

## Evaluation Approach Paper

# Asian Development Fund XI and 12

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## A. INTRODUCTION

1. The Asian Development Bank (ADB) provides development finance to respond to the region's changing development needs; sustain efforts to eradicate extreme poverty; and expand its vision to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific.<sup>1</sup> Until the start of 2017, ADB's development finance products were provided through two "windows," a concessional, and a non-concessional window. The non-concessional window used ordinary capital resources (OCR) to lend mainly to middle-income countries using funds borrowed at commercial rates in world capital markets. By contrast, the concessional window made loans and provided grants to much poorer countries who had difficulty accessing capital markets on a sustainable basis. Some small countries, mostly small island developing states (SIDS)<sup>2</sup> that have higher per capita incomes, but low creditworthiness, were also eligible.<sup>3</sup> The difference between the two windows was that the concessional window, initially known as the Asian Development Fund (ADF), was established and funded by money contributed by ADF donor countries.<sup>4</sup> Once funds were fully committed, new plans, under which the ADF was replenished, were negotiated with donors, usually every 4 years. Hence, ADF was a fund established by donors administered by ADB but, in practice, both OCR and ADF shared a common staff, management structure, policy, and rules.<sup>5</sup>

2. This evaluation aims at assessing the development effectiveness of ADB's use of ADF concessional resources over 2013-2018 during which ADF XI and ADF 12 objectives were being approved and implemented. The evaluation will promote accountability and enhance learning within ADB and developing member countries (DMCs) to inform the ADF 13 replenishment negotiations and the future use of concessional development resources in Asia and the Pacific.

3. There were significant changes in ADB concessional resource financing over the evaluation period. In January 2017, the ADF concessional loan portfolio was merged with the OCR balance sheet, and ADF became a grant only facility.<sup>6</sup> For this reason, compared with previous ADF evaluations, this evaluation will assess ADB performance across different groups of concessional assistance countries (CAC) based on whether they are classified as: (i) grants-only countries, (ii) grants combined with concessional lending (ADF blend), (iii) concessional OCR lending (COL)-only, or (iv) concessional lending combined with

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<sup>1</sup> ADB. 2018. *Strategy 2030. Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>2</sup> SIDS are a distinct group of developing countries facing specific social, economic, and environmental vulnerabilities. SIDS were recognized as a special case for their environment and development at the United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, held in Rio de Janeiro, Brazil 1992.

<sup>3</sup> Grants were introduced much later in 2005 to help diminish the level of indebtedness of debt-distressed countries.

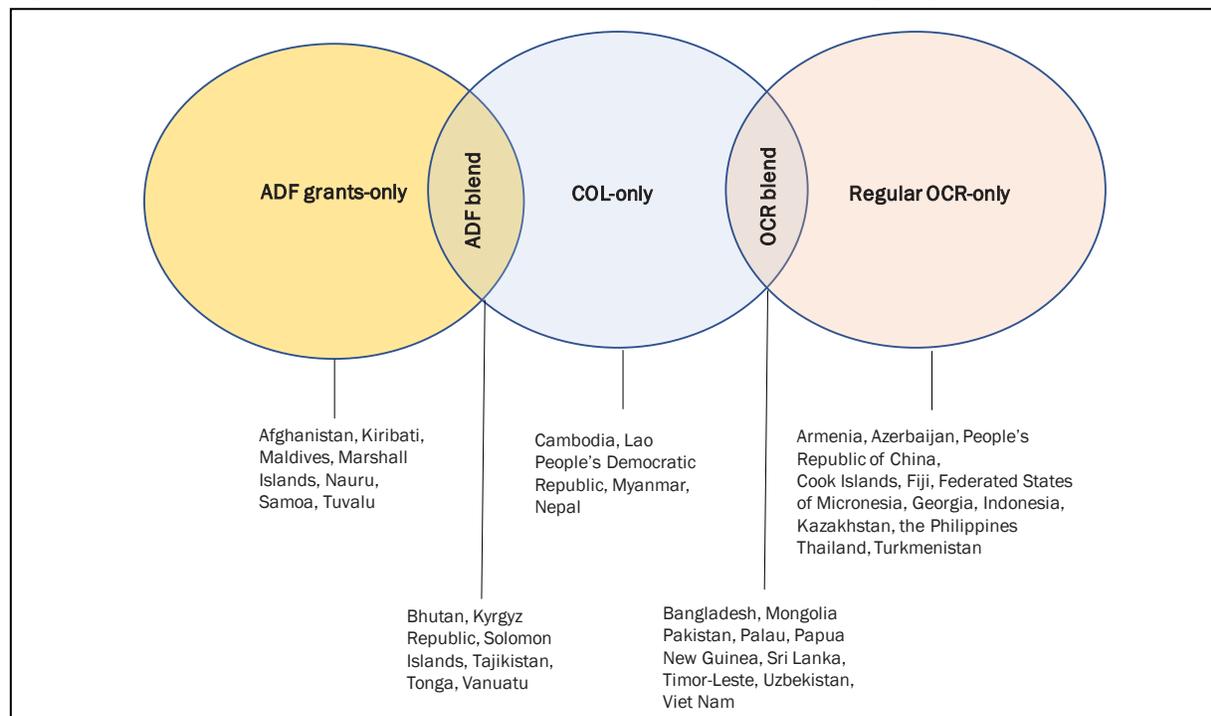
<sup>4</sup> While the fund was initially established with donor funds, over time ADF loans and grants have been increasingly financed by ADF concessional loan reflows, and contributions from OCR net income transfers, and internally generated resources such as income from liquidity investments. Prior to ADF 12, the major funding source of ADF operations was loan reflows.

<sup>5</sup> In some instances, ADF and OCR have different rules, e.g., procurement eligibility criteria, resource allocation, limits on policy-based lending use, and liquidity investment.

<sup>6</sup> ADB. 2015. *Frequently Asked Questions: Enhancing ADB's Financial Capacity by Up to 50% for Reducing Poverty in Asia and the Pacific: Combining ADB's and ADF OCR Resources*. <https://www.adb.org/news/features/frequently-asked-questions-enhancing-adbs-financial-capacity-50-reducing-poverty-asia>

market-based OCR (OCR blend). The evaluation is in two parts. The first part will assess the use of ADF concessional resources and its performance across all CAC as described above. The second part will focus on concessional assistance-only countries, particularly those that receive grants. There are 27 CAC in total, 17 of which are concessional assistance-only countries, of which 13 receive grants<sup>7</sup> (Figure 1).

**Figure 1: Classification of Concessional Assistance Countries Plus Ordinary Capital Resources Countries\***



ADF = Asian Development Fund, COL = concessional OCR lending, OCR = ordinary capital resources.

\* India is not included in the diagram because while it is a Group B country it is not eligible for concessional assistance.

Source: ADB. 2016. *Asian Development Fund 12 Donor's Report: Scaling Up for Inclusive and Sustainable Development in Asia and the Pacific*. Manila.

4. **Traditionally, the Independent Evaluation Department (IED) has assessed the performance of ADF operations and provided lessons and recommendation for improving its development effectiveness.** The previous evaluation<sup>8</sup> focused on ADF X and XI operations 2009–2014<sup>9</sup> and how well they had supported the strategic agendas of Strategy 2020: inclusive growth, environmentally sustainable growth (ESG), and regional cooperation and integration (RCI).<sup>10</sup> It was guided by the following questions:

- (i) What are the most critical challenges confronting ADF countries?
- (ii) How are ADF-financed operations performing?
- (iii) How can the ADF better support inclusive and environmentally sustainable growth?
- (iv) Are major ADF X and XI commitments being achieved?
- (v) How can ADF mechanisms and ADB capacity be optimized to ensure that additional resources from the ADF and OCR combination are effectively deployed?

5. **The evaluation found that while poverty had declined in ADF countries, inequality had increased or remained unchanged, and countries were vulnerable to shocks.** Progress towards the Millennium

<sup>7</sup> The evaluation will use the classification of CAC adopted in the 2012 Donor's Report recognizing that some countries may have moved from one category to another over the evaluation period.

<sup>8</sup> IED. 2015. *Corporate Evaluation: Asian Development Fund X and XI Operations. Opportunity Amid Growing Challenges*. Manila: ADB.

<sup>9</sup> In practice, the ADF operations approved under ADF X (2009–2012) and those approved up to 2 years into ADF XI (2013–2014).

<sup>10</sup> ADB. 2008. *Strategy 2020. The Long-Term Strategic Framework of the Asian Development Bank, 2008–2012*. Manila.

Development Goals had also been slow. While ADB investments had concentrated on the three main infrastructure sectors—energy, water supply and other municipal infrastructure and services, and transport and information and communication technology—ADF loans and grants covered more sectors compared with OCR loans alone. ADF’s historically low project success rates had also improved from 55% to 68% between 2009 and 2014, but they still lagged OCR which, at the time of the evaluation, had reached just above 80% (footnote 8).

6. **In terms of ADB’s strategic objectives, the evaluation found that ADF support for inclusive growth needed strengthening.** It recommended a knowledge first approach to ensure inclusive growth was based on sound diagnostics. While the proportion of projects classified at-entry addressing the ESG theme had grown significantly, the evaluation found it unclear whether this genuinely reflected increased operational support to strengthen environmental sustainability. ADB had developed a good reputation for its RCI support and stakeholders saw significant potential in continuing this momentum, especially for the provision of regional public goods. It was in fragile and conflict-affected situation (FCAS) countries where development remained most difficult, and limited efforts had been made to enhance staff capacity. Food security also remained a concern. Support for disaster response in ADF countries had grown and the Disaster Response Facility (DRF) had proven effective during its pilot phase. While efforts to increase support for private sector development in ADF countries to 40% by 2015 missed the target, ADB had achieved its gender mainstreaming target. The evaluation considered that ADB would need to give further attention to a range of issues to strengthen its support for governance as the true driver of development.

7. **The evaluation’s recommendations called for the need to:** (i) strengthen support for inclusive growth and environmentally sustainable growth, and scale up climate change and adaptation and disaster risk management efforts; (ii) adopt more systematic and operationally relevant diagnostic studies—a knowledge first approach—to sharpen country and sector programs and improve results on strategic priorities; (iii) strengthen the concessional resource allocation framework; and (iv) build expertise in the key strategic areas to deepen engagements and improve results.

## B. CONTEXT

### 1. ADF-OCR Merger

8. **The structure of ADB’s concessional and non-concessional windows changed significantly from 1 January 2017.** ADF donors agreed that the ADF’s concessional lending resources would be merged with the balance sheet of ADB’s OCR<sup>11</sup> which would boost ADB’s total annual lending and grant approvals to as high as \$20 billion, an increase of nearly 50%, and ADB assistance to poor countries would rise by 70% (footnote 6).

9. **From January 2017, concessional and non-concessional loans have been funded from the OCR balance sheet while new contributions by ADF donors would finance grants-only countries** (Figure 2). ADF donors in ADF 12 would fund grants for countries with high or medium levels of debt distress, while they agreed that concessional lending would be combined with the non-concessional lending window. Prior to the 12th replenishment, ADF had provided both ADF grants and funds for ADF concessional loans, including funds for the technical assistance (TA) special fund. A significant change from 2017, therefore, was that reflows from ADF loans would be merged with ADB’s OCR balance sheet and that ADB would provide both concessional and non-concessional loans, while ADF donors would finance grants-only countries.<sup>12</sup>

<sup>11</sup> The ADF and OCR merger took effect on 1 January 2017 under ADF 12. The ADF will be retained as a grant-only donor fund to provide grant assistance to eligible countries. Concessional lending to lower-income countries will continue from the expanded OCR, on the same terms and conditions as current ADF loans.

<sup>12</sup> The allocation of grants is determined by a country’s level of debt distress.

**Figure 2: Restructuring ADB's Concessional and Non-Concessional Lending Windows**

Pre-Merger	ADF Loans and Grants	OCR Loans
Post-Merger	ADF Grants	Concessional and non-concessional OCR Loans

10. The combination of ADF concessional lending resources with the OCR balance sheet was expected to result in multiple benefits for all ADB stakeholders. Former ADF countries would receive enhanced financial assistance of concessional loans and grants on the same terms. It would strengthen OCR lending and ADB's risk-bearing capacities. This would facilitate ADB's ability to (i) support the transition of ADF-only countries (see terminology in Table 1) to blend status and their graduation from blend status to OCR-only status; and (ii) increase support for private sector operations, especially in ADF countries. In addition, it would strengthen ADB's preparedness for any future natural disaster or economic crisis. Finally, the proposal would significantly reduce the future financial burden on ADF donors and would enable larger transfers from OCR to ADF grant operations.

**Table 1: Country Classifications Post-Merger**

Asian Development Fund Terminology	Merger Terminology
<b>ADF countries</b> ADF grants and concessional lending	<b>Concessional Assistance Countries</b> ADF grants, COL and regular OCR lending
<b>ADF only countries</b> ADF grants and ADF loans	<b>Concessional assistance-only countries</b> ADF grants and COL
<b>100% grant countries</b> ADF grants-only	<b>Grants-only countries</b> ADF grants-only
<b>50% grant countries</b> ADF grants and ADF loans	<b>ADF Blend countries</b> ADF grants and COL
<b>Zero grant countries</b> ADF loans only	<b>Concessional OCR-only countries</b> COL only
<b>Blend countries</b> ADF and OCR	<b>OCR blend countries</b> COL and regular OCR lending
<b>OCR-only countries</b> OCR only lending	<b>Regular OCR-only countries</b> OCR only lending

ADF = Asian Development Fund, COL = concessional OCR lending, OCR = ordinary capital resources.  
Source: ADB. 2016. *Concessional Assistance Policy*. Manila.

## 2. Concessional Assistance Policy

11. Following the ADF-OCR merger, ADB developed a concessional assistance policy.<sup>13</sup> The policy defines the principles and criteria to guide allocations of both ADF grant resources and concessional OCR, which together are referred to as concessional resources. Under the Graduation Policy, Group A countries are eligible for COL and ADF grants, while Group B countries are eligible for COL and have access to OCR lending, but are not eligible for ADF grants. Under the concessional assistance policy, the debt distress classification of Group A countries determines the proportion of grants in a country's performance-based allocation (PBA), with heavily debt-distressed countries receiving grants only.

12. In principle, concessional resources are directed at those countries with a lower per capita income and a larger population, with adjustments also made to reward good governance.<sup>14</sup> However, while the allocation framework links allocation of resources with country performance, modifications are made to ensure that the needs of less developed members are met, and that resources can be used to respond to unexpected events or for specific development purposes, generally defined by ADF donors ex-ante. These include considerations for smaller countries, post-conflict and reengaging countries, disaster risk

<sup>13</sup> ADB. 2016. *Concessional Assistance Policy*. Manila.

<sup>14</sup> As determined by country performance assessment (CPA) ratings.

reduction and response, emergencies, and FCAS.<sup>15</sup> The principles of the allocation formula and other changes made to ADF 12 are set out in Box 1.

**Box 1: Asian Development Fund (ADF) 12: Changes to the Allocation Mechanism**

- **Increase support for small countries:** base allocation to increase to \$6 million per year to all concessional assistance (CA) countries
- **Exceptional support to Afghanistan:** maintained at same level as ADF XI
- **Increase exceptional support to Myanmar:** around 40% higher than ADF XI
- **Regularize the disaster response facility** starting in the ADF 12 period
- **Fully adopt the joint International Monetary Fund/World Bank debt sustainability analysis:** for determining grant only countries
- **Establish financing for disaster risk reduction** for all CA countries
- **Strengthen support for regional health security** for all CA countries on a pilot basis.

Source: ADB. 2016. *Concessional Assistance Policy*. Manila.

### 3. ADF 12 Objectives

13. **ADF 12 builds on the strategic priorities outlined in the Mid-Term Review of Strategy 2020 and commits to align with the Sustainable Development Goals (SDGs).** To do this, ADB proposes to expand support for inclusive and sustainable development in concessional assistance-only countries with a focus on FCAS. A revised and more outcome-oriented approach to inclusive growth is focused on seven priorities: (i) mainstreaming gender in operations, (ii) strengthening support for FCAS, (iii) promoting food security, (iv) supporting private sector development, (v) improving governance and capacities, (vi) strengthening preparedness and response to climate change and disasters, and (vii) promoting regional public goods<sup>16</sup> As these priorities are to be implemented through investments in sustainable infrastructure development, social sector interventions in education, health, and social protection, the objectives of concessional resource use are indistinguishable from ADB's overall objectives – or are to be implemented through them (Table 2).

**Table 2: ADF XI, ADF 12, and ADB Development Priorities**

Objective	ADF XI <sup>a</sup>	ADF 12 <sup>b</sup>	ADB <sup>c</sup>
<b>GENDER</b>	√	Accelerate efforts to meet 70% target of completed sovereign projects delivering the intended gender equality results	At least 75% of the number of ADB's committed resources <sup>d</sup> will promote gender equality by 2030
<b>FCAS</b>	√	Strengthen expertise, staff, and internal incentives for conflict-sensitive project management in FCAS	Prioritize support for poorest and most vulnerable countries in the region including FCAS and SIDS. Tailor business processes and strengthen its human resources and field presence in these countries
<b>FOOD SECURITY</b>	√	Guided by a new operational plan for 2015–2020, ADB will commit an average of \$2 billion annually to support food security in all DMCs and help reduce vulnerability of the poor to food price increases	Support efforts to improve market connectivity and agricultural value chain linkages; increase agricultural productivity and food security by boosting farm and nonfarm technologies and climate smart agricultural practices and support the improvement of natural resource management standards. Help DMCs enhance food safety

<sup>15</sup> ADB. 2016. *Asian Development Fund 12 Donor's Report: Scaling Up for Inclusive and Sustainable Development in Asia and the Pacific*. Manila.

<sup>16</sup> These were also ADF XI priorities. Promoting regional public goods was added in the ADF 12 donor's report although RCI was also a Strategy 2020 objective. ADB's performance against these objectives was assessed in the previous evaluation (footnote 8).

Objective	ADF XI <sup>a</sup>	ADF 12 <sup>b</sup>	ADB <sup>c</sup>
PRIVATE SECTOR DEVELOPMENT	√	Increase private sector operations to 40% of total approved operations by number by 2020	Expand private sector operations to reach one-third of its total operations in number by 2024. Expand and diversify its private sector operations in new and frontier markets such as FCAS and SIDS. Increase the number of private sector staff in the field
GOVERNANCE	√	Strengthen the quality and increase the volume of public sector management operations emphasizing domestic resource mobilization (taxation, non-tax revenues, and public financial management). A capacity development operational plan 2015–2020 is expected	ADB will support public management reforms to help DMCs improve governance and create an enabling environment for sustainable growth
CLIMATE CHANGE AND DISASTER RESPONSE	√	Double climate change expenditure by 2020. Mainstream disaster risk management into ADB operations. A disaster risk reduction financing mechanism and a DRF will be mainstreamed under ADF 12. The DRR will tackle the root causes of disaster risk, while the DRF provides financing for recovery and reconstruction following a disaster	Ensure that 75% of the number of its committed operations* will be supporting climate change mitigation and adaptation by 2030. Climate finance from ADB's own resources will reach \$80 billion cumulatively from 2019 to 2030
REGIONAL PUBLIC GOODS	√	Expand and diversify support to (i) mitigate financial and disaster risks as well as improve cross-border health security, (ii) assist concessional assistance countries to manage common or shared natural resources, and (iii) implement commitments under COP21 and with regional and global spillovers, support pilot programs or projects in these areas	Enhance connectivity and competitiveness in the region. Increase support to regional public goods and actions to mitigate cross-border risks such as climate change, pollution, energy, water security, and communicable and infectious diseases. Enhance financial sector cooperation and strengthen sub-regional initiatives, through facilitating knowledge sharing and collaboration

ADB = Asian Development Bank, ADF = Asian Development Fund, DMC = developing member country, DRF = Disaster Response Facility, FCAS = fragile and conflict-affected situation, SIDS = small island developing states.

<sup>a</sup> A check mark in this column indicates that ADF XI shared the same objective as ADF 12.

<sup>b</sup> Based on ADB. 2016 *Asian Development Fund 12 Donor's Report: Scaling Up for Inclusive and Sustainable Development in Asian and the Pacific*. Manila.

<sup>c</sup> Based on ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>d</sup> On a 3-year rolling average, including sovereign and nonsovereign operations.

### C. EVALUATION PURPOSE AND OBJECTIVES

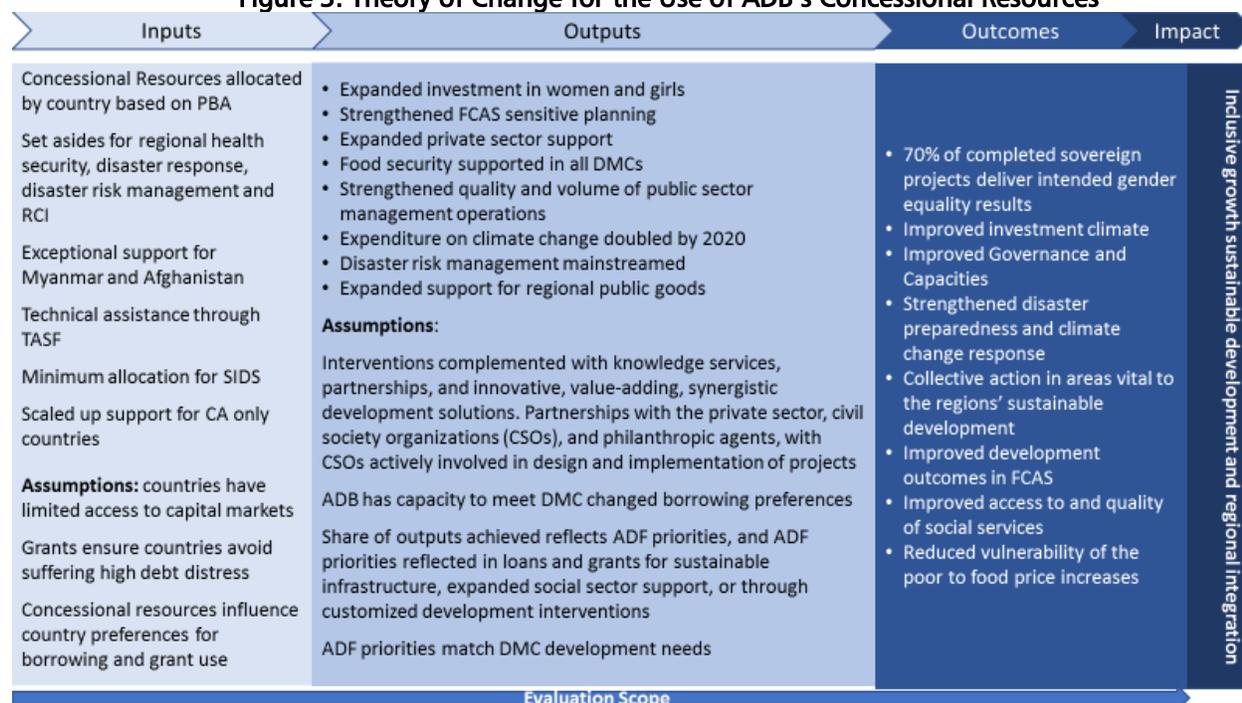
14. **The main objective of the evaluation is to assess the contribution that ADF XI and 12 concessional resources make to development outcomes in the Asia and Pacific region.**<sup>17</sup> ADB uses financing from donors and its own resources to expand support for inclusive and sustainable growth (footnote 15). The evaluation will also assess ADB's performance against the objectives established in the ADF Donor Report and draw lessons and recommendations for more effective future use of concessional resources across the region and help inform and feed into ADF 13 negotiations for replenishment.

15. **The simple theory of change underlying the use of concessional resources is that they can incentivize DMCs to influence their borrowing preferences.** The theory suggests that without access to concessional resources, countries would likely underinvest in both domestic and global public goods and services vital for longer term, sustainable inclusive growth and regional integration. The ADF Donor Report (footnote 15) identifies these public goods as gender, private sector development, climate change and disaster risk management, food security, support for FCAS, regional health security, and governance. The assumption is that these ADF priorities can be implemented through allocating concessional resources by country, which will result in increased investment in sustainable infrastructure development, expanded support for the social sectors, and regional and global public goods. As well as influencing

<sup>17</sup> It will be too early to discuss the results of loans and grants approved under ADF XI and 12. The evaluation will therefore rely on trends in ADF results drawn largely from IED's database on project validations reports and other evaluation evidence.

country demand, the theory also assumes that ADB can increase its supply of these development priorities either through infrastructure or through customized development interventions. The theory, based on the priorities identified in the ADF 12 donor paper, is set out in Figure 3.

**Figure 3. Theory of Change for the Use of ADB's Concessional Resources**



ADB = Asian Development Bank, ADF = Asian Development Fund, CA = concessional assistance, DMC = developing member country, FCAS = fragile and conflict-affected situations, PBA = performance-based allocation, RCI = regional cooperation and integration, SIDS = small island developing states, TASF = technical assistance special fund.

Source: ADB. 2016. *Asian Development Fund 12 Donors' Report: Scaling Up for Inclusive and Sustainable Development in Asia and the Pacific*. Manila.

16. **There are several key assumptions underlying the theory.** The main one is that despite years of steady growth, concessional assistance-only countries in Asia and the Pacific continue to face large unmet development challenges but have limited financing options to address them. About 6 million people still suffer from absolute poverty and poor living conditions, and weak governance and underperforming institutions stifle the delivery of basic services and hamper private sector development (footnote 15). There is also increasing pressure for the financing of a wide range of initiatives in the name of global public goods and common concerns that affect a large portion of humanity, but that national domestic or local policy responses alone cannot adequately address without financial and technical support.<sup>18</sup>

17. **A further assumption is that by using financing from donors and its own resources, ADB can expand its support for inclusive and sustainable development in concessional assistance-only countries, with a focus on FCAS.** ADB will use concessional resources to adopt a more outcome-oriented approach to inclusive growth with its support focused on seven key priorities: (i) mainstreaming gender in operations, (ii) strengthening support for FCAS, (iii) promoting food security, (iv) supporting private sector development, (v) improving governance and capacities, (vi) strengthening preparedness and response to climate change and disasters, and (vii) promoting regional public goods. It is also worth noting that many of these priorities are also operational priorities in ADB's new corporate strategy which includes addressing remaining poverty and reducing inequality, accelerating progress in gender inequality, tackling climate change, building climate and disaster resilience, enhancing environmental

<sup>18</sup> Institute of Development Studies. 2001. *Financing and Providing Global Public Goods: Expectations and Prospects*. Stockholm.

sustainability, making cities more livable, promoting rural development and food security, strengthening governance and institutional capacity, and fostering RCI (footnote 1).

18. **The main premise of the ADF 12 Donor Paper is that its development priorities can be implemented through sustainable infrastructure development as the mainstay of ADB's operations.** This encompasses investments in clean energy, sustainable transport, water, urban development, and expanded support for social sector development interventions to complement support for infrastructure and deepen the inclusiveness of its overall assistance under ADF 12. It also assumes that ADF's seven thematic objectives can be operationalized by ADB at the country level through its country partnership strategy. Interventions financed from concessional resources are also expected to be complemented by knowledge services and an emphasis on partnerships with relevant institutions to build innovative, value adding and synergistic development solutions.

#### D. EVALUATION FOCUS AND SCOPE

19. **For nearly 5 decades, ADF concessional finance has supported borrowing countries' investments in growth and poverty reduction.** Combined with technical knowledge, multilateral development banks (MDBs) have traditionally used concessional resources to address market failure in long-term capital flows in developing countries. However, as most developing countries in Asia are now less reliant on official development assistance, the relevance of the capital market argument has declined.<sup>19</sup> At the same time, new development challenges have emerged ranging from climate change, health security, conflict, displaced people and refugees, natural disasters, and other shocks that low-income countries are poorly equipped to respond to. Addressing these challenges through traditional country loans and grants may no longer be appropriate because solutions often expand beyond the domain of a single country. The continued relevance of concessional resource use by ADB and other MDBs, and the challenges for its allocation and implementation will therefore be assessed by this evaluation.

20. **As well as considering the future use of concessional resources to tackle emerging development issues, the evaluation will also look back at what results have been achieved.** Post-merger, the concept of an ADF concessional window and ADF countries has changed. The ADF donor agreement provides guidance for the use of concessional resources in 17 concessional assistance-only countries, i.e. the grant only countries, the ADF blend countries, and the COL only countries, but does not extend to OCR blend countries. It would be appropriate therefore to focus the evaluation on the use of resources in concessional assistance-only countries, while looking in a more limited fashion at results of concessional lending in the OCR blend countries.

21. **ADF has seven development priorities to be implemented through investments in sustainable infrastructure and expanded support for the social sectors** (footnote 15). Concessional resources are implemented by country, however, not by theme. Only in the case of health, disaster response, disaster risk reduction, and RCI are funds earmarked or set-aside to finance a specific ADF priority. The evaluation will assess the arguments for and against set-asides, how they have performed, and whether they should continue. Additional support has also been ear-marked for fragile states and SIDS— for Afghanistan and Myanmar through exceptional support<sup>20</sup> and, for SIDS, an increase in the base allocation.<sup>21</sup> The evaluation will therefore assess the use of concessional resources in fragile states and small islands states and what differences in ADB operational support and approaches can be found in these contexts.

<sup>19</sup> Center for Global Development. 2016 *Multilateral Development Banking for This Century's Development Challenges Five Recommendations to Shareholders of the Old and New Multilateral Development Banks*. Washington, DC.

<sup>20</sup> ADB's approach to exceptional allocations aligns with the International Development Assistance framework which provides exceptional post-conflict and reengaging assistance to eligible countries.

<sup>21</sup> ADB. 2018. *Increase in the Base Allocation of the Performance Based Allocation System for 2019–2020*. Manila.

22. **The evaluation will cover ADF XI (2013–2016) and ADF 12 (2017–2018).** ADF 12 is in its second year and only a small group of projects from ADF XI will be completed. As with previous ADF evaluations, this evaluation will assess operations approved before ADF XI and 12 to consider trends in performance.<sup>22</sup> During 2013–2017, over \$17 billion in sovereign approvals included a concessionary element (Table 3), nearly one-quarter of total ADB financing provided.<sup>23</sup> Total concessional lending, excluding non-ADF sources, reached nearly \$12.5 billion, 60% of which was allocated to OCR blend countries. OCR blend countries are hence a significant user of concessional lending resources available to ADB. In numbers of operations, from 2013 to 2017 ADB approved 100 ADF grant operations, and 224 COL loans. Overall, 324 out of 788 loan and grant approvals over 2013–2017 included ADF concessional resources (41%). The numbers of loans and grants approved by type of country and operation are shown in Table 4 and Figure 4.

**Table 3: ADB Sovereign Approvals ADF XI and 12 2013–2017 (\$ millions)**

Fund Type	Total ADB						Grand Total
	Concessional Assistance Countries					OCR-only	
	Concessional Assistance Only Countries			OCR Blend	Regional		
Grants-only	ADF Blend	COL-only					
ADF Grant	1,659.84	856.46	151.85	6.50			2,674.64
COL Loan	3.10	615.69	3,930.84	7,445.39	16.40	466.50	12,477.92
Others	634.58	94.69	308.78	716.32	4.00	138.06	1,896.42
OCR Loan		70.00		18,782.71		34,707.92	53,560.63
<b>Grand Total</b>	<b>2,297.52</b>	<b>1,636.83</b>	<b>4,391.47</b>	<b>26,950.91</b>	<b>20.40</b>	<b>35,312.48</b>	<b>70,609.61</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional OCR lending, OCR = ordinary capital resources, Others = non-ADF concessional resources.

Source: Asian Development Bank database.

**Table 4: ADB Sovereign Approvals ADF XI and 12 2013–2017 (number of loans and grants)**

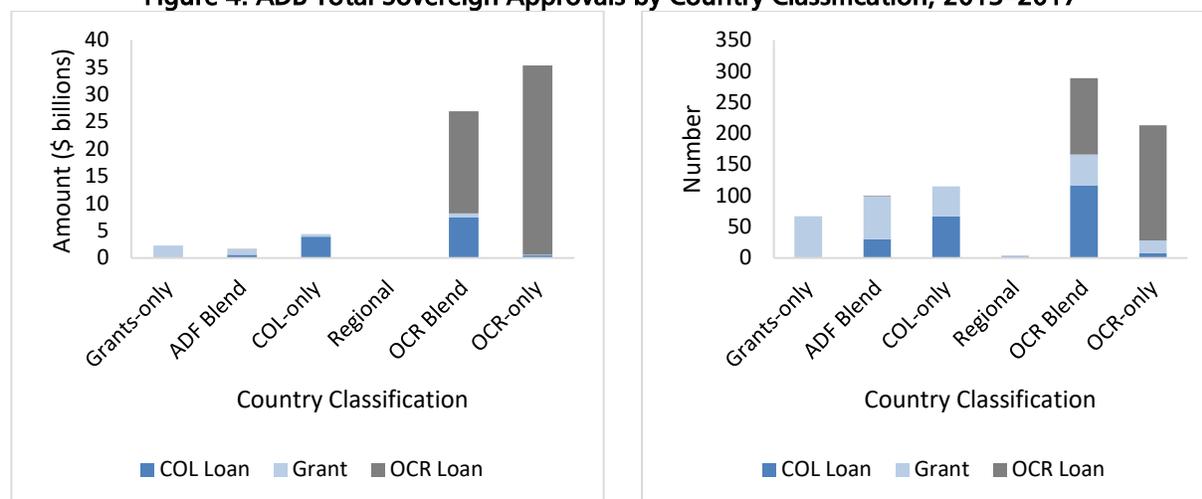
Fund Type	Total ADB						Grand Total
	Concessional Assistance Countries					OCR-only	
	Concessional Assistance Only Countries			OCR Blend	Regional		
Grants-only	ADF Blend	COL-only					
ADF Grant	41	49	9	1			100
COL Loan	1	30	67	116	2	8	224
Others	25	20	39	49	2	20	155
OCR Loan		1		123		185	309
<b>Grand Total</b>	<b>67</b>	<b>100</b>	<b>115</b>	<b>289</b>	<b>4</b>	<b>213</b>	<b>788</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional OCR lending, OCR = ordinary capital resources, Others = non-ADF concessional resources (e.g., trust funds).

Source: Asian Development Bank database.

<sup>22</sup> The development priorities and set-asides under ADF XI are similar to those under ADF 12. Where differences are found the evaluation will take these into account.

<sup>23</sup> The evaluation will update the approvals database to include 2018.

**Figure 4: ADB Total Sovereign Approvals by Country Classification, 2013–2017\***

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional OCR lending, OCR = ordinary capital resources.

\*Grant use in OCR blend or OCR countries reflects movement of countries in and out of classifications or the use of grants for specific purposes. The charts include ADF and other grant funding sources.

Source: Asian Development Bank database.

## E. PORTFOLIO

23. Of the 324 operations approved over 2013–2017, 273 (84%) were approved under ADF XI (2013–2016) and 51 (16%) under ADF 12 (2017). Total approvals for the 5-year period amounted to \$15.2 billion—\$12.9 billion for ADF XI (79%) and \$2.4 billion for ADF 12 (21%).<sup>24</sup> The portfolio will be extended to include loans, grants, and technical assistance (TA) approvals in 2018, which will then serve as the portfolio review component of the evaluation.

24. **All concessional assistance countries will be included in the portfolio review:** 27 countries identified in ADF XI as either Group A or Group B countries which are eligible for concessional assistance will be included in the portfolio review. While concessional assistance (loans and grants) accounted for nearly 21.5% of ADB sovereign approvals from 2013–2017, grants accounted for a much smaller share of 3.8% (Table 5). Transport, energy, public sector management, water and other urban infrastructure services, and education were the five largest sectors supported by concessional resources and ADF grants, accounting for 78% of the portfolio by number and 82% in amount. The other sectors supported by concessional assistance were agriculture, finance, health, information and communication technology, and industry and trade.

**Table 5: Concessional and Non-Concessional Approvals (Loans and Grants), 2013–2017**

	Total Approvals (\$ millions)	% Share	Total Approvals (number)	% Share
Grants-only	2,674	3.8	100	12.7
COL	12,477	17.7	224	28.4
Other (non-ADF) Grants	1,896	2.7	155	19.7
OCR	53,560	75.9	309	39.2
Total	70,609	100%	788	100

ADF = Asian Development Fund, COL = concessional OCR loans, OCR = ordinary capital resources.

Source: Asian Development Bank database.

<sup>24</sup> This evaluation covers ADF XI (2013–2016) and ADF 12 (2017–2020). However, portfolio discussions in this approach paper will be supplemented by 2018 data as it becomes available.

## F. EVALUATION QUESTIONS

25. The evaluation will address one main question and four sub-questions for 2013–2018 covering the implementation of ADF XI, the implementation, in part, of ADF 12, and trends in results that draw from previous ADF periods. The main evaluation question is:

**How well are ADF concessional resources used by ADB in the Asia and Pacific region, and with what results?**

26. Supporting the main evaluation question are the following sub-questions:

- **How relevant is concessional financing to poverty reduction and the sustainable development of Asia and the Pacific?** The question will assess the rationale for the use of concessional resources in Asia and the Pacific and the extent to which they are needed to help countries in the delivery of domestic and global public goods given changing development challenges. The question will also assess the financing of global concessional resources including recent changes in some MDBs which has expanded the supply of concessional resources. It will consider the merger of ADB's concessional loan resources with the OCR balance sheet and to what extent have the results of the ADF/OCR merger been achieved? It will assess the extent to which the merger has enabled ADB to: (i) strengthen its support for concessional assistance-only countries (formerly ADF only countries); (ii) strengthen OCR lending and ADB's risk-bearing capacities; (iii) increase support for private sector operations, especially in concessional assistance-only countries; (iv) strengthen ADB's support for crisis response, natural disaster or economic crisis; and (v) reduce the future financial burden on donors for replenishing concessional resources, and increase transfers from OCR to ADF grant operations.
- **How have concessional operations been used and what results have been achieved in ADF's seven development priority areas?** The evaluation will assess how funds have been used, which countries and what sectors have received them and whether the allocation reflects the priority objectives of ADF XI and 12. It will also assess trends in the performance of operations in concessional assistance countries which will draw on years preceding the evaluation period. Where relevant, results will be compared with those of non-concessional operations in OCR blend countries and OCR only countries to see if the presence of concessional resources changes borrowing behavior. The evaluation will look at the overall objective of ADF addressing inclusive and sustainable growth, and the results regarding seven priority areas for concessional operations: gender, fragility, food security, private sector development, governance, climate change and disaster response, and regional public goods. As the ADF 12 portfolio is still under implementation, performance data will largely refer to previous ADF periods, with occasional use of earlier performance data if needed.
- **What is the relevance of ADF set-asides and what results are achieved with them?** The extent to which ADF resources are carved into separate areas or set-asides for specific activities will be assessed by the evaluation.<sup>25</sup> The assessment will focus on the DRF, disaster risk management, the regional health security funds, and funds for RCI and why such set-asides are necessary. This will be a real time assessment as the results of these interventions are unlikely to be available. The analysis will therefore be centered on the purpose of these funds, why they need to be set aside, what the portfolio and the pipeline looks like, and how these resources are valued by recipients.

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<sup>25</sup> An assessment of the DRF and the regional health security fund has been requested by ADF deputies in the ADF 12 Donors' Report. The evaluation will also cover set-asides for disaster risk management and RCI.

- **How relevant are ADF grants to FCAS countries and to what effect have they been used?** The evaluation will assess how grants have been used, which countries have received them, and what results have been achieved over time. The focus will be on Afghanistan, Myanmar, and the Pacific FCAS countries.<sup>26</sup> Afghanistan is the single largest user of ADF grant resources, whereas the Pacific represents the largest regional group of grant-only countries. The evaluation framework, including the methodology and resources for addressing the questions above are set out in Appendix A.

## G. EVALUATION DESIGN AND METHODOLOGY

27. The evaluation will follow a mixed methods approach combining data collection on various topics with country visits and interviews with key informants. The methodology will deliberately lean toward the concessional assistance-only countries because the ADF replenishment is more closely related to them.<sup>27</sup> The following methods will be followed:

- **Literature Review.** A review of current literature on international finance and the use of concessional resources for development will be undertaken to consider emerging issues and trends. This will include recent literature on the future of development financing as well as recent literature on vulnerability. ADB literature, particularly on the merger will also be reviewed to assess the extent to which merger objectives have been achieved.
- **Portfolio Review.** The portfolio review will analyze ADF XI and ADF 12 concessional loan and grant approvals, including TA, across the country categories for concessional assistance-only and for OCR blend, by sector and by ADF 12 objective to determine trends in concessional resource use and performance over 2013–2018 (although years before 2013 may be added to gain a better perspective of trends). The portfolio review will also cover ADF set-asides, the regional health security grants and the DRF and investigate existing documentation. Possible effects of concessional lending on sector choices in OCR blend countries will be investigated and will be the subject of interviews with stakeholders. Country partnership strategies (CPSs) will also be assessed for content on ADF and its development priorities.
- **Evaluation Synthesis.** The evaluation will draw on relevant evidence in existing IED evaluations, e.g., validations of project completion reports, country level evaluations, recent CPS final review validations and other recent corporate and thematic evaluations related to the seven ADF priorities. The review will dig deeper in the 17 concessional assistance-only countries to see how the ADF priority objectives in this group can be assessed.
- **Country Visits.** A mission to Myanmar will be undertaken to assess ADB's FCAS approach, overall performance and results, and to consider whether access to exceptional support should be continued. Missions to Papua New Guinea, Solomon Islands, Vanuatu, and Viet Nam will be undertaken to assess the extent to which ADF priorities are being pursued and what results have been achieved in: (i) the use of the DRF, (ii) approaches to FCAS, (iii) gender, (iv) nonsovereign operations, (v) regional health security, (vi) food security, and (vii) governance. Vietnam has been

<sup>26</sup> Since 2013, Pacific FCAS has included Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Solomon Islands, and Tuvalu. Papua New Guinea was a FCAS from 2007–2012 and was added back on the list in 2016. Timor Leste was FCAS from 2007 to 2015. Palau and Vanuatu have also been FCAS countries but are no longer considered to be so. While not all Pacific countries are FCAS, most (except PNG) are SIDS. SIDS share similar sustainable development challenges, including small but growing populations, limited resources, remoteness, susceptibility to natural disasters, vulnerability to external shocks, excessive dependence on international trade, and fragile environments. Their growth and development is also held back by high communication, energy and transportation costs, irregular international transport volumes, disproportionately expensive public administration and infrastructure due to their small size, and little to no opportunity to create economies of scale. So, while not all SIDS are FCAS, they share similar characteristics, and the FCAS approach is being applied in many of them.

<sup>27</sup> Results will draw from trends in ADF operational results which are unlikely to include projects approved under ADF XI and 12 as few, if any of these, would have been completed over the evaluation period.

selected because it is graduating from OCR blend to OCR and is a beneficiary of the health regional security funds. The mission will consider how the merger of ADF and OCR is supporting graduating countries. It will also discuss with key stakeholders the support for regional health security initiatives. Solomon Islands is selected because it is an FCAS country. A national consultant will conduct an assessment of results of concessional assistance in Afghanistan, complemented by a brief mission of the evaluation team depending on the security situation. Missions planned in the first half of 2019 for the validation of CPSFRs for Cambodia, Nepal, Pakistan, and Papua New Guinea will include some questions related to ADF as well.

- **Semi-structured interviews with ADB staff and key stakeholders** will be conducted to inform and complement the above approaches, as well as to delve deeper into certain questions, for example, concerning gender, partnerships, and the role of civil society. More detail on the methodology for finding answers to each of the evaluation questions and the focus areas<sup>28</sup> of the evaluation are set out in the evaluation framework in Appendix A.

## H. LIMITATIONS

28. **The evaluation comes too early for a full assessment of results of ADF XI and ADF 12.** The evaluation is limited regarding ADF XI and 12 results. As operations approved using ADF XI and 12 concessional resources are currently under implementation, it is unlikely that evidence on results from these ADF periods will be available. Instead, results will rely on historical ADF data and evidence derived from other sources like country visits. The focus will be on the seven priority areas and ADF country groups. The evaluation is prepared on the request of ADF shareholders to provide IED's findings and recommendations to inform ADF replenishment negotiations scheduled tentatively for October/November 2019. The evaluation will not undertake impact level evaluation. There are limited if no counterfactuals at the country level, or comparable countries with and without concessional resources so that direct comparisons could be made.

## I. DISSEMINATION

29. The evaluation will prepare a press statement to be released within 3 days of the Development Effectiveness Committee meeting. Outreach events will be scheduled for October 2019.

## J. INDICATIVE TIMELINE

Key Milestones	Target Date
Approval of evaluation approach paper	III January 2019
Missions for country cases	February-March 2019
One-stop meeting on storyline	III April 2019
Draft report for peer review	I May 2019
One-stop meeting for interdepartmental circulation	I June 2019
Interdepartmental circulation	II June 2019
Submission for editing	II July 2019
Heads of Department meeting	II August 2019
Final report circulation to the Board	IV August 2019

Source: Evaluation team estimates.

<sup>28</sup> Focus areas include Afghanistan because it accounts for around half of all ADF grant resources; the DRF and regional health security, because donors have asked for the evaluation to focus on these two set-asides; and the use of grants more generally as the ADF now finances grants only.

**K. RESOURCES**

30. **Evaluation Team.** The ADF team will comprise Joanne Asquith, Principal Evaluation Specialist as team leader; Munir Ahmed Abro, Senior Project Officer (regional health interventions), Alvin Morales, Senior Evaluation Officer (portfolio review), and Glennie Castillo, Evaluation Analyst (technical and evaluation support) as team members. Additional research and analytical support will be provided by both international and national consultants. Terms of references for consultants are in Appendix B and cost estimates are in Appendix C (both are not for public disclosure).

**L. PEER REVIEW**

31. The approach paper's peer reviewers are Mark Sundberg, Chief Economist at the Millennium Development Corporation; and Saraswathi Menon, former Director at UN Women (2011–2014) and Director of the Evaluation Office at UNDP (2003–2011).

## APPENDIXES:

- A. Evaluation Framework
- B. Terms of References (*not for public disclosure*)
- C. Cost Estimates (*not for public disclosure*)

## EVALUATION FRAMEWORK

**OVERALL EVALUATION QUESTION: How well are Asian Development Fund concessional resources used by the Asian Development Bank in the Asia and the Pacific region, and with what results?**

<b>How relevant is concessional financing to poverty reduction and the sustainable development of Asia and the Pacific?</b>		
<b>Method</b>	<b>Data</b>	<b>Resources</b>
<p>Assess the extent to which merger objectives have been achieved</p> <p>Review ADB documents to consider the rationale for the merger</p> <p>Conduct a literature review</p> <p>Undertake interviews with ADB Treasury staff</p> <p>Portfolio review for the scale of concessional activities</p>	<p>ADB documents</p> <p>Conversations with ADB staff during interviews</p> <p>Conversations with country officials</p>	<p>IED staff</p> <p>International consultants</p>
<b>How have concessional operations been used and what results have been achieved in ADF's the seven development priority areas?</b>		
<b>Method</b>	<b>Data</b>	<b>Resources</b>
<p>Compile ADB's loan and grant portfolio and assess the results</p> <p>Use the portfolio to consider how resources are allocated across the seven priority areas</p> <p>Compile the performance data drawing on IED's database of project validation reports and other evaluation material</p> <p>Undertake quantitative analysis. Use MAXQDA software to assess the extent to which CPSs have adopted a more outcome-oriented approach to inclusive growth</p> <p>Country visits and interviews with government officials especially on poverty, gender, fragility, private sector development, disaster response, climate change, regional public goods, and governance</p> <p>Interviews with ADB staff and ADF stakeholders on the organization for delivery of concessional resources</p>	<p>Approvals/commitment data</p> <p>Project completion report validation / project or program performance evaluation report ratings</p> <p>Results at country level</p> <p>Interviews and ADF documentation</p> <p>CPS approved since 2015</p>	<p>IED staff and international and national consultant</p> <p>International consultants</p>
<b>What is the relevance of ADF set-asides and what results are achieved with them?</b>		
<b>Method</b>	<b>Data</b>	<b>Resources</b>
<p>Evaluate the DRF</p> <p>Assess the ADB literature and the argument for the regional health set aside. Put the portfolio together for all set asides.</p> <p>Collect data on the impact and frequency of disasters in the region.</p> <p>Hold discussions with health sector specialists and ADB operational staff on the difference that the set aside has made to operations, why it is necessary, its future role etc. Has the health fund incentivized ADB to do more?</p> <p>Visit Viet Nam</p> <p>Visit at least three Pacific countries</p> <p>Prepare formal questions to be asked during all country visits</p>	<p>Conversations with Pacific officials, ADB staff, and other stakeholders</p> <p>Data on what the portfolio would look like without health</p> <p>Demand by country for DRF and regional public goods</p>	<p>Evaluation team leader plus international and national consultants</p>

How relevant are ADF grants to FCAS countries and to what effect have they been used?		
Method	Data	Resources
<p>Asses the allocation of grants – how they are used, in what sectors and for what purposes</p> <p>Assess what other sources of grant funding are available in ADB and how these resources were used</p> <p>Estimate over the longer term, which countries have benefitted most from grants, low income countries or those heavily debt distressed?</p> <p>Consider what role ADF grants play beyond the ADF 12 Replenishment in supporting DMCs to address their development challenges?</p> <p>Country visit to Myanmar and three Pacific countries</p> <p>Consider the extent to which grants being used to “support cross-border infrastructure and services to expand trade and economic opportunities, address climate change, boost resilience to disasters, and promote regional health security and control of communicable diseases? To what extent do grants play a key role in promoting knowledge solutions and policy dialogue?</p> <p>Assess whether staff capacity in FCAS countries have been enhanced</p>	<p>Approval data</p> <p>Portfolio review</p> <p>ADF approval data</p> <p>Staff interviews</p> <p>Interviews with government officials and ADB country-based staff</p> <p>Staff supervision per regional group</p>	<p>National consultant</p> <p>IED staff and international consultants</p>

ADB = Asian Development Bank, ADF = Asian Development Fund, CPS = country partnership strategy, DRF = Disaster Response Facility, DMC = developing member country, FCAS = fragile and conflict-affected situation, IED = Independent Evaluation Department.

Source: Asian Development Bank Independent Evaluation Department.

Focus Areas	Questions	Methodology	Outputs
<p><b>Afghanistan / Myanmar</b> (single largest user of grants)</p>	<p>What does the portfolio look like under ADF XI and 12 and what is the pipeline for the rest of ADF 12? What is its (likely) performance and what results are being achieved (as per its objectives)? What other resources does Afghanistan have access to? What are ADB grants supporting and is it making a difference (what are the results)? How well is the program coordinated with other development agencies?</p>	<p>Review of databases and monitoring reports/ back-to-office reports (BTORs)</p> <p>Country visit</p> <p>Staff interviews</p>	<p>Background paper</p>
<p><b>Disaster Response Facility (DRF)</b> (requested by ADF donors)</p>	<p>How has it been allocated and what is the pipeline for the rest of ADF 12? How well is it coordinated with other development agencies? How is the DRF performing and what results have been achieved (as per its objectives), and if so, what are these? How is ADB scaling up its support for FCAS countries i.e., more resources on the ground? Pros and cons of special set-asides and allocations.</p>	<p>Review of monitoring reports/BTORs</p> <p>FGD in ADB with disaster staff in Sustainable Development and Climate Change Department and operational staff</p> <p>Visit three Pacific countries</p>	<p>Review of the DRF which will be part of a chapter on ADF set-asides</p>
<p><b>Regional Public Goods – health</b> (requested by ADF donors)</p>	<p>How has it been allocated so far and what is the pipeline for the rest of ADF 12? What countries are receiving support and for what purpose? How well is it coordinated with other development agencies? What is the (likely) performance and are any results visible on the ground (as per its objectives)?</p>	<p>Portfolio review, review of databases and monitoring reports/BTORs</p> <p>Staff meetings and FGD in ADB</p> <p>Visit Viet Nam</p>	<p>Review of the regional health facility which will be part of a chapter on ADF set-asides</p>

Focus Areas	Questions	Methodology	Outputs
<b>Use of grants</b>	What has been the country and sector distribution so far under ADF XI and 12 and what is the pipeline for ADF 12? Is anything completed and evaluated? What are requests by countries to ADB/ADF for grants, what is the justification used? Is the performance of grants in countries which are blend different from concessional loans? Pros and cons of grants.	Country visits, discussions with high level government Portfolio review to assess whether grants are used differently or whether different things are done with grants	Background paper

ADB = Asian Development Bank, ADF = Asian Development Fund, FGD = focus group discussion.

Source: Asian Development Bank Independent Evaluation Department.