WPBF) 	<ul style="list-style-type: none"> • 3Q every year
	1.2 To raise impact on the strategic agenda, ADF X program focuses its activities on infrastructure sectors and education sector through the annual rolling country operations business plans exercise	<ul style="list-style-type: none"> • WPBF • Country partnership strategies and their midterm progress review papers • Country operations business plans 	<ul style="list-style-type: none"> • 3Q every year • Continuous • Continuous
	1.3 ADF X program promotes regional cooperation and integration in line with the regional cooperation and integration strategy	<ul style="list-style-type: none"> • 2007 Development Effectiveness Review • Development Effectiveness Review for 2008 and beyond • ADF X midterm review (MTR) report 	<ul style="list-style-type: none"> • 3Q 2008 • 2Q every year • ADF X MTR 2010
	1.4 ADF X program promotes gender equality in line with the gender policy and its plans of action	<ul style="list-style-type: none"> • Progress reports on Gender Plan of Action (2008-2010) 	<ul style="list-style-type: none"> • 1Q every year
	1.5 ADF X program promotes good governance and anti-corruption in line with the second governance and anticorruption action plan (GACAPII)	<ul style="list-style-type: none"> • GACAPII semiannual progress report 	<ul style="list-style-type: none"> • 2Q and 4Q every year
	1.6 ADF X program integrates climate change consideration across projects and programs	<ul style="list-style-type: none"> • Climate change action plan • WPBF • MTR report 	<ul style="list-style-type: none"> • 2Q 2008 • 3Q every year • ADF X MTR 2010
	1.7 ADF X program pays special attention to weakly performing countries in line with the approach to weakly performing countries adopted in 2007	<ul style="list-style-type: none"> • WPBF • MTR report 	<ul style="list-style-type: none"> • 3Q every year • ADF X MTR 2010

Objective	Proposed Actions	Monitoring Parameters	Target Date
2. Performance-based allocation (PBA) system modified and implemented	2.1 Modify the PBA policy in line with revisions agreed with Donors	<ul style="list-style-type: none"> Board consideration of the policy paper 	<ul style="list-style-type: none"> 3Q 2008
	2.2 Implement the revised PBA policy successfully	<ul style="list-style-type: none"> Annual report on country performance assessments 	<ul style="list-style-type: none"> 2Q every year
B. Technical Assistance Special Fund (TASF)			
3. More transparent use of TASF resources for ADF countries	3.1 Develop guidelines for allocating TASF resources, covering the purposes of allocating TASF resources to ADF countries; criteria for the use of TASF resources; and the process for providing TASF resources to TA programs in ADF countries.	<ul style="list-style-type: none"> Approved guidelines and criteria on allocating TASF resources to TA programs in ADF countries 	<ul style="list-style-type: none"> January 2009
	3.2 Undertake a comprehensive review of TASF operation, including the origin of the TASF, the sources of financing, and effectiveness in utilizing TASF resources.	<ul style="list-style-type: none"> Comprehensive review of TASF operations at MTR 	<ul style="list-style-type: none"> ADF X MTR 2010
C. Debt Sustainability			
4. ADF grant eligibility linked exclusively to debt-distress status	4.1 Build capacity for the debt-sustainability analysis (DSA) by improving staff skills mix and institutional arrangement	<ul style="list-style-type: none"> Full DSA team in place 	<ul style="list-style-type: none"> 3Q 2008
	4.2 Participate in DSA with the International Monetary Fund and the World Bank	<ul style="list-style-type: none"> Annual information paper to the Board on country allocations 	<ul style="list-style-type: none"> 4Q every year
D. ADB's Institutional Effectiveness			
5. Managing for development results (MfDR) mainstreamed across ADB	5.1 Continue implementing the MfDR Action Plan (2006-2008), based on the last progress report discussed by the Development Effectiveness Committee (December 2007), with key actions aimed at promoting <ul style="list-style-type: none"> Management and senior leadership on MfDR; improved staff incentives for aid effectiveness, including use of emerging good practices; more systematic implementation of MfDR in regional departments, including at the resident mission level; applied learning in MfDR; quality improvements in MfDR tools; and support for DMC capacity issues 	<ul style="list-style-type: none"> 2007 Development Effectiveness Review MTR report 	<ul style="list-style-type: none"> 3Q 2008 ADF X MTR 2010

Objective	Proposed Actions	Monitoring Parameters	Target Date
	5.2 Inaugurate ADB's Development Effectiveness Review to assess and report on ADB's performance—including ADF X—using the results framework as part of ADB's corporate-level performance management system	<ul style="list-style-type: none"> • 2007 Development Effectiveness Review • Development Effectiveness Review for 2008 and beyond 	<ul style="list-style-type: none"> • 3Q 2008 • 2Q 2009 and beyond
	5.3 Improve country development effectiveness briefs by linking more closely with ADB's results framework and more systematically reporting on contribution of project outputs to development outcomes in individual countries	<ul style="list-style-type: none"> • Country development effectiveness briefs 	<ul style="list-style-type: none"> • Ongoing
	5.4 Review MfDR Action Plan to define next steps on ADB's MfDR agenda beyond 2008	<ul style="list-style-type: none"> • Final report of the review of the MfDR Action Plan to Management with recommendations on next steps • Management's decisions on next steps on MfDR 	<ul style="list-style-type: none"> • 4Q 2008 • 1Q 2009
6. ADB responds to clients faster and better	6.1 Complete the ongoing "Review of Resident Mission Operations" and develop options for next steps	<ul style="list-style-type: none"> • Final report of the review 	<ul style="list-style-type: none"> • 2Q 2008
	6.2 Implement streamlined project preparation TA processes proposed under the TA management reform initiative	<ul style="list-style-type: none"> • OM for the new business processes for TAs 	<ul style="list-style-type: none"> • 2Q 2008
	6.3 Review the implementation of streamlined business processes introduced since 2006 and identify options for further streamlining	<ul style="list-style-type: none"> • Final report to Management with recommendations 	<ul style="list-style-type: none"> • 1Q 2009
	6.4 Implement streamlined consultant selection and recruitment processes for loan and TA projects	<ul style="list-style-type: none"> • 2007 Development Effectiveness Review • Development Effectiveness Review for 2008 and beyond 	<ul style="list-style-type: none"> • 3Q 2008 • 2Q 2009 and beyond
7. ADB as a learning organization	7.1 Prioritize ADB's research agenda with its priorities under the new long-term strategic framework (LTSF)	<ul style="list-style-type: none"> • WPBF 	<ul style="list-style-type: none"> • 3Q every year
8. Effective and independent operations evaluation function at ADB	8.1 Conduct a review of OED operations to ensure its independence and improve its operations, in consultation with the Board in defining the terms of reference and assessing the status of the review.	<ul style="list-style-type: none"> • Final terms of reference for the review 	<ul style="list-style-type: none"> • Terms of reference finalized in April 2008

Objective	Proposed Actions	Monitoring Parameters	Target Date
		<ul style="list-style-type: none"> • Final report of the review • Board consideration of recommendations 	<ul style="list-style-type: none"> • 4Q 2008 • 4Q 2008
9. ADB partners with other development partners more effectively	9.1 Continue to implement the Paris Declaration on Aid Effectiveness, including the Accra Action Agenda, to be adopted at the Third High Level Forum (HLF-3)	<ul style="list-style-type: none"> • OECD-DAC Monitoring Surveys • 2007 Development Effectiveness Review • Development Effectiveness Review for 2008 and beyond 	<ul style="list-style-type: none"> • 2Q 2008 • 3Q 2008 • 2Q 2009 and beyond
	9.2 Deepen partnerships with other partners at the country level to leverage impact of ADF operations and ensure well-coordinated assistance for sectors where ADB engagement remains limited (such as health, and agriculture and natural resources)	<ul style="list-style-type: none"> • Country partnership strategies and their midterm progress review papers • Country operations business plans 	<ul style="list-style-type: none"> • Continuous • Continuous
	9.3 Prepare a report on the possibility of amending the legal provisions to enable universal procurement	<ul style="list-style-type: none"> • Report on universal procurement 	<ul style="list-style-type: none"> • ADF X MTR 2010
10. ADB operates transparently	10.1 Sustain high compliance on disclosure requirements under the Public Communication Policy (PCP)	<ul style="list-style-type: none"> • Annual PCP progress report 	<ul style="list-style-type: none"> • 1Q every year
	10.2 Implement the 2007 Translation Framework to make more information available to affected people in language they understand	<ul style="list-style-type: none"> • Annual PCP progress report 	<ul style="list-style-type: none"> • 1Q every year
	10.3 Conduct perceptions survey of ADB every 2–3 years following the 2006 survey	<ul style="list-style-type: none"> • Perceptions survey reports 	<ul style="list-style-type: none"> • Next survey in 2009
11. ADB manages its human resources better	11.1 Implement flexible recruitment practices, with flexibility applied to nationality, staff position level, salary level, fixed-term contract other than three years, etc.	<ul style="list-style-type: none"> • Guidelines on flexible recruitment 	<ul style="list-style-type: none"> • Guidelines issued in April 2008
	11.2 Implement a more transparent appointment process for senior staff (levels 9 and 10), including simultaneous internal and external advertisement, and interviews as required for shortlisted internal and external candidates	<ul style="list-style-type: none"> • External advertisements of senior staff vacancies 	<ul style="list-style-type: none"> • Continuous
	11.3 Undertake a comprehensive review of the human resource strategy in consultation with the Board with the assistance of external experts	<ul style="list-style-type: none"> • Commencement of the review • Report on the review to the Board • Revised action plan 	<ul style="list-style-type: none"> • 2Q 2008 • 4Q 2008 • From 1Q 2009

Objective	Proposed Actions	Monitoring Parameters	Target Date
		implemented <ul style="list-style-type: none"> • 2007 Development Effectiveness Review • Development Effectiveness Review for 2008 and beyond 	<ul style="list-style-type: none"> • 3Q 2008 • 2Q 2009 and beyond
	11.4 Conduct staff engagement surveys every two to three years	<ul style="list-style-type: none"> • Staff engagement survey reports 	<ul style="list-style-type: none"> • Next survey 2010 or 2011

ADB = Asian Development Bank, DMC = developing member country, OECD-DAC = Development Assistance Committee of the Organization for Economic Cooperation and Development, OED = Operations Evaluation Department, OM = Operations Manual, Q = quarter, TA = technical assistance.
 Source: Asian Development Bank.