

## Evaluation Approach

# ADB's Engagement with Middle-Income Countries

### March 2016

Team Leader: Kapil Thukral, Principal Evaluation Specialist (email:kthukral@adb.org), IED2  
Contact: evaluation@adb.org

---

1. The evaluation of Asian Development Bank's (ADB's) engagement with middle-income countries (MICs) is set against the backdrop that since 2006, the number of countries in the middle-income category in the Asia and Pacific region has increased from 24 to 36, and now comprise 90% of ADB's eligible borrowers. It is anticipated that more countries will join this income category in the next 5–10 years.

2. In this evaluation, the Independent Evaluation Department (IED) has adopted the World Bank system of country classification.<sup>1</sup> The World Bank updates the ranges of gross national income (GNI) per capita that determine a country's income classification each year (see Appendix 1). The World Bank classification of middle-income countries covers a large variety of situations. Differences in income levels and composition of the gross domestic product, population and urbanization rates, geographical area and natural resource endowments are some of the features that make the MIC grouping a heterogeneous one. This diverse group of countries often experience persistent development challenges that range from economic inequality, to environmental degradation, vulnerability to climate change, lack on competitiveness, poor governance and weak institutions. The development trajectories of many MICs can have significant regional (and possibly global) implications.

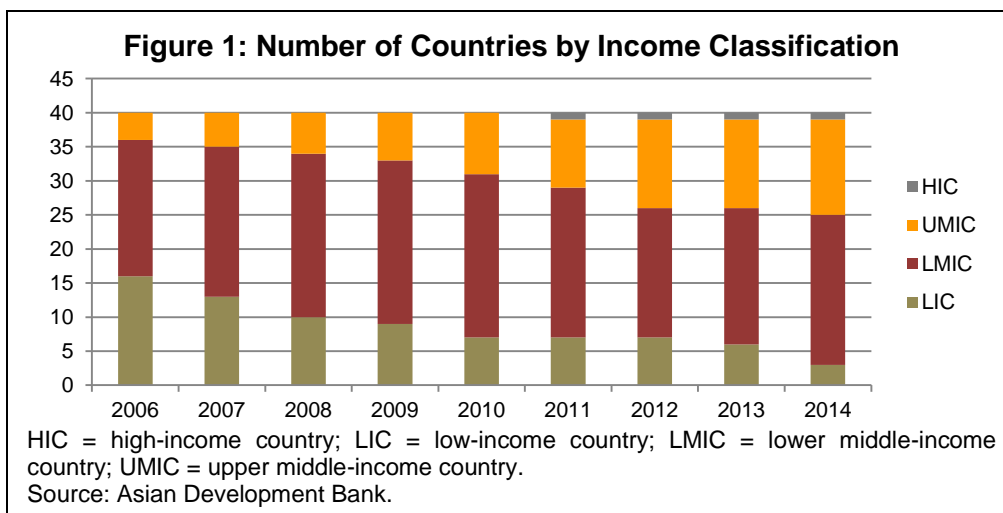
3. The evaluation is included in the work program of IED. It will address issues regarding ADB's continued relevance in the region and is intended to provide insights to the formulation of ADB's new corporate strategy to 2030. The objectives and scope of the evaluation are discussed in paras 27–37.

#### **A. Background**

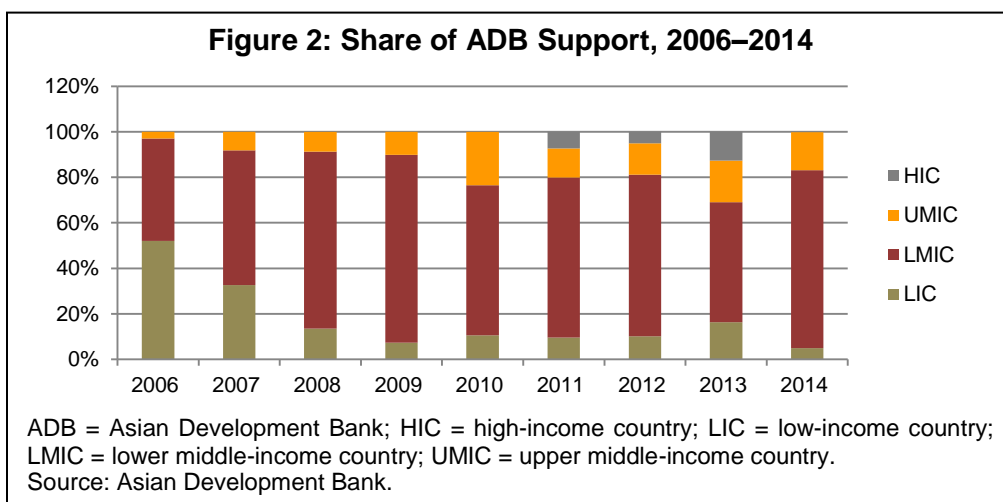
4. The most prominent aspect of the ADB borrower country profile up to the mid–2000s was the predominance of low-income countries (LICs) and lower middle-income countries (LMICs). However since then, the number of LICs has reduced significantly, the number of upper middle-income countries (UMICs) risen, and the number of LMICs remained virtually unchanged (Figure 1). In 2014, 36 of 40 countries that ADB supports were classified as MICs and they were comprised of 14 UMICs and 22 LMICs. Of the remaining four countries, three were LICs and one a high-income country (HIC).

---

<sup>1</sup> The World Bank system has been in place since 1987. At the beginning of its fiscal year on 1 July, the World Bank estimates for its member countries, the gross national income per capita in US dollars for the immediately preceding calendar year using the Atlas methodology. For classifying countries as belonging to low, lower-middle, upper-middle and high income countries, the World Bank set the following thresholds on 1 July 2015: <= \$1,045 for low income category, >\$1,045 and <= \$4,125 for lower-middle income category, >\$4,125 and <= \$12,735 for upper-middle income category, and >\$12,735 for high income category.



5. The share of ADB's support (by US dollar amounts approved) allocated to MICs doubled from 46% in 2006 to more than 92% in 2014,<sup>2</sup> and this trend illustrates the growing importance of MICs in the ADB portfolio. The share of ADB support to both LMICs and UMICs increased during the same time period (Figure 2)



6. Asia's role and influence in the world has risen significantly in recent decades, which reflects developing Asia's rising share of global gross domestic product from less than 20% in 1980 to more than 25% in 2010, a share of more than 50% of global population in 2010, and increasing urbanization rates from less than 30% in 1980 to more than 40% in 2010.<sup>3</sup> Asia's share of international trade has risen significantly since the turn of the century,<sup>4</sup> and this trend is projected to continue to 2030.<sup>5</sup> Asia's share of the global carbon-dioxide emissions has

<sup>2</sup> Includes support from (i) ordinary capital resources through loans, equity investments, and guarantee support through ordinary capital resources; (ii) Asian Development Fund through loans and grants; and (iii) other special funds through technical assistance and other grants.

<sup>3</sup> ADB. 2011. *Asia 2050: Realizing the Asian Century*. Manila.

<sup>4</sup> For example, the share of merchandise exports increased from 25.5% in 1999 to 29.6% in 2013, and commercial services increased from 19.6% to 26.2% in 2013. See: (i) World Trade Organization, 2000, *International Trade Statistics 2000*, Geneva; and (ii) World Trade Organization, 2014, *International Trade Statistics 2014*, Geneva.

<sup>5</sup> ADB, 2011, *Asia's Changing Role in World Trade: Prospects for South-South Trade Growth to 2030 (ADB Economics Working Paper Series)*, Manila.

increased consistently for more than two decades and is expected to continue rising in the coming decades.<sup>6</sup> Additionally, the People's Republic of China (PRC) is pushing for a reform of the international economic system, and despite the slowdown of economic growth in PRC since 2013, the perception of Asia's rising role and influence in the global economy in the foreseeable future continues unabated.

7. Yet many MICs are still facing development challenges, continue to experience growth slowdowns, are affected by PRC's new (and significantly slower) growth trajectory, and are struggling to shift toward a productivity-driven structure necessary to attain high-income status. There are many potential determinants of MIC slowdowns or reversals in total factor productivity, the most commonly mentioned ones being: weak institutions and poor governance, regulatory barriers to trade and foreign direct investment, a demographic profile with high or rising dependency ratios, insufficient infrastructure, and adverse macroeconomic factors.<sup>7</sup> Box 1 provides further details.

8. Additionally, regional and global implications of continued development and population growth could pose further development challenges for MICs. Such challenges could possibly come from globalization, climate change and certain trends already underway but not easily discernable yet.<sup>8</sup> For these countries, regional economic cooperation can be a potent strategy for growth,<sup>9</sup> but also highlights the importance of better risk management.<sup>10</sup>

9. ADB support to MICs covers many of these aspects.<sup>11</sup> Through this support, ADB enables LMICs to transition to the UMIC category, and UMICs to HIC category. Simultaneously, ADB support is intended to enable centrally planned economies to transition to market economies. It is difficult to project the extent countries would be able to make these transitions by 2030; it is noteworthy that Malaysia has been a UMIC for some 20 years and the Philippines has remained in the LMIC category for about three decades.<sup>12</sup> Many MICs have suffered setbacks and their economies have shrunk during certain time periods to the point they have slipped back into the LIC category; these countries include Indonesia following the Asian financial crisis, Mongolia from the mid-1990s through the late 2000's, Papua New Guinea during the early to mid-2000's, and some former Soviet Union republics during the early to mid-1990s.<sup>13</sup>

<sup>6</sup> For instance, the combined share of the PRC and India increased from about 14% in 1990 to 36% in 2014; see PBL Netherlands Environmental Assessment Agency. 2015. *Trends in Global CO2 Emissions: 2015 Report*. The Hague.

<sup>7</sup> Such as high share of low-productivity sectors in gross domestic product, a high government debt to gross domestic product ratio, and insufficient financial stability.

<sup>8</sup> For example, internal or cross-border migrations in response to increasing environmental degradation, rising frequency of hazards, declining crop yields, increased water and food insecurity, widespread public health threats and generally inequitable distribution of resources, services and opportunities.

<sup>9</sup> According to the OECD "Growing regional integration both among emerging Asian countries and with the broader Asian region would be a major asset in their efforts to rise into the high income ranks." See <http://www.oecd.org/site/seao/>.

<sup>10</sup> The 2011 Thai floods and the 2011 earthquake and related tsunami in Japan demonstrated the potential adverse impact of disasters on integrated cross-border manufacturing supply-chains.

<sup>11</sup> X. Han and S. Wei. 2015. Re-examining the Middle-Income Trap Hypothesis: What to Reject and What to Revive. *ADB Economics Working Paper Series*. No. 436. Manila: Asian Development Bank. Also refer to International Monetary Fund Working Paper. WP/13/71.

<sup>12</sup> Data from the World Bank for income classification thresholds and per-capita gross national income in US dollars is available for calendar years 1987 onwards only.

<sup>13</sup> Includes Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

## B. Engagement with Middle-Income Countries to Date

### 1. ADB Policies and Strategies

10. ADB has sought to progressively sharpen its strategies to support MICs. In 2008, ADB acknowledged that even after they rise from LIC to MIC category, some economies remain fragile and became relatively more vulnerable to external shocks. In 2014, ADB noted the relatively higher level of development in UMICs (vis-à-vis LMICs). In 2015, it began defining its priorities to support UMICs address their development challenges.

11. **Strategic Framework, 2008–2020.** ADB prepared a background paper on MICs in 2006,<sup>14</sup> which informed ADB's long-term strategic framework (Strategy 2020) formulated in 2008.<sup>15</sup> Strategy 2020 recognized that MICs represented a strategic priority for ADB, were critical for ADB to realize its vision of a region free of poverty, and could contribute to the provision of regional and global public goods (especially environmental goods). Although Strategy 2020 explicitly acknowledged the diversity in LICs, there was only an implicit acknowledgement of diversity within the MIC grouping. It noted that (i) there would be different requirements across countries (including MICs) to achieve inclusive growth, environmentally sustainable growth, and regional integration; and (ii) in some MICs, there may be a need for ADB to intervene at the policy level or for capacity development, while in other countries ADB might provide assistance through work at the sub-sovereign level. The strategy appeared to acknowledge that some fragile countries are MICs.

12. Strategy 2020 noted that ADB could develop strong relationships with graduated countries to tap into their knowledge resources and expertise to advise other countries on best-practice approaches to policy reforms and upgrading technology. Graduated countries could cofinance ADB operations, or ADB could facilitate direct financing from graduated countries to other borrowing countries. The strategy observed that Group C borrowers—countries eligible for borrowing only from ordinary capital resources (OCR)—at 2008 would achieve or be on a growth trajectory for graduation from regular ADB assistance by 2020.

13. **Midterm review of Strategy 2020.** The midterm review (MTR) in 2014 concluded that Strategy 2020 remains valid but ADB needs to rebalance and sharpen its operations under this framework in view of the changes taking place in Asia and the Pacific.<sup>16</sup> It called for ADB to respond to a new business environment that is characterized by (i) the changing development priorities of countries that attain upper middle-income status; (ii) the increasing role envisaged for the private sector in developing infrastructure, creating jobs, reducing poverty, and supporting economic growth; and (iii) the increasing need for knowledge solutions to address complex challenges.<sup>17</sup> It sought to continue the focus on infrastructure development, but with increased attention to and operations in social sectors.<sup>18</sup> It set a long-term objective of having total annual direct cofinancing exceed the value of ADB's stand-alone project financing.

<sup>14</sup> ADB. 2006. *Enhancing Asian Development Bank Support to Middle-Income Countries and Borrowers from Ordinary Capital Resources*. Manila.

<sup>15</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

<sup>16</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. April.

<sup>17</sup> The lower middle-income countries will continue to face issues similar to those in low-income countries. ADB has extensive experience in addressing many such development challenges.

<sup>18</sup> The MTR called for (i) strengthening outcomes in infrastructure sectors by improving sector engagement, leveraging private sector investment, and emphasizing operations and maintenance; (ii) pursuing the vision of a region free of poverty by expanding support for achieving rapid and inclusive economic growth, supporting

14. The MTR explicitly acknowledged that MICs represent a diverse group.<sup>19</sup> It noted a broad dichotomy between LMICs and UMICs. UMICs generally have relatively higher levels of human development, better access to infrastructure, more developed financial markets, greater private sector participation in development, and a better ability to tap diverse sources of finance. In this context, the MTR suggested that ADB needs to differentiate its strategic engagement with MICs as it supports their specific development goals and builds on their unique capacities and expertise.

15. **Upper middle-income countries.** ADB delineated its role for supporting, collaborating, and partnering with UMICs in February 2015.<sup>20</sup> It outlined six broad areas for ADB support to UMICs: (i) mitigate inequalities and promote inclusive growth, (ii) address the challenge of demographic change; (iii) manage climate change and the environment; (iv) boost productivity and competitiveness by developing the private sector; (v) strengthen regional cooperation and integration; and (vi) promote South–South knowledge collaboration. Given the highly differentiated development issues and challenges of UMIC island economies, it noted that ADB’s engagement with them is guided by ADB’s operational plan for fragile and conflicted afflicted situations (FCAS).

16. As part of its efforts to formulate a corporate strategy for 2030, ADB is refining the framework for engagement with UMICs.<sup>21</sup> The December 2015 draft framework recognized that UMICs can be treated as partners in development although they continued to suffer development challenges. It noted that: (i) UMICs are key drivers of the regional economy; (ii) their economic and financial policies have broad implications for regional and global growth and financial stability; and (iii) they can potentially play a bigger role in promoting regional cooperation and integration in Asia and the Pacific. Additionally, it noted that ADB will prioritize partnership with UMICs in areas where externalities and spillovers are of greatest benefit to other client countries.

17. **Graduation policy.** As per ADB’s 1998 graduation policy and its 2008 review,<sup>22</sup> the criteria for graduation from regular ADB support are (i) a per-capita GNI of \$7,185 in 2013 prices; (ii) availability of commercial capital flows on reasonable terms; and (iii) the attainment of a certain level of development by key economic and social institutions. The policy states that graduation from regular ADB support is expected to occur within 5 years of meeting all three graduation criteria, and indicates ways in which ADB can partner with countries after they have graduated.<sup>23</sup> It considers graduation of a particular country as part of a process of an evolving relationship between ADB and that country. In keeping with the fact that MICs (including UMICs) continue to face development challenges they have traditionally encountered, and are also confronted with new development challenges, ADB is beginning a process to review this policy.

---

infrastructure projects that connect the poor to markets, emphasizing financial inclusion and social protection, strengthening governance systems and institutional capacities; (iii) promoting natural resource management, scaling up support for climate change adaptation, maintaining support for climate change mitigation, strengthening integrated disaster risk management, and helping countries access global and regional funds for environment and climate change; and (iv) supporting cross-border infrastructure investments, expanding regional connectivity, facilitating trade, strengthening financial and monetary cooperation, and supporting regional public goods.

<sup>19</sup> They vary widely in terms of income, population, geographical area, institutional capacity, fragility and access to resources.

<sup>20</sup> ADB. 2015. *Clients–Contributors–Collaborators: A New Partnership with Upper Middle-Income Countries*. Manila.

<sup>21</sup> ADB. 2015. *ADB’s Approach to Upper Middle-Income Countries: A Refined Framework*. Manila, December.

<sup>22</sup> ADB. 1998. *A Graduation Policy for the Bank’s DMCs*. Manila, November; ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila, April.

<sup>23</sup> These include (i) emergency assistance, (ii) provision of expert services and technical assistance, (iii) bond issues, (iv) transfer of technology, (v) cofinancing, (vi) promotion of private-to-private flows, and (vii) subregional cooperation.

## 2. ADB Operations

18. ADB provides regular development support to all LMICs and many UMICs. These MICs include all island states irrespective of which income category they fall in—as they are fragile and sensitive to external shocks, and vulnerable to the adverse effects of climate change.<sup>24</sup>

19. While ADB's support to MICs has continued to grow over time (from \$4.7 billion in 2006 to \$21.2 billion in 2014), its engagement with some MICs has been highly variable with no consistent pattern. Given that UMICs are in a relatively better position to raise investment capital, their requirements are somewhat different from LMICs. ADB considers UMICs generally as collaborators rather than simply recipients. Each UMIC however, is unique. ADB has emphasized supporting projects with design innovations in some UMICs, or focused on supporting the private sector in other UMICs.

20. ADB has engaged continuously with (i) PRC and Mongolia where annual approvals have shown a steady growth over the past 5 years; (ii) Azerbaijan and Kazakhstan where approvals have tended to fluctuate substantially from 1 year to the next; and (iii) Thailand, where ADB interventions mostly support the private sector. ADB's engagement with Malaysia was reduced to regional technical assistance following the Asian financial crisis of the late-1990s, although it prepared an interim country partnership strategy (CPS) covering 2011–2012. ADB has engaged with Turkmenistan since 2011 towards preparing an interim CPS.<sup>25</sup> Indonesia has been reluctant to accept project-based loans, continues to borrow substantial volumes mostly through program loans, and has accepted a results-based loan in late 2015. Similarly, Philippines has preferred not to accept project-based loans, given the nature of public sector institutional and public finance arrangements (for example, the nature of fiscal transfer between national and local governments, the existence of certain autonomous regions and varying levels of local government finance) that has impacted interest in project based loans.

21. MIC needs are different from LICs. Increasingly, ADB has been required to offer knowledge solutions and innovative project designs in keeping with their priorities. There is a push to overlay the sector-focused approach with efforts to support MICs address challenges posed by income and non-income poverty and social inequalities, environmental degradation and climate change, disasters, external shocks, and (in some cases) adverse demographic trends. ADB support to improve governance and private sector participation helps reinforce efforts to address these challenges. All ADB support is intended to improve directly or indirectly, total factor productivity and competitiveness of client MICs.

22. With increased lending headroom following the combination of OCR and the Asian Development Fund (ADF), ADB has targeted annual commitments (approvals) to increase up to \$20 billion—provided there is need. This is an increase of nearly 50% over the \$13.7 billion level in 2014. Together with cofinancing targeted for a one-to-one ratio to ADB financing,<sup>26</sup> ADB's total annual assistance could reach \$40 billion (about 75% more than the 2014 level of about

<sup>24</sup> In 2014, these included (i) the seven island LMICs—Kiribati, the Federated States of Micronesia, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, and Vanuatu; (ii) the seven island UMICs—Fiji, the Maldives, the Marshall Islands, Nauru, Palau, Tonga, and Tuvalu; and (iii) one island HIC—Cook Islands.

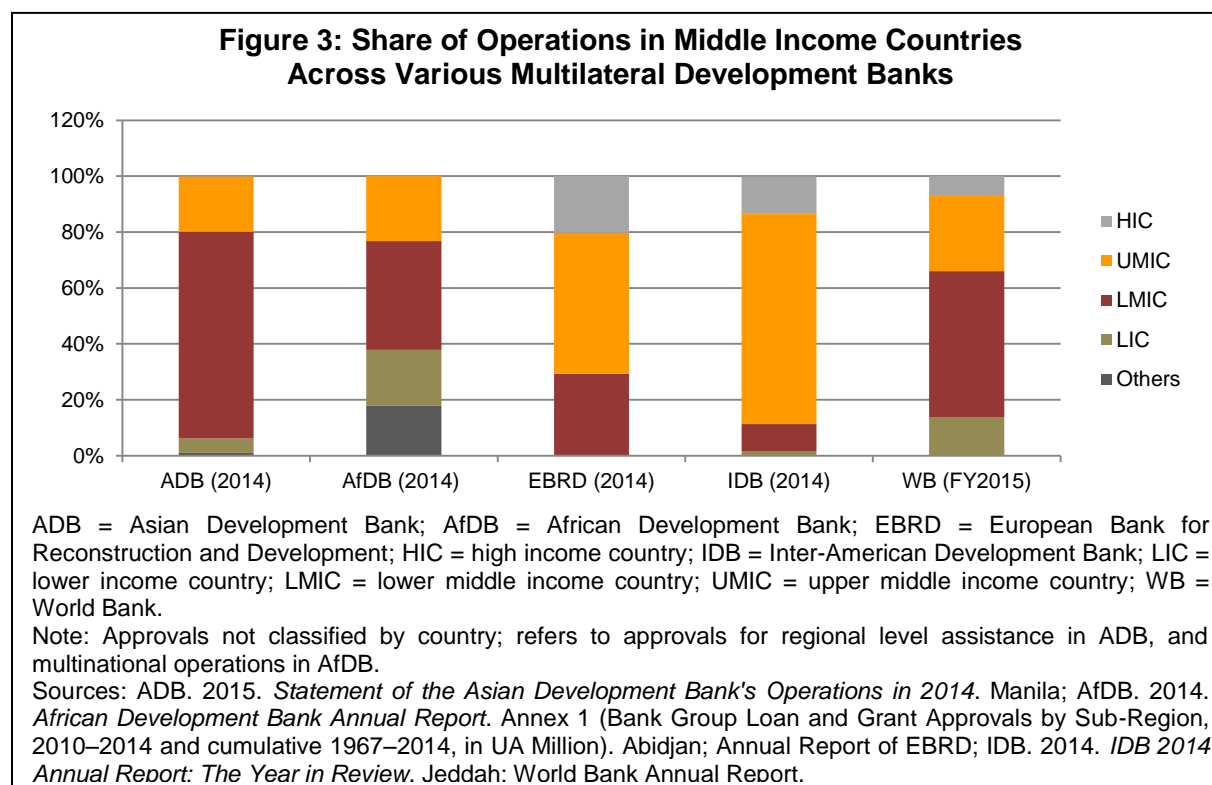
<sup>25</sup> Following an advisory TA that was approved in 2007, the first lending project was approved in 2011 with the North-South Railway. There is as yet no country partnership strategy with Turkmenistan, and an interim CPS has been in preparation in consultation with the government since 2011. ADB has updated the draft strategy each year to keep it current, and annual country operations business plans have been formulated in line with the draft interim CPS.

<sup>26</sup> As per 2014 Midterm review of Strategy 2020.

\$23 billion). The combination of OCR and ADF is intended to become effective in January 2017 and the annual targets of \$20 billion and \$40 billion are expected to be reached by 2020.<sup>27</sup>

### 3. Other Multilateral Development Banks

23. In the most recent period where data on country operations (US dollar amounts approved) are available for comparator multilateral development banks (MDBs) and ADB, the latter had the maximum share of operations approved in MICs (Figure 3). ADB's share of approvals to UMICs was the lowest amongst MDBs. A significant share of the approvals of three of the four other MDBs was allocated to support economic development in HICs. The continued development support (no matter what the level of per-capita GNI is) by the Inter-American Development Bank appears to reflect the absence of a graduation policy. For the European Bank for Reconstruction and Development, the continued support to UMICs and HICs reflects the original mandate (to support Central and Eastern European countries transition to becoming market economies), and move towards promoting environmentally sustainable, socially just, and renewables-based societies.<sup>28</sup> For the World Bank, the graduation policy allows continued support to be provided until a country is in a position to sustain long-term development without recourse to the World Bank financing.<sup>29</sup>



<sup>27</sup> ADB. 2009. Frequently Asked Questions: Enhancing ADB's Financial Capacity by Up to 50% for Reducing Poverty in Asia and the Pacific: Combining ADB's ADF OCR Resources. 31 March. <http://www.adb.org/news/features/frequently-asked-questions-enhancing-adbs-financial-capacity-50-reducing-poverty-asia>.

<sup>28</sup> The European Bank for Reconstruction and Development was originally mandated to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European (CEE) countries committed to and applying the principles of multiparty democracy, pluralism and market economics. CEE Bankwatch Network. 2011. *Are we nearly there yet? Dilemmas of Transition after 20 years of EBRD's Operations*. Prague.

<sup>29</sup> World Bank. 2011. *Crossing the Threshold: An Analysis of IBRD Graduation Policy (Policy Research Working Paper 5531)*. Washington, DC.

## C. Evaluation Methodology

24. The objective of the evaluation, issues addressed and limitations are discussed, along with a broad approach for gathering necessary information and data.

### 1. Scope and Coverage

25. The economic future of Asia and Pacific region in the foreseeable future will depend largely on the prospects and performance of MICs. The evaluation will seek to understand the options available to ADB to remain relevant to a progressive Asia and Pacific region. The evaluation is based on the premise that ADB will expand its operations and align them with the needs of the borrowing countries—which will be mostly MICs. It will study the key challenges faced by MICs in the region and by the region itself, how ADB is interacting with MICs and the implications of changes in the borrowing country profile output mix and other external factors, on ADB's strategies and programs regarding MICs in general, and UMICs in particular. The evaluation will also study ADB's role in supporting MICs efforts to achieve SDGs, mitigate their vulnerabilities to internal and external shocks, and issues related to regional cooperation and in promoting regional public goods.

### 2. Evaluation Issues

26. The evaluation will address three key issues regarding ADB's continued relevance in the region, and how it can most effectively and efficiently provide support to countries.

#### a. What are the key development challenges of client MICs and which ones has ADB support sought to address?

27. Although MICs are a diverse group, many of them share one or more of the development challenges shown in Box 1. The intensity or severity of a particular development challenge can vary from one MIC to another, some challenges may be more pronounced in certain parts of a particular MIC, or some challenges may surface when external shocks occur. ADB has sought to address these development challenges largely by engaging at a country-level, through a mix of sovereign and nonsovereign (including private sector) operations. ADB has also engaged at a regional or subregional level to assist client MICs in keeping with their priorities for regional (and global) integration and address certain development challenges. The emphasis on regional infrastructure and support towards reducing greenhouse gas emissions are cases in point.

#### Box 1: Key Internal Development Challenges of Middle-Income Countries

- (i) **Macroeconomic Stability.** A high government debt to gross domestic product ratio, inadequate monetary policy, poor fiscal consolidation, structural problems (such as high share of low productivity sectors) and insufficient financial stability are among the many deterrents to development.
- (ii) **Structure of the Economy.** Some resource rich MICs rely heavily on trading one or a few primary commodities. Some other MICs are heavily dependent on manufacture and export of low value added products. Either way, the concerned MICs are vulnerable to volatility of global demand and prices of those commodities and products. Economic diversification (which would be related to higher output and expansion in the range of goods and services) reduces vulnerability to the vicissitudes of international trade.
- (iii) **Poverty and inequality.** Although extreme poverty rate has dropped significantly in Asia since the turn of the century (due largely to massive progress in the People's Republic of China), cash and non-cash poverty remains pervasive.<sup>a</sup> Gender equality remains a distant goals in many MICs. The need for quality education and improving skills sets, providing a social safety net, and reducing inequality in terms of income, access to opportunity and services, pose a formidable development challenge.<sup>b</sup>



- (iv) **Improving productivity.** Moving up the global value chain has been an integral part of economic transformation of countries, and urbanization has been an integral part of economic transformation. No country has reached high-income status without urbanization. Factor markets to support economic and social mobility and total factor productivity improvements enhance competitiveness and sustain wage increases are basically an urban phenomenon. Efficient, inclusive and sustainable urbanization, and improving factor productivity and competitiveness however, are a serious challenge for many middle-income countries.<sup>d</sup> While the Government's role is crucial, the private sector also has an essential role to play in raising productivity and investing in human resources, equipment and technology for improving competitiveness.
- (v) **Infrastructure Deficit.** Reliable and affordable transportation systems, energy generation and distribution, water supply and sanitation are fundamental to achieving development goals related to economic growth, job creation and social services such as health and education. Inadequate infrastructure can potentially dampen prospects for economic growth and development.
- (vi) **Demographic changes.** Populations in developing Asia have been ageing faster than any other part of the globe,<sup>c</sup> and consequently, the working age populations have been declining before countries have reached a high-income status.
- (vii) **Governance.** Governance systems impinge upon all sectors and activities of the central and local governments. Reforms in public financial management, public sector enterprises, land ownership, social policy, and other areas facilitate and enable efficient allocation of all factors of production.
- (viii) **Environment and climate change.** The economic growth achieved by many Asian middle-income countries over the past several decades, which relied to a great extent on urbanization and industrialization programs, has been accompanied by degraded air, water and land resources. The increasing frequency and intensity of natural disasters<sup>e</sup> has spurred the need to adapt to climate change. Local environment improvement benefits can have climate change mitigation co-benefits and vice-versa.
- (ix) **Resilience.** The need to withstand external shocks (such as financial crises or climate change related and geophysical natural calamities) or changing external circumstances (such as international oil price movements, or deteriorating terms of trade) in an increasingly interconnected world. Economic diversification and disaster risk management including enhanced fiscal management of residual disaster risk are among the measures that can improve resilience.

<sup>a</sup> United Nations. 2015. *The Millennium Development Goals Report 2015*. New York.

<sup>b</sup> ADB. 2012. *Asian Development Outlook: Confronting Rising Inequality in Asia*. Manila.

<sup>c</sup> United Nations Economic and Social Commission for Asia and the Pacific. 2012. *Report of the Asia-Pacific Intergovernmental meeting on the Second Review and Appraisal of the Madrid International Plan of Action on Ageing*. Bangkok.

<sup>d</sup> Efficient urbanization refers to making the best possible use of productive resources (people, land and capital). Inclusive urbanization refers to providing all people equal access to opportunity and affordable services, which allows labor to move to where it is most productive. Sustainable urbanization refers to providing an urban quality of life commensurate with the expectations of the urban dwellers, and which can be supported in terms of environmental and other natural resources. See World Bank and Development Research Center of the State Council (People's Republic of China). 2014. *Urban China: Towards Efficient, Inclusive and Sustainable Urbanization*. Washington, DC.

<sup>e</sup> Refers to hydrological (flood/avalanche), meteorological (cyclones/storms) and climatological (drought/wildfire) disasters.

Source: Asian Development Bank Independent Evaluation Department.

28. The evaluation will examine the underlying factors that contribute to the emergence of these challenges in selected countries. These may include the following: (i) the extent country systems are developed (regarding public financial management, safeguards, following good international practices), (ii) knowledge, expertise and skills base of the government and public institutions; (iii) vulnerability of the bureaucracy and regulatory bodies to elite capture. The evaluation will endeavor to decipher the extent there are noticeable differences in the mix of development challenges between: (i) small island developing states and other MICs; (ii) LMIC and UMIC categories; (iii) resource rich countries and others; and (iv) landlocked countries and others. The evaluation team will consult with relevant ADB staff and other stakeholders, and review relevant CPSs and results frameworks.

**b. What type of support did ADB offer the client MICs and to what extent was this support responsive to client MIC needs?**

29. ADB has developed and administers a range of products and services to support client countries meet their development objectives. In administering these, ADB has instituted a set of internal processes and systems to ascertain that ADB's fiduciary, safeguards and other concerns are duly met.

30. In this context, the evaluation will examine how ADB has supported client MICs to continue to address their development challenges and generate positive externalities for the region and the world. In particular, the evaluation will examine the following: (i) the extent ADB's RCI initiatives have complemented the country-centered approach of formulating and implementing CPSs; (ii) the mix of investment and technical assistance support, and the knowledge solutions that are embedded in these forms of support; (iii) the mix of sovereign and nonsovereign (including private sector) operations; (iv) how ADB's suite of products and services compare with those of other MDBs active in the Asia and Pacific region.

31. Additionally, the evaluation will examine the following for selected countries: (i) preferences for certain types of products and services and the reasons thereof; (ii) the extent ADB's on-the-ground presence, skill-sets, systems and procedures, and comparative advantages (real or perceived) have influenced the type of support they have actively sought from ADB; and (iii) key differences that client MIC governments notice in their interactions with ADB vis-à-vis other MDBs active in the country, in terms of the suite of products and services and other aspects of a responsive and beneficial engagement.

32. The evaluation will try to obtain reasonably comprehensive views and perspectives of selected client MICs regarding: (i) ADB's growing emphasis on knowledge-related work, forging knowledge partnerships and the piloting of the One-ADB approach; (ii) ADB's recently announced plans for increasing the volume operations and cofinancing; and (iii) ADB's recently introduced products, such as results-based lending.

**c. What results were achieved through ADB support to client MICs?**

33. The diversity of client MICs underpins the need for ADB to customize approaches in supporting their development. This impacts the extent client MICs actually realize or perceive benefit from continued interactions with and support from ADB, and customization relates to ADB's attempts at adapting to changing external circumstances in which client MICs tackle and cope with development challenges. Some such external influences pertain to globalization and regionalization, technology advances that can potentially propel a change in development pathways, and increasing competition for supply of credit from a variety of financing sources.

34. The evaluation will examine the following for selected client MICs: (i) whether or not MIC stakeholders consider that ADB has provided value-adding support, be it in terms of project design innovations, business process improvements, well-suited safeguard measures, catalyzing private sector activity, or any other aspect; (ii) the extent ADB supported piloting and demonstration of innovative projects have created value addition through replication; (iii) whether or not governments and/or other stakeholders (including private sector) in those client MICs have internalized some value-adding features of ADB support; (iv) whether or not ADB has provided thought leadership in RCI activities and demonstrated its ability and willingness to address new/emerging regional and global public goods issues; and (v) their efforts at evolving from being recipients to collaborators with ADB.

35. The evaluation will also attempt to address the related but obverse question of why certain MICs are reluctant to accept ADB support through certain modalities. In an attempt to gain a wider perspective on how ADB can remain actively engaged with the selected client MICs, the evaluation will analyze the evolution of ADB's share in the external debt profile, and assess the relative benefits of alternative sources of financing.

36. In addition to understanding the countries' rationale for continuing or discontinuing their engagement with ADB, the evaluation will examine the following: (i) ADB's graduation policy and the extent it has been applied to date to UMICs that have crossed the income threshold for regular support; (ii) the implications for ADB in the event UMICs eligible for graduation actually stopped receiving regular support from ADB. Additionally, and for a well-rounded perspective on graduation from regular support, the evaluation will examine the following: (i) relevant policies and practices of some other MDBs regarding graduation from regular support; (ii) the incidence of "reverse graduation" wherein countries have sought development assistance from an MDB after a prolonged gap; (iii) the extent other MDB's have continued to provide support to countries after they attain HIC status. The evaluation will also investigate whether or not the following graduation criteria can be considered: (i) likelihood of achieving SDGs without external assistance; (ii) likelihood of reverse graduation and vulnerability to external shocks; and (iii) the country's role in regional cooperation and role of external assistance in promoting regional public goods by the country. The above analyses will provide a basis for suggesting revisions to ADB's graduation policy.

### **3. Methods and Data**

37. The evaluation will be based on a mix of desk studies and interviews with key stakeholders in ADB, other MDBs and bilateral development partners and selected countries.

38. Issues related to ADB engagement will be examined for 19 MICs through desk studies and consultation with relevant ADB staff. The 19 MICs include 9 UMICs (Azerbaijan, PRC, Kazakhstan, Malaysia, Maldives, Mongolia, Thailand, Tonga and Turkmenistan) and 10 LMICs (Bangladesh, India, Indonesia, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Uzbekistan, Vanuatu and Vietnam). These include three landlocked countries (Kazakhstan,<sup>30</sup> Mongolia and Uzbekistan) and two other countries that have ports on the Caspian Sea, an inland water body. The desk studies and ADB staff consultation will focus on understanding their development challenges, their access to non-ADB sources of finance for development and investment, potential for nonsovereign (including private sector) operations, situations regarding country systems for public financial management and safeguards, and perceived benefits from ADB support.

39. Given that for the first time ADB will formulate a corporate strategy when a significant number of client countries are in the upper-middle-income category, the evaluation will include case studies mostly on the current set of UMICs. The UMICs have pressed ADB to rethink its manner of engagement.<sup>31</sup> The case study countries are included in the list of 19 MICs (para 39) and are:

<sup>30</sup> Referred to as a landlocked country in the CPS (2012–2016).

<sup>31</sup> Unlike the island economies in the UMIC category that are relatively more vulnerable to external influences.

- (i) the PRC, a UMIC that has received a large and steady stream of ADB support, as well as set up a fund for regional cooperation and poverty reduction;
- (ii) Kazakhstan, a large resource rich UMIC with widely varying levels of ADB support from year to year;
- (iii) Malaysia, a UMIC with a low-level of ADB support since at least the mid–2000s;
- (iv) Thailand, a UMIC with mostly nonsovereign support; and
- (v) Indonesia, a LMIC which has preferred policy-based loans in recent years, although it did accept a results-based loan in late-2015.

40. The case studies will include but not be limited to understanding the government perspectives on continuation with regular support, views on ADB's graduation policy, value addition expected from ADB versus that actually delivered, engagement with ADB for subregional level interventions versus country-level support, problems and prospects for ADB in developing relationships with subnational governments, issues and options available regarding support to private and public sector entities, types of products and services offered by ADB versus those offered by other development partners (notably other MDBs), pricing arrangements, competition from other sources of finance such as capital markets, and expectation from two new multilateral development banks headquartered in the Asia region. The case studies will also be informed by such desk studies and consultation with ADB staff.

41. The remaining 17 MICs include 10 Pacific island economies and 7 other LMICs; of which eight Pacific island economies and one other country are classified as FCAS, and five are landlocked.<sup>32</sup> In view of their vulnerabilities to external shocks and other development challenges, the evaluation intends to focus on literature review—the implicit assumption being that ADB will remain relevant for their economic development and growth through 2030.

42. The required data and information will be obtained through the following activities:

- (i) A literature review of relevant ADB documents that include working papers from the Economic Research and Regional Cooperation Department, CPSs of case study countries and other selected countries, ADB's sector and thematic policies and strategies, relevant corporate and thematic evaluation studies, relevant country program evaluations and validations, relevant economics literature on development issues in FCAS and landlocked MICs and countries in transition. This will form the basis for understanding the key development challenges facing MICs.
- (ii) A literature review of ADB and non-ADB sources that will form the basis for understanding key external factors that influence MIC development priorities. This will include a review of the global agreements regarding post-2015 global development agenda and climate change, along with a review of commentaries and insights prepared by diverse sources, such as the World Resources Institute, International Energy Agency, and others to gain a comprehensive understanding of how such agreements could influence development priorities of MICs.
- (iii) Accessing online databases and analyzing the data gathered from the Bank of International Settlements, International Monetary Fund, the World Bank, and other sources, to analyze options available to country governments for raising

---

<sup>32</sup> These 17 MICs include: (i) 5 Pacific island states in the UMIC category (Fiji, Nauru, Palau, Republic of Marshall Islands and Tuvalu); (ii) 5 Pacific island states in the LMIC category (Federated States of Micronesia, Kiribati, Samoa, Solomon Islands and Timor-Leste); and (iii) 7 other LMICs (Armenia, Bhutan, Georgia, Lao People's Democratic Republic, Kyrgyzstan, Myanmar and Tajikistan).

- finance from diverse sources (such as commercial banks, bonds, capital markets, and foreign direct investments).
- (iv) A review of relevant ADB policies regarding products and modalities, and selected ongoing and completed interventions using those modalities. This will inform the evaluation on the need to align the products and services with evolving country priorities and needs.
  - (v) Interview of selected high-level and senior levels ADB management and staff to gain a better understanding of ADB's perspective on partnerships, value addition, relationships, products and services, and areas of operations that can be strengthened to help ADB achieve its objectives.
  - (vi) Interview of relevant ADB personnel in headquarter and resident missions (in the PRC, Indonesia, Kazakhstan, and Thailand ), government ministries of finance, planning, industry, trade (in most cases), and key financial sector players (such as the regulatory body, the central bank, stock exchange and others) to gather inputs for case studies.
  - (vii) Interview personnel from other MDBs (for example, in the resident missions of case study countries) to gain an understanding of the strategic priorities of and issues related to products and services offered by other development partners.

#### **4. Limitations**

43. The proposed evaluation is strategic in its orientation and it will not include a full-pledged diagnostic on ADB systems and processes. It will not address in detail ADB's ongoing efforts to streamline internal procedures, empower resident missions, create partnerships to leverage cofinancing, accumulate knowledge and offer knowledge solutions. The evaluation will not explicitly address issues that are often encountered by fragile and conflict afflicted states, many of which are MICs—although these concerns would be implicitly addressed in discussions focusing on issues such as regional cooperation and climate change.

#### **D. The Evaluation Team**

44. The team leader (Kapil Thukral, Principal Evaluation Specialist) will be supported by four international staff, two international consultants, two headquarters consultants, and in-country national consultants in the case study countries. Srinivasan Palle Venkata (Evaluation Specialist) will focus on issues related to financing alternatives, national and regional financial markets, and other aspects of regional cooperation and integration. Kelly Hewitt will focus on the graduation policy against the backdrop of recent developments in Asia and elsewhere. Ari Perdana (Evaluation Specialist) will focus on delivering the Indonesia case study. Yuji Ono (Senior Evaluation Specialist) will focus on the Thailand and the PRC case studies. Jerome Jovellanos (Associate Evaluation Officer) and Randy Tepace (Senior Evaluation Assistant) will provide administrative support, including recruitment of all consultants and the associated contract management.

45. The international consultants will advise the team leader and work with the team on delivering various outputs. The international consultant (strategy expert) will focus on assessing the types of products and services that ADB must offer to remain relevant as a development financial institution in the Asia and Pacific region. The international consultant (economist) will work with the team leader on all other aspects of the evaluation, including understanding the development constraints and external factors that are likely to influence development priorities of MICs, and advising on the appropriateness of ADB products and services. The headquarters

consultants will provide research support to the team. The in-country national consultants will provide logistic support, including interpretation (where necessary), and local knowledge.

### **E. Peer Review**

46. Internal peer reviewers will be Benjamin Graham and Farzana Ahmed. Two external peer reviewers remain to be identified.

### **F. Timeline**

47. With the objective of providing timely inputs into the new ADB corporate policy, it is proposed the MIC evaluation report be ready for interdepartmental circulation by end-June 2016. This is compatible with the proposed Development Effectiveness Committee (DEC) meeting date of September 2016. The tentative schedule is outlined in the table below.

<b>Proposed Schedule</b>	
<b>Activity</b>	<b>Tentative Schedule</b>
EAP Approval from IED	II February 2016
EAP Finalization (after Interdepartmental comments)	II March 2016
Missions to case study countries	IV April 2016
First Draft	III May 2016
One-Stop Meeting	IV May 2016
Interdepartmental circulation	IV June 2016
Interdepartmental director general-level meeting	II August 2016
Editing	III August 2016
Independent Evaluation Department Director General approval	IV August 2016

EAP = evaluation approach paper, IED = Independent Evaluation Department.  
Source: Asian Development Bank Independent Evaluation Department.

### **G. Dissemination**

48. The draft report will be circulated to and discussed with the ADB Management and the DEC in September 2016. The final report with Management response, DEC Chair's summary, and a short-summary will be posted on the IED website. Additionally, the team will present the key findings and messages from this evaluation at an appropriate (yet to be identified) international conference or workshop.

Attachment:

Appendix 1 – Country Income Category Ranged based on Gross National Income per Capita (1989–2016)

**Country Income Category Ranged based on Gross National Income per Capita (1989–2016)**

WB Fiscal Year	Low Income	Lower Middle Income	Upper Middle Income	High Income
1989	<= 480	481-1,940	1,941-6,000	> 6,000
1990	<= 545	546-2,200	2,201-6,000	> 6,000
1991	<= 580	581-2,335	2,336-6,000	> 6,000
1992	<= 610	611-2,465	2,466-7,620	> 7,620
1993	<= 635	636-2,555	2,556-7,910	> 7,910
1994	<= 675	676-2,695	2,696-8,355	> 8,355
1995	<= 695	696-2,785	2,786-8,625	> 8,625
1996	<= 725	726-2,895	2,896-8,955	> 8,955
1997	<= 765	766-3,035	3,036-9,385	> 9,385
1998	<= 785	786-3,115	3,116-9,645	> 9,645
1999	<= 785	786-3,125	3,126- 9,655	> 9,655
2000	<= 760	761-3,030	3,031-9,360	> 9,360
2001	<= 755	756-2,995	2,996-9,265	> 9,265
2002	<= 755	756-2,995	2,996-9,265	> 9,265
2003	<= 745	746-2,975	2,976-9,205	> 9,205
2004	<= 735	736-2,935	2,936-9,075	> 9,075
2005	<= 765	766-3,035	3,036-9,385	> 9,385
2006	<= 825	826-3,255	3,256-10,065	> 10,065
2007	<= 875	876-3,465	3,466-10,725	> 10,725
2008	<= 905	906-3,595	3,596-11,115	> 11,115
2009	<= 935	936-3,705	3,706-11,455	> 11,455
2010	<= 975	976-3,855	3,856-11,905	> 11,905
2011	<= 995	996-3,945	3,946-12,195	> 12,195
2012	<= 1,005	1,006-3,975	3,976-12,275	> 12,275
2013	<= 1,025	1,026-4,035	4,036-12,475	> 12,475
2014	<= 1,035	1,036-4,085	4,086-12,615	> 12,615
2015	<= 1,045	1,046-4,125	4,126-12,745	> 12,745
2016	<= 1,045	1,046-4,125	4,126-12,735	> 12,735

Source: <https://datahelpdesk.worldbank.org/knowledgebase/articles/378833-how-are-the-income-group-thresholds-determined> (Accessed: September 2015)