2014 DEVELOPMENT EFFECTIVENESS REVIEW
CONTENTS

HIGHLIGHTS ................................................................................................................................................. i

I. THE 2014 DEVELOPMENT EFFECTIVENESS REVIEW AND
   THE UPDATED RESULTS FRAMEWORK .................................................................................................... 1

II. LEVEL 1: DEVELOPMENT PROGRESS IN ASIA AND THE PACIFIC
   A. Reducing Poverty ................................................................................................................................. 3
   B. Building Infrastructure and Connectivity ........................................................................................... 5
   C. Protecting the Environment ............................................................................................................... 6
   D. Moving Forward to the Sustainable Development Goals ............................................................... 7

III. LEVEL 2: ADB’S CONTRIBUTIONS TO DEVELOPMENT RESULTS
   A. Quality at Completion ......................................................................................................................... 9
   B. Results in Strategy 2020 Core Operational Areas ........................................................................... 26
   C. Expanding Development Results .................................................................................................... 29

IV. LEVEL 3: ADB’S OPERATIONAL MANAGEMENT
   A. Implementation Quality .................................................................................................................... 35
   B. Quality at Entry ............................................................................................................................... 37
   C. Development Finance ....................................................................................................................... 39
   D. Strategy 2020 Development Agendas and Operations ................................................................... 46
   E. Strategy 2020 Drivers of Change ....................................................................................................... 58

V. LEVEL 4: ADB’S ORGANIZATIONAL MANAGEMENT
   A. Managing Human Resources ............................................................................................................. 65
   B. Improving Budget Efficiency .......................................................................................................... 67
   C. Client Orientation ............................................................................................................................. 68
   D. Monitoring Business Processes ........................................................................................................ 70

VI. SUMMARY: ACHIEVEMENTS, CHALLENGES, AND ACTIONS
   A. Achievements ..................................................................................................................................... 73
   B. Challenges .......................................................................................................................................... 76
   C. Strategy 2020 Midterm Review Actions .......................................................................................... 78

APPENDIXES
   1. List of ADB Developing Member Countries ....................................................................................... 83
   2. Delivering Results in Fragile and Conflict-Affected Situations ....................................................... 85
   3. The Revised Project Classification System ......................................................................................... 91
   5. References to ADB Country and Individual Operations .................................................................... 96
SCORECARD, SIGNALS AND SCORING METHODS, AND STANDARD EXPLANATORY DATA INDICATORS (In the pocket at the back of the report)

SCORECARD
Level 1: Development Progress in Asia and the Pacific......................................................... 1
Level 2: ADB Contributions to Development Results .......................................................... 4
Level 3: ADB’s Operational Management ............................................................................. 9
Level 4: ADB’s Organizational Management ..................................................................... 12

SIGNALS AND SCORING METHODS
Level 1 Signals Explained .................................................................................................... 16
Levels 2–4 Signals Explained ............................................................................................... 17
Composite Signals ............................................................................................................... 18
Signals and Scoring Methods .............................................................................................. 19

STANDARD EXPLANATORY DATA INDICATORS
Level 1: Development Progress in Asia and the Pacific ....................................................... 23
Level 2: ADB’s Contributions to Development Results ....................................................... 25
Results Achieved through Completed Operations, 2010–2014 ......................................... 29
Results Programmed through New Operations Approved, 2010–2014 .......................... 32
Level 3: ADB’s Operational Management ........................................................................... 35
Level 4: ADB’s Organizational Management ..................................................................... 43

WEB-LINKED DOCUMENTS
1. ADB’s Results Framework: Interim Update to Align with the Midterm Review of Strategy 2020
2. Results Framework Indicator Definitions
3. Standard Explanatory Data Definitions

This link also contains the results framework papers, Development Effectiveness Reviews, scorecards, and standard explanatory data indicators.
LIST OF FIGURES, TABLES, AND BOXES

FIGURES
Figure 1: Structure of the Results Framework........................................................................2
Figure 2: Per Capita GDP Growth—Still Strong, But Slowing..................................................4
Figure 3: Rising Overall Quality of Governance and Public Sector Management in
Asian Development Fund Recipient Countries (index)..........................................................5
Figure 4: Higher Per Capita Carbon Dioxide Emissions, But Lower Carbon Intensity...............7
Figure 5: Completed Sovereign Operations Rated Successful, 2009–2014 (%)..........................13
Figure 6: Completed Nonsovereign Operations Rated Successful, 2010–2014 (%)..................21
Figure 7: Effectiveness in Achieving Outcomes, 2009–2014 (%)...........................................23
Figure 8: Completed Technical Assistance Projects Rated Successful, 2007–2014 (%)...........24
Figure 9: Average Time from Approval to First Contract Award (months).............................36
Figure 10: Project Readiness (%)..........................................................................................39
Figure 11: Annual Official and Commercial Cofinancing, 2010–2014 ($ billion)......................42
Figure 12: Public–Private Partnership Leveraging Ratio........................................................45
Figure 13: Inclusive Economic Growth..................................................................................48
Figure 14: Support for Environmental Sustainability (%)......................................................50
Figure 15: First-Time Decline in Actual Internal Administrative Expenses..........................68
Figure 16: Procurement Processing Time for Contracts $10 million and above (number of days)......70

TABLES
Table 1: Validated Project Completion Reports, 2010–2014 .....................................................10
Table 2: Success Rates of Sovereign Projects by Sector, 2010–2014 (%).................................13
Table 3: Success Rates of Sovereign Policy-Based Operations by Sector, 2010–2014 (%)........14
Table 4: Reasons Cited for Less Successful Sovereign Operations, 2012–2014 (%).............16
Table 5: Sovereign Operations Completed on Budget, 2012–2014 ........................................16
Table 6: Sovereign Operations Completed on Time, 2012–2014............................................17
Table 7: Reasons for Delays in Successful Sovereign Operations, 2012–2014.......................18
Table 8: Successful and Likely Sustainable Sovereign Operations, 2011–2014......................19
Table 9: Disbursement Amount and Ratios.............................................................................40
Table 10: Financing for Strategy 2020.....................................................................................57
Table 11: Civil Society Organization Participation in the Design of Sovereign Operations
(% of approved operations).................................................................................................63
Table 12: Sovereign Operations Using Country Systems (%)................................................63
Table 13: Hiring Time by Staff Category, 2012–2014 (average number of days)...................65
Table 14: Hiring Time, 2013–2014 (average number of days from internal and external sources).....66
Table A1.1: ADB Developing Member Countries ................................................................. 83
Table A1.2: Classification of ADB Developing Member Countries ..................................... 83
Table A3.1: Comparison of Former and Revised Sector Lists ............................................ 91
Table A3.2: Comparison of Current and Revised Theme Lists ........................................... 92
Table A3.3: Financing for Strategy 2020 ........................................................................... 92
Table A3.4: Results Framework Indicator—Operations Contributing to
  Inclusive Economic Growth (%) ...................................................................................... 93

BOXES
Box 1: Learning from Experience .................................................................................... 71
Box 2: Swift Response ...................................................................................................... 72
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ADF</td>
<td>Asian Development Fund</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>CAREC</td>
<td>Central Asia Regional Economic Cooperation</td>
</tr>
<tr>
<td>CPS</td>
<td>country partnership strategy</td>
</tr>
<tr>
<td>CSO</td>
<td>civil society organization</td>
</tr>
<tr>
<td>DEfR</td>
<td>development effectiveness review</td>
</tr>
<tr>
<td>DMC</td>
<td>developing member country</td>
</tr>
<tr>
<td>DRM</td>
<td>disaster risk management</td>
</tr>
<tr>
<td>FCAS</td>
<td>fragile and conflict-affected situations</td>
</tr>
<tr>
<td>FSM</td>
<td>Federated States of Micronesia</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GMS</td>
<td>Greater Mekong Subregion</td>
</tr>
<tr>
<td>GWh</td>
<td>gigawatt-hour</td>
</tr>
<tr>
<td>IAE</td>
<td>internal administrative expense</td>
</tr>
<tr>
<td>ICT</td>
<td>information and communication technology</td>
</tr>
<tr>
<td>IED</td>
<td>Independent Evaluation Department</td>
</tr>
<tr>
<td>km</td>
<td>kilometer</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>Lao People's Democratic Republic</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MFF</td>
<td>multitranche financing facility</td>
</tr>
<tr>
<td>OCR</td>
<td>ordinary capital resources</td>
</tr>
<tr>
<td>PBL</td>
<td>policy-based lending</td>
</tr>
<tr>
<td>PCR</td>
<td>project completion report</td>
</tr>
<tr>
<td>PCS</td>
<td>project classification system</td>
</tr>
<tr>
<td>PPP</td>
<td>public–private partnership</td>
</tr>
<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>RBL</td>
<td>results-based lending</td>
</tr>
<tr>
<td>RCI</td>
<td>regional cooperation and integration</td>
</tr>
<tr>
<td>SASEC</td>
<td>South Asia Subregional Economic Cooperation</td>
</tr>
<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
</tr>
<tr>
<td>TA</td>
<td>technical assistance</td>
</tr>
<tr>
<td>TFP</td>
<td>Trade Finance Program</td>
</tr>
<tr>
<td>TVET</td>
<td>technical and vocational education and training</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
</tbody>
</table>
HIGHLIGHTS

The 2014 Development Effectiveness Review (DEfR) is the eighth in a series of yearly reports on the performance of the Asian Development Bank (ADB). It tracks development progress in Asia and the Pacific and monitors ADB’s development effectiveness. ADB has updated the results framework that the DEfR uses as its yardstick. The changes from the 2013 DEfR reflect the recommendations of the midterm review of Strategy 2020 conducted in 2014. Four new indicators were added to measure project readiness and the financing levels for education, health, and private sector operations. The update also introduced 17 new standard explanatory data indicators. These will help improve ADB’s tracking of support for inclusiveness, environmental sustainability, and regional cooperation and integration, as well as enhance monitoring of ADB’s organizational effectiveness. The updated framework has 91 indicators and will be used by the annual DEfRs to assess performance during 2014–2016.

A. Progress in the Region

ADB’s developing member countries (DMCs) are growing faster than the rest of the world, but the trend is moderating. This means the pace of poverty reduction in the region could slow. Unprecedented economic expansion halved the proportion of the region’s population living in extreme poverty 10 years ahead of the 2015 Millennium Development Goal target date. In little more than 20 years, from 1990 to 2011, more than 900 million people were lifted above the $1.25-a-day extreme poverty line. Sustained growth is essential to sustained poverty reduction. DMC growth is still strong by current global standards, but a major slowdown or shocks could pull many of the 856 million poor who live on $1.25–$2.00 a day back into extreme poverty to join the 544 million of the region’s people who have not yet escaped it. If growth remains strong and steady, however, it could reduce overall extreme poverty in Asia and the Pacific to below 3% by the mid- or late 2020s—the equivalent, statistically speaking, of eliminating it. Severe income inequality, which has often risen even as poverty has declined, appears to have eased in nine DMCs, but the changes are marginal in most cases.

The DMCs have pushed back some elements of non-income poverty. More households have access to clean water, and more girls have the opportunity to go to school. Other hard and soft infrastructure improvements have increased the flow of goods, services, and investment across national borders, generating growth and jobs in DMC economies. The infrastructure deficit remains vast, however. Many hundreds of millions lack sanitation services, paved roads, and electricity. Reducing malnutrition among children has also been slow. Pressure on the region’s environment and natural resources continues to build. The good news is that ADB’s DMCs have been able to cut carbon intensity. When the Millennium Development Goals expire in 2015, the international community will approve the new global Sustainable Development Goals. They will usher in a new development agenda based on economic prosperity, social equity, and environmental responsibility.
B. ADB’s Achievements in 2014

**Rising success rates, on budget.** ADB’s success rates continued to climb during the 2012–2014 reporting years, despite a stricter reporting methodology adopted for the 2014 DEfR. Outcome achievement in 2014 rose to more than 80% for the first time. Most operations that delivered their outputs also achieved their outcomes, demonstrating a strong link. The intended results were achieved or exceeded for 19 of 20 indicators in completed operations overall in 2014 and in 11 of 14 indicators in a subcategory of those that received financing from the Asian Development Fund (ADF). Almost 90% of successfully completed operations delivered their results on budget.

**Strong results.** ADB operations completed in 2014 installed 4.9 gigawatts of power generation capacity and 2,900 kilometers (km) of transmission and distribution lines. They built or upgraded 7,200 km of roads, including 6,400 km in rural areas; laid 10,000 km of new and upgraded water pipelines; and connected 735,000 households to clean water supply networks. ADB upgraded sanitation for 510,000 households and expanded the region’s wastewater treatment capacity by 424,000 cubic meters per day. It developed irrigation, drainage, and flood management on 549,000 hectares of land. ADB’s Trade Finance Program funded onlending to more than 1,500 small and medium-sized enterprises, mostly in ADF countries. Other projects helped 4,000 more. Of the 833,000 people who benefited from ADF-supported microfinance loans, 97% were women. The outputs of ADB projects will give 19.1 million students a better education. Regional cooperation and integration operations helped move an additional 35.1 million tons of cargo across the region’s national boundaries faster and more easily. Three energy efficiency projects cut greenhouse gas emissions by the equivalent of 736,000 tons of carbon dioxide per year.

### Results Achieved through Completed Operations, 2011–2014

<table>
<thead>
<tr>
<th>Category</th>
<th>ADB Operations Overall</th>
<th>ADB Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households with new electricity connections</td>
<td>789,000</td>
<td>505,000</td>
</tr>
<tr>
<td>Households with new or improved supply of water</td>
<td>5,080,000</td>
<td>1,033,000</td>
</tr>
<tr>
<td>Households with new or improved sanitation</td>
<td>1,898,000</td>
<td>293,000</td>
</tr>
<tr>
<td>Students benefiting from improved educational facilities</td>
<td>17,276,000</td>
<td>17,276,000</td>
</tr>
<tr>
<td>Teachers trained to improve the teaching quality and meet the competency standards</td>
<td>1,666,000</td>
<td>1,666,000</td>
</tr>
<tr>
<td>Microfinance loan accounts opened or end borrowers reached</td>
<td>2,661,000</td>
<td>2,053,000</td>
</tr>
<tr>
<td>Tons a year of cross-border cargo volume facilitated</td>
<td>68,777,000</td>
<td>16,229,000</td>
</tr>
<tr>
<td>Kilometers of roads built or upgraded</td>
<td>65,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

**ADB=** Asian Development Bank, **ADF=** Asian Development Fund

**Note:** ADB operations refer to sovereign projects, policy-based operations, and nonsovereign operations. ADF operations are a subset of ADB operations that received grants or concessional lending from the ADF.

**Sources:** ADB project and/or program completion reports issued in 2011–2014, eOperations, and Strategy and Policy Department.
High quality at entry. ADB’s operations overall and those funded by the ADF both performed strongly in the fifth biennial quality-at-entry assessment in 2014.

Expanded development financing. ADB efforts to improve project implementation and remove bottlenecks in procurement raised the total disbursements by 17% overall and in each of the sovereign, nonsovereign, and ADF subcategories. ADB mobilized a record $9.1 billion in cofinancing in 2014, aided by the greater predictability provided by programmatic cofinancing framework arrangements and a successful widening of its search for new nontraditional partners. It supported 16 public–private partnership (PPP) transaction agreements signed in 2014, quadruple the number in 2013. For each $1.00 of ADB’s financing allocated to PPPs, $5.00 was financed by the private sector in 2014 (up from $3.20 in 2013).

Closer alignment with Strategy 2020. ADB operations overall and operations that received ADF financing were more closely aligned with Strategy 2020’s development agendas, core operations, and five drivers of change in 2014—the result of actions to improve alignment after a relatively poor performance in 2013. ADB is on course to meet the 2016 targets on most of these indicators. The exceptions are financing for health, ADF financing for social protection (the third pillar of the inclusive economic growth agenda), and a partnerships indicator that measures ADB’s use of country systems.

Stronger organization effectiveness. The higher disbursements and a drop in internal administrative expenses boosted ADB’s budget efficiency in 2014. ADB is accelerating its delegation of responsibilities and resources to its resident missions. This furthers the One ADB approach and will help make coordination between headquarters and resident missions more seamless. After ADB introduced a 10-point action plan to streamline the procurement processes in August 2014, the time it took to review procurement contracts dropped by about half.
C. Challenges

Implementation issues. Although the overall success rate was up in the 2012–2014 reporting years from the previous period, a quarter of sovereign projects and a third of policy-based operations and nonsovereign operations were rated less than successful. Poor project design and readiness were among the main reasons. Almost all nonsovereign infrastructure projects were successful, but lingering effects of the 2008–2009 global financial crisis, such as stress on some DMC banks, continued to weigh on the performance of nonsovereign finance operations. The more rigorous methodology adopted for the 2014 DEfR also reduced success scores. Despite some improvement, the outcomes of 39% of ADB’s overall operations and 45% of ADF operations were less than likely to be sustained. The main problems are the absence of dependable funding for operations and maintenance. Delays in sovereign operations remained frequent and lengthy. Half of the successful projects completed in reporting years 2012–2014 needed extensions of more than 1 year. Project readiness was again a major issue.

Longer processing and start-up times. Processing in sovereign and nonsovereign operations slowed in 2014. Start-up delays grew longer. The average period from approval to first contract in sovereign projects was over 15 months in 2014, up from under 12 months in 2013. Circumstances differed, but poor readiness and procurement holdups were generally the cause.

Larger increases in development financing needed. Total disbursements rose, but the disbursement ratio for sovereign projects remained flat. To improve this ratio, ADB has to make projects more implementation-ready at approval. Cofinancing made up 58% of overall ADB financing in 2012–2014 but was still substantially below the 70% goal for 2016. The 16 PPP transactions signed with ADB’s support in 2014 brought the 2-year (2013–2014) total to 20, but ADB must almost match the 2014 performance again in 2015 and 2016 to reach the 2013–2016 target of 50. Despite the improved PPP leveraging ratio in 2014, it remained under the 2013–2016 target of 8.

Tighter alignments with Strategy 2020 and the midterm review needed. The 2014 share of ADB operations with a social protection component barely grew, and it shrank slightly in the ADF subcategory. Only a single small project component was approved in 2014 to support health. ADB operations need to expand their use of country systems, which in 2014 was below the 2012 baseline.
D. Strategy 2020 Midterm Review Actions

The measures in the midterm review action plan cover almost all of the challenges identified by the 2014 DEfR. Implementation is well under way.

**Improving project readiness and implementation.** The streamlining of ADB’s business processes continues. ADB will update its procurement and consulting service policies and guidelines and is decentralizing procurement decision making further. It now uses a risk-based approach to shorten contract reviews. An end-to-end e-system is being set up to monitor procurement progress in individual projects. ADB’s staff is undergoing regular training to improve procurement, contract administration, and disbursement results. ADB is using project readiness filters to make implementation schedules more realistic, allocating resources for preparing detailed engineering designs in advance, and upgrading its capacity and systems to improve project design and implementation.

**Expanding development finance.** ADB will upgrade its information and communication technology systems to make sure that resident missions have full access to the information they need at headquarters to properly execute newly delegated disbursement responsibilities. It will link its allocation of ordinary capital resources to DMCs to their project performance, including performance on disbursements. It is specifying cofinancing goals in country partnership strategies and country operations business plans and will give project teams more incentives to reach them. The new Office of Public–Private Partnership is spearheading ADB’s PPP activities by providing advisory services, supporting PPP projects, and building the capacity of DMCs to attract and handle PPP transactions. ADB will develop the Asia and Pacific Project Preparation Facility to help DMCs prepare infrastructure projects for private financing.
Sharpening strategic alignment. ADB is revamping its sector operational plan to build up its support for health. A new operational plan, refined staff guidelines, and resource commitments for social protection will ensure that this third pillar of ADB’s inclusive economic growth strategic agenda receives full attention alongside pillars 1 and 2. Expanded results-based lending will help ADB make more use of country systems. So will a review of the approach to upper middle-income countries, which will likely be followed by more project implementation through the generally capable institutions and systems in these DMCs.

Consideration of further actions on sustainability. The midterm review action plan fully addresses the major findings of the 2014 DEF in all areas but one. ADB needs to add measures to deal more quickly and fully with the difficult problem of weak project sustainability.

Summary Performance Scorecard, 2014

<table>
<thead>
<tr>
<th>Section I: Development Progress in Asia and the Pacific (Level 1)</th>
<th>ADB DMCs Overall</th>
<th>ADB’s ADF DMCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty (Income and Non-Income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Development Outcomes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section II: ADB’s Development Effectiveness</th>
<th>ADB Operations Overall</th>
<th>ADB’s ADF Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB’s Contributions to Development Results (Level 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality at Completion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Operational Results</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB’s Operational Management (Level 3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation Quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality at Entry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy 2020 Development Agendas and Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy 2020 Drivers of Change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB’s Organizational Management (Level 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process Efficiency and Client Orientation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, ADF = Asian Development Fund, DMC = developing member country.

Notes:  = good,  = mixed,  = poor. ADF countries comprise the ADB DMCs that receive only ADF support or a blend of support from the ADF and ADB’s ordinary capital resources. ADF operations are ADB operations funded in whole or in part by the ADF.

Source: ADB Strategy and Policy Department.
I. THE 2014 DEVELOPMENT EFFECTIVENESS REVIEW AND THE UPDATED RESULTS FRAMEWORK

The 2014 Development Effectiveness Review (DEfR) is the eighth of the annual performance reports prepared by the Asian Development Bank (ADB) since it adopted its first corporate results framework in 2008. The aim of the DEfR is to monitor and improve ADB’s performance in achieving the priorities of Strategy 2020, ADB’s long-term strategic framework for 2008–2020.¹ The DEfR assesses recent development progress in Asia and the Pacific and ADB’s development effectiveness to determine where ADB can do better.

The basis of the DEfR assessment is ADB’s results framework. The results framework covers ADB operations overall, as well as the subset of ADB operations and countries that receive grants or concessional lending from the Asian Development Fund (ADF).² ADB adopted a revised framework for 2013–2016³ and updated it for the 2014 DEfR.⁴ This was to incorporate the findings of the midterm review of Strategy 2020 undertaken during 2013–2014 to ensure that ADB can meet the existing and emerging development challenges in the region.⁵ The midterm review drew heavily on past DEfR findings and synthesized lessons ADB has learned while implementing Strategy 2020. The midterm review and the action plan that followed are aimed at improving ADB operations and providing better services to its developing member countries (DMCs).⁶

The 2014–2015 interim update of the results framework aligned it with the recommendations of the midterm review but retained the framework’s original structure and made only limited changes to the indicators. This preserves continuity in the DEfR process, while ensuring that the framework will remain relevant until a new one is adopted for 2017–2020. Four new indicators were added to measure project readiness and the financing levels for education, health, and private sector operations. The update introduced 17 new standard explanatory data indicators. These will help better track ADB’s support for inclusiveness, environmental sustainability, and regional cooperation and integration. They will also help monitor ADB’s organizational effectiveness, which it aims to improve by strengthening human resource management, business processes, and resident missions. The updated framework was the yardstick for the 2014 DEfR and will apply to the DEfRs for 2015 and 2016.

The updated results framework has 91 results indicators. It includes four levels, which are divided into two sections (Figure 1):

(I) Section I covers only level 1. It tracks development progress in Asia and the Pacific to monitor the continued relevance of Strategy 2020. It does not assess ADB’s performance and instead reflects the collective development effort in the region.

---
² Level 1 progress indicators generally cover two categories—ADB’s DMCs overall and the subset of ADB DMCs that have access to the ADF. This includes blend countries with access to both ordinary capital resources and the ADF. Indicators at levels 2–4 generally cover performance in ADB’s overall operations and the subset of operations that receive some or all of their funding from the ADF. ADB’s DMCs are listed by country category in Appendix 1.
Section II includes levels 2–4. It measures ADB’s performance in executing Strategy 2020 and the midterm review. Level 2 focuses on ADB's contribution to development through the results of the operations it has completed in the 3 most recent reporting years. Level 3 tracks ADB's operational management of new and ongoing operations. Level 4 examines the effectiveness of ADB’s performance in managing its internal resources and processes to support its operations effectively.

**Figure 1: Structure of the Results Framework**

<table>
<thead>
<tr>
<th>Section I: Development Progress in Asia and the Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 Development Progress in Asia and the Pacific</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section II: ADB’s Development Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2 ADB’s Contributions to Development Results</td>
</tr>
<tr>
<td>Level 3 ADB’s Operational Management</td>
</tr>
<tr>
<td>Level 4 ADB’s Organizational Management</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank.  
Source: ADB Strategy and Policy Department.

The 2014 DEfR continues the practice of using green, amber, and red signals to illustrate performance against targets for each indicator. Performance on indicators with 2016 targets is expected to progress from the baseline value to attain these targets. Performance on indicators with annual targets needs to meet minimum and/or maximum threshold values set for each year during 2013–2016.

Appendixes 1–5 provide the names and categories of ADB DMCs; summarize the country and operational performance in nine DMCs faced with fragile and conflict-affected situations; describe the revised project classification system, which is a major source of the DEfR data; present sector and area distribution of ADB financing approved in 2014; and list operations that are referred to in the 2014 DEfR. The scorecards for each level, scoring methods, and standard explanatory data indicators are contained in the pocket at the back of the report. The linked documents present the updated results framework, define the results framework and standard explanatory data indicators, and present a technical note on the DEfR rating system.
II. LEVEL 1: DEVELOPMENT PROGRESS IN ASIA AND THE PACIFIC

ADB monitors overall development progress and challenges in Asia and the Pacific to ensure that its strategy continues to respond to the region’s development needs. Level 1 comprises 22 indicators that capture the region’s progress in reducing income and non-income poverty; promoting human development; and achieving other outcomes related to access to basic infrastructure and services, good governance, and the environment.

A. Reducing Poverty

The region’s growth trajectory remains steep but is showing signs of slowing. This raises the question of whether the unprecedented poverty reduction achieved in the world’s most populous region over the past 2 decades can continue at the same high rate.

At 6.0%, the per capita gross domestic product (GDP) growth of ADB’s DMCs in 2013 far outpaced that of all other major regions (Figure 2). With more than half of the world’s people living in Asia and the Pacific and the region accounting for 38.0% of its GDP, this gave the global economy a hefty boost.

Sustained income growth of this kind—often at even higher rates—helped lift more than 900 million of the region’s people out of extreme poverty in a little more than 20 years, from 1990 to 2011. Asia and the Pacific halved its extreme poverty rate 10 years ahead of the 2015 Millennium Development Goal (MDG) target date. By 2011, the proportion of the population living on less than $1.25 per day had declined sharply to 15.3% from 26.5% in 2005 and 55.0% in 1990.7

This growth now seems to be moderating. The 6.0% per capita increase in 2013 was down from 6.1% in 2012 and 7.1% in 2011 (Figure 2). Growth in the People’s Republic of China (PRC) slipped from an average of 8.6% during 2010–2012 to 7.4% in 2014. This pace is still stellar, but the decline is significant. The PRC has powered a good part of the overall poverty reduction achieved by the region since 1990.

7 ADB has recently found that extreme poverty remains a greater challenge in the region than is captured by the current global income poverty line of $1.25 a day. Based on the consumption patterns of Asia’s poor, the appropriate extreme poverty line for this region is actually higher—$1.51 a day in terms of 2005 purchasing power parity. Using this poverty line and taking into account the impact of food insecurity and vulnerability to such risks as natural disasters, economic crises, and personal illness, ADB estimates that 1.4 billion of the region’s people were living in extreme poverty in 2011, or about 40% of the total population.
Major economic shocks or slowdowns could dim the chances that 544 million of the region’s people who are still caught in extreme poverty can escape it. They could also pull many of the 856 million people living on $1.25–$2.00 a day into extreme poverty. This makes strong steady growth essential. If it can be maintained, extreme poverty in Asia and the Pacific may be reduced to below the 3% rate by the mid- or late 2020s—the equivalent, statistically speaking, of eliminating it (footnote 5).

The region’s rapid growth has sometimes been paired with rising inequality. High income inequality persists in 5 of the 26 DMCs for which data is available—Fiji, Georgia, Malaysia, the Federated States of Micronesia, and the Philippines. It also grew during 2010–2012 in Bhutan, Indonesia, and the Lao People’s Democratic Republic (Lao PDR)—three countries where it had been comparatively low. On the bright side, income inequality has declined in nine DMCs: Armenia, Cambodia, the PRC, Georgia, India, the Kyrgyz Republic, Nepal, Pakistan, and Viet Nam. However, the declines are marginal in most cases, and whether they can be sustained remains to be seen.

The region’s gains against the non-income aspects of poverty are illustrated by its achievement of the MDGs for widening access to improved water supply and for gender parity in education. However, it has been falling short on the MDGs for reducing malnutrition among children, curbing child and maternal...

---

8 DMCs with high income inequality are those where the Gini coefficient, which measures how income or consumption expenditures are distributed across households, is higher than 0.40. A Gini coefficient of 0.00 means perfect equality—i.e., the income of everyone in the population is exactly the same. If the Gini coefficient is 1.00, it means that only one person has all the income. A higher value indicates greater inequality.

9 While inequality remains high in the PRC, research by the World Bank shows that it has begun to ease in response to agricultural support policies, social welfare transfers, targeted tax reductions, rising wages, and increased spending on poverty alleviation under the government’s harmonious society program. See T. Sicul. 2013. The Challenge of High Inequality in [the People’s Republic of] China. Inequality in Focus. Washington DC: World Bank. The reasons for the decline in inequality in the other eight DMCs need to be carefully analyzed.
mortality, and improving access to sanitation in both rural and urban areas. The United Nations (UN) Millenium Development Report for 2014 found ties between poor nutrition and high child mortality. Malnourished children become highly susceptible to such infectious diseases as malaria, pneumonia, and diarrhea—the last of which is common in communities that lack proper sanitation.\(^\text{10}\)

## B. Building Infrastructure and Connectivity

The region’s mixed grades on the MDGs mirror uneven fulfillment of its vast hard and soft infrastructure needs. The paved roads ratio rose from 15.9 kilometers (km) to 17.0 km per 10,000 people in the DMCs overall during 2009–2011, but it slid from 8.3 to 7.2 km per 10,000 people in the ADF countries.\(^\text{11}\) Electrification rates have not increased. They remained at 84% across all of the DMCs during 2011–2012 and dipped from 67% to 66% in those in the ADF subcategory.

The equally critical soft infrastructure picture was brighter. Based on the measure of deposit accounts in financial institutions per 1,000 adults, access by the poor and disadvantaged to financial services expanded. Ratings for governance and public sector management continued to improve in 12 of the 29 ADF countries in 2014. The average score for the ADF recipient countries overall was lower than in 2013 in only one of the six dimensions assessed—the quality of public administration (Figure 3). It took less time on average to start a business in the DMCs than it had the year before.

---


\(^\text{11}\) ADB classifies its DMCs into three categories that determine their lending eligibility and repayment terms. Group A countries have access only to the ADB’s ADF. Group B or blend countries have access to both the ADF and ADB’s ordinary capital resources (OCR). Group C countries have access to OCR only. In addition to ADF loans, Group A countries are eligible to receive ADF grants, depending on their debt-distress classification. In this report, ADF countries refer to a combination of ADF (group A) and blend countries (Group B). See Appendix 1 for the list of ADB DMCs.
The flows of trade, investment, financial assets, and people across DMC borders are swelling.\footnote{ADB. 2014. \textit{Asian Economic Integration Monitor November 2014}. Manila.} Hard infrastructure (e.g., better highways and customs facilities) and soft infrastructure (smoother trade arrangements and business-friendly reforms) both play a role. Half of the DMCs’ $7 trillion in trade in 2013 was with countries within the region. This trend toward greater \textit{intraregional trade} now needs to be expanded beyond the Southeast Asian and Pacific subregions, where it is strongest, to Central and South Asia, where it is still relatively weak.

C. Protecting the Environment

The \textit{per capita carbon dioxide emission rates} of ADB’s DMCs continue to rise. Although these rates are still far below those in the developed world, pressure is building on the environment and natural resources of these countries as they industrialize, urbanize, and improve overall living standards.\footnote{United Nations Development Programme. 2012. \textit{Asia-Pacific Human Development Report—One Planet to Share: Sustaining Human Progress in a Changing Climate}. Bangkok.} This makes DMC efforts to achieve greater energy efficiency vitally important. The fact that they have been cutting carbon intensity as they grow is a positive sign. Their carbon emissions dropped from 0.81 kilograms per $1 of GDP in 2005 to 0.66 kilograms in 2010 (Figure 4). Other good environmental news
involved land area covered by forest. It expanded gradually during 2010–2012 through afforestation and natural growth. Bhutan, the PRC, and Viet Nam recorded the biggest gains.

**Figure 4: Higher Per Capita Carbon Dioxide Emissions, but Lower Carbon Intensity**

CO₂ = carbon dioxide, GDP = gross domestic product, kg = kilogram, PPP = purchasing power parity.


Natural disasters, including some with links to climate change and environmental degradation, remain a particularly potent threat in Asia and the Pacific. The region’s governments, economies, and people need to strengthen their defenses against these events and prepare to cope with them when they occur. Of the 10 countries found to be most exposed and vulnerable to these disasters by the World Risk Report in 2014, five—Bangladesh, the Philippines, Solomon Islands, Tonga, and Vanuatu—are ADB DMCs.¹⁴

**D. Moving Forward to the Sustainable Development Goals**

When the MDGs expire in 2015, a new agenda and era for development will begin—both globally and in the region. Through dialogue with its DMCs and collaboration with UN organizations and other multilateral development banks, ADB has brought the perspectives of Asia and the Pacific to the deliberations on the new proposed Sustainable Development Goals (SDGs).¹⁵ The SDGs are expected to be ratified in a special summit at the UN in September 2015, when UN countries, including ADB’s members, are to sign the final agreement. ADB is readying itself to pursue the new SDGs that align with its mandate and the priorities set by the Strategy 2020 midterm review.

---


III. LEVEL 2: ADB’S CONTRIBUTIONS TO DEVELOPMENT RESULTS

Level 2 of the results framework covers two aspects of recently completed operations: the success rates, which measure quality at completion; and major results achieved in the core operational areas of Strategy 2020. Using seven results framework indicators, the success rates are assessed for projects and programs that were completed during the 3 reporting years from 1 July 2011 to 30 June 2014. The results of sovereign and nonsovereign operations completed in the 2014 reporting year—i.e., 1 July 2013–30 June 2014—are measured by 23 indicators across core operational areas. Completed operations assessed at level 2 typically were designed during 2003–2008. The 1 July–30 June reporting year applies only to level 2 indicators.

A. Quality at Completion

ADB’s operations overall and the subset of operations funded by the ADF are both rated good during the 2012–2014 reporting years. The DEfR reports on the success rates of country strategies and assistance programs, sovereign operations, nonsovereign operations, and TA projects completed during the review period. It also assesses how well ADB’s sovereign operations deliver gender equality results. ADB’s overall operations are on track or on track but watch to meet the 2016 targets in five of seven indicators. ADF operations are on track or on track but watch in four of six.

1. Methodology Changes in Measuring Success

Two methodology changes make the level 2 success rates for completed operations in the 2014 DEfR less than fully comparable with those of previous years.

First, the success rates in this DEfR are based entirely on the validated or amended project completion ratings of the Independent Evaluation Department (IED), as shown in Table 1. Previous DEfRs used the IED ratings when they were available, but they also included the self-evaluated ratings of project completion reports (PCRs) that the IED had not reviewed. The use of IED ratings only will harmonize the ratings in the DEfR and IED’s Annual Evaluation Review. The exclusion of unvalidated PCR ratings and the downgrading by IED of 16% of the successful ratings in the PCRs circulated during this

---

16 Projects are considered to have been completed during a reporting year if the PCRs have been circulated during that year. Only the IED ratings have been considered in the 2014 DEfR scores—i.e., PCR ratings that have been reviewed and either affirmed or amended in subsequent validation reports. All years in level 2 refer to reporting years unless otherwise specified.

17 Appendix 2 summarizes the performance of DMCs in fragile and conflict-affected situations.

18 In levels 2 to 4 of the DEfR, the term on track indicates performance that exceeded the progress needed to attain the 2016 target. On track but watch indicates performance that achieved the progress needed to attain the 2016 target but requires close monitoring. Off track means that the performance fell short of the progress needed to attain the target. Details on the signals and scoring methods are provided in the pocket at the back of the report.

19 To address the backlog in the validation of PCRs, the success rates for 2012 and 2013 reported in the 2013 DEfR were adjusted based on the historical average rate of PCR rating downgrades by IED.
review period reduced the success rates by 5 percentage points from what they would have been had the 2013 DEfR approach still been used.20

Second, the reporting time frame for level 2 indicators was changed for the 2014 DEfR to allow IED an additional 6 months to prepare validation reports on PCRs. The reporting year for level 2 indicators is now July–June, not the calendar year as it was in previous DEfRs.21 For example, 2014 refers to the reporting year 2014—i.e., 1 July 2013–30 June 2014, not 1 January 2014–31 December 2014 as was the case previously. The calendar year continues to apply to all level 1, 3, and 4 indicators.

<table>
<thead>
<tr>
<th>Table 1: Validated Project Completion Reports, 2010–2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Year</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2010–2012</td>
</tr>
<tr>
<td>2011–2013</td>
</tr>
<tr>
<td>2012–2014</td>
</tr>
</tbody>
</table>

PCR = project and/or program completion report.
Note: The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.
Sources: Asian Development Bank PCRs, PCR validation reports, and project performance evaluation reports issued in 2009–2014.

2. Country Strategies and Assistance Programs

IED rated 10 of 16 country strategies and assistance programs assessed in 2012–2014 successful, which left ADB off track to meet the 2016 target of 80%.22 The 3-year average success rate of 63% is down from 2011–2013 and below the relatively high baseline of 73% in 2010–2012.

Scores for this indicator can be volatile. The number of programs evaluated each year is small, and the external conditions for one program can be materially different from those for another. Several program reviews in 2012–2014 were for countries in transition or in or emerging from conflict. The global financial crisis of 2008–2009 had created lasting economic turmoil in some others. This helps explain the six less than successful ratings in this review group. Despite the exacting conditions, most programs were rated effective or likely effective in delivering their intended results.

---

20 Applying the previous approach, the 2012–2014 success rate for the overall sovereign operations would be 77% instead of 72%.
21 Trade finance supported in 2014, results achieved and programmed outputs in 2011–2014, and impact evaluation studies are reported in calendar years to be consistent with other ADB documents, such as the Annual Report.
22 This includes country assistance program evaluations and validations of country partnership strategy final reviews.
The 10 successful country partnership strategies (CPSs) showed how ADB and the DMCs can surmount obstacles to success through close alignment of ADB’s assistance with a government’s development priorities. A high degree of responsiveness and flexibility and strong partnerships have enabled the governments and ADB to adapt to changes and succeed in challenging environments.

**Solomon Islands.** The fragile and post-conflict conditions in Solomon Islands posed economic, political, and security hurdles, but ADB’s country assistance program for 2006–2010 overcame them.\(^\text{23}\) ADB concentrated on a few crucial areas, teamed up with the government and other development partners in the transport sector, supported sound policy and legal reforms to encourage private sector development, and mobilized $108 million in cofinancing to complement its own limited $51 million commitment. A 3-year rolling program, with an annual business plan, gave ADB flexibility to shift resources and approach when circumstances required. This allowed ADB to react quickly after an earthquake and a tsunami struck in 2007 by helping the country strengthen its country’s infrastructure to withstand extreme climatic conditions and upgrade its disaster preparedness and emergency response capabilities. ADB also acted swiftly through the Economic Recovery Support Program to help stabilize public finances during the 2008–2009 global financial crisis.\(^\text{24}\)

**Nepal.** The main strength of ADB’s program in Nepal was its careful reading of the country context.\(^\text{25}\) When ADB designed the CPS for 2010–2012, Nepal was engaged in a protracted political transition and the complex process of cementing peace after civil conflict. The CPS was conflict-sensitive and emphasized peace building, collaboration, and inclusion to help address ethnic, gender, and geographical marginalization and disparities that had given rise to the social discord. The CPS was adjusted each year to fit the changing situation. ADB built on synergies with other development partners to improve aid effectiveness and played a lead role in adopting and promoting sector-wide results-based management. During a difficult period for the country, its people, and development operations, ADB helped improve irrigation, expand the road network, bring electrification and financial services to disadvantaged rural areas, and expand access to both clean water supplies and education.

---


Georgia. ADB helped Georgia deal with both an armed conflict and the effects of the global financial crisis. ADB was quick to approve emergency policy-based loans that helped the country recover from the conflict in 2008 and sustain critical public expenditures and inclusive social sector financing. One ADB program helped 75% of the 138,000 people displaced by the fighting return to their homes. It also gave them livelihood, housing, and other reconstruction assistance. Budget support under a second program enabled the government to carry out critical public investment programs, provide liquidity to the banking system, and boost spending on social protection during the 2008–2009 global financial crisis. Under a third program approved in 2010, the government adopted a law on gender equality, amended an existing law to enhance private pensions, set minimum standards for health care providers, and gave the poor medical insurance and better access to education.

The six ADB CPSs and country assistance programs rated less than successful were weakly aligned with country priorities. Global economic turmoil and domestic political unrest also affected their performance.

Kazakhstan. A lack of government ownership was a major factor in the less than successful rating for the CPS and country assistance program in Kazakhstan during 2004–2008. None of the four public sector projects planned for 2004–2006 materialized because of the government’s limited need for external public sector borrowing. After ADB responded by switching to nonsovereign operations in 2006–2008, several participating banks were shaken by the global financial crisis, further damaging the program.

Timor-Leste. Civil unrest in Timor-Leste in 2006 slowed implementation of ADB’s existing program and preparation of new assistance. Despite its less than successful overall rating, the program was effective in achieving its three broad outcomes. An ADB TA project helped widen microfinance coverage for women and rural residents. A water project improved water supply and sanitation for residents and businesses in the capital. A road project reduced vehicle operating costs and travel time, even though it did not rehabilitate as much road as planned.

3. Sovereign Operations

a. Performance

The success rate of ADB’s overall completed sovereign projects and policy-based operations improved during 2012–2014 to 72% from 68% in 2011–2013, while that of completed sovereign projects rose to 73% from 69% (Figure 5). Success rates increased in most sectors and surpassed the 80% target in energy, health, and industry and trade (Table 2). Although only 40% of finance and half of public sector management projects were rated successful during 2012–2014, they performed better in 2014 than in

previous years—with 50% of finance and 100% of public sector management projects meriting successful ratings. ADB was on track but watch to meet the 80% target in 2016 for both overall projects and those funded by the ADF.

**Table 2: Success Rates of Sovereign Projects by Sector, 2010–2014 (%)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>69</td>
<td>74</td>
<td>75</td>
</tr>
<tr>
<td>Education</td>
<td>50</td>
<td>47</td>
<td>63</td>
</tr>
<tr>
<td>Energy</td>
<td>67</td>
<td>79</td>
<td>91</td>
</tr>
<tr>
<td>Finance</td>
<td>20</td>
<td>25</td>
<td>40</td>
</tr>
<tr>
<td>Health</td>
<td>86</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Industry and trade</td>
<td>43</td>
<td>67</td>
<td>86</td>
</tr>
<tr>
<td>Multisector</td>
<td>57</td>
<td>75</td>
<td>71</td>
</tr>
<tr>
<td>Public sector management</td>
<td>25</td>
<td>33</td>
<td>50</td>
</tr>
<tr>
<td>Transport and ICT</td>
<td>78</td>
<td>82</td>
<td>74</td>
</tr>
<tr>
<td>Water and other urban</td>
<td>57</td>
<td>63</td>
<td>70</td>
</tr>
<tr>
<td>infrastructure and services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>63</strong></td>
<td><strong>69</strong></td>
<td><strong>73</strong></td>
</tr>
</tbody>
</table>

ICT = information and communication technology.

Notes:
1. The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014. The years refer to project completion report (PCR) circulation years.
2. Success rates used the ratings by the Independent Evaluation Department.
3. The total number of PCRs in the reporting year periods was 156 in 2010–2012, 159 in 2011–2013, and 131 in 2012–2014. Sector development programs, which comprise projects and policy-based lending in the same operations, are counted under both projects and policy-based operations.

The success rate of completed policy-based operations rose during 2012–2014 (Table 3). ADB’s operations overall and in the ADF subset are both rated on track to meet the 80% target in 2016. Success rates improved in all sectors of ADB’s policy-based operations except finance and were at or above the 80% target in the education, health, multisector, and transport categories. The finance operation success rate remained below 50%.

### Table 3: Success Rates of Sovereign Policy-Based Operations by Sector, 2010–2014 (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Energy</td>
<td>33</td>
<td>33</td>
<td>...</td>
</tr>
<tr>
<td>Finance</td>
<td>40</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Health</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Industry and trade</td>
<td>40</td>
<td>50</td>
<td>67</td>
</tr>
<tr>
<td>Multisector</td>
<td>67</td>
<td>67</td>
<td>80</td>
</tr>
<tr>
<td>Public sector management</td>
<td>31</td>
<td>67</td>
<td>73</td>
</tr>
<tr>
<td>Transport and ICT</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td><strong>42</strong></td>
<td><strong>59</strong></td>
<td><strong>67</strong></td>
</tr>
</tbody>
</table>

(...)= no PCR, ICT = information and communication technology.

Notes:
1. The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.
2. Success rates used the ratings by the Independent Evaluation Department.
3. There were no policy-based operations in agriculture and water and other urban infrastructure and services in 2012–2014.

Sources: Asian Development Bank program completion reports (PCRs), PCR validation reports, and project performance evaluation reports issued in 2009–2014.

### b. Factors Behind the Success

Readiness has been a regular feature of project success. The executing and implementing agencies of projects rated successful in 2012–2014 were often strong from the start. In some cases, this was because ADB and its DMCs worked together before operations began to prepare these agencies in DMCs to manage the projects, help deliver the results, and operate and maintain facilities afterward. Advance actions on procurement, safeguards, and government financing also increase the chances of success and can be financed through TA.

In Viet Nam, for instance, ADB TA provided to prepare an education project analyzed the key issues confronting the upper secondary education system in the country and led to a well-designed, technically feasible operation that had strong implementation arrangements and delivered the intended results. Other ADB TA helped guarantee sound project performance by enhancing the managerial

---

35 Total project readiness is achieved when project feasibility, detailed design, strong executing and implementation arrangements, safeguard action plans, and procurement up to the contract award for the procurement packages planned in the first year have all been established and completed before project approval (ADB. 2010. Good Project Implementation Practice: Report of the Project Implementation Working Group. Manila).

skills of the executing agencies during implementation. This TA also produced modernized teaching aids, building plans for public schools, school maintenance manuals for local communities, and management tools for teacher training—all essential elements in the project’s overall success.\textsuperscript{37}

The sound design of a successful ADB port trade facilitation project in Bangladesh was crafted largely from the outputs of advisory TA.\textsuperscript{38} The TA assessed port performance and conducted a comparative modal analysis of roads, railways, and inland waterways in the Dhaka–Chittagong Corridor. All major stakeholders were consulted. The quality blueprint that resulted made the port and other transport infrastructure more efficient and lowered the costs of doing business.

TA can make projects ready to go at start-up. Detailed engineering and technical designs prepared in advance with ADB TA helped a rural roads project in the Lao PDR succeed in its aim to improve lives in poor and remote communities.\textsuperscript{39} The TA also helped finalize a tender document before the project began to accelerate the contracting of civil works once it was under way.

c. Reasons for the Lack of Success

A quarter of sovereign projects and a third of policy-based operations that were only partially successful in 2012–2014 frequently had things in common.

Many underestimated the potential for problems with institutional capacity, government support, market conditions, security situations, or other local factors (Table 4). They often lacked readiness and/or suffered from design deficiencies, including inaccurate cost estimates, unrealistic implementation schedules, and an absence of detailed engineering designs. Shortcomings such as these forced ADB and its DMCs to adjust the project designs, scope, and implementation arrangements later on. They also led to cost overruns and operational delays. Weak or substandard work by contractors, consultants, or community facilitators compounded the problems. Once completed, these projects frequently lacked dependable sources of financing for operations and maintenance or faced uncertain sustainability because of fragile or unstable government support systems.

Table 4: Reasons Cited for Less Successful Sovereign Operations, 2012–2014 (%)

<table>
<thead>
<tr>
<th>Reason Cited</th>
<th>Projects</th>
<th>Policy-Based Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Preparation and Design</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Complex, overambitious, or inappropriate design</td>
<td>78</td>
<td>67</td>
</tr>
<tr>
<td>2. Inadequate design, including insufficient reflection of government capacity, commitment, and/or local conditions</td>
<td>58</td>
<td>56</td>
</tr>
<tr>
<td><strong>Implementation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Weak local institutional capacity and/or lack of government support</td>
<td>67</td>
<td>78</td>
</tr>
<tr>
<td>2. Complex, unclear institutional arrangements for implementation</td>
<td>25</td>
<td>33</td>
</tr>
<tr>
<td>3. Insufficient supervision by ADB and/or executing agencies</td>
<td>47</td>
<td>78</td>
</tr>
<tr>
<td>4. Slow procurement, and poor performance by contractors and consultants</td>
<td>53</td>
<td>0</td>
</tr>
<tr>
<td>5. Unforeseen political, environmental, or technical factors (e.g., change in government policy or structures)</td>
<td>22</td>
<td>11</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank.

Notes:
1. The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.
2. The percentages indicate the proportion of the total number of project and/or program completion reports (PCRs) or PCR validation reports in which a reason was cited. A PCR or a PCR validation report may cite more than one reason.

Sources: ADB PCRs and PCR validation reports circulated during the 2012–2014 reporting years, and ADB Strategy and Policy Department.

d. Delivering Results on Budget and on Time

Of ADB’s 109 successful operations in 2012–2014, 86% delivered the expected results within their original budget (Table 5). The 14% that needed additional financing or had to reduce their outputs were affected by civil works extensions, implementation delays, and design changes that increased costs for materials and fuel. Although infrequent, poor project area security was another factor.

Table 5: Sovereign Operations Completed on Budget, 2012–2014

<table>
<thead>
<tr>
<th>Reporting Year</th>
<th>Total Operations (number)</th>
<th>On Budget</th>
<th>Rated Successful (number)</th>
<th>Successful and On Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>% of Total</td>
<td>Number</td>
<td>% of Total</td>
</tr>
<tr>
<td>2012</td>
<td>61</td>
<td>84</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td>2013</td>
<td>48</td>
<td>90</td>
<td>35</td>
<td>94</td>
</tr>
<tr>
<td>2014</td>
<td>42</td>
<td>79</td>
<td>32</td>
<td>78</td>
</tr>
<tr>
<td>2012–2014</td>
<td>151</td>
<td>84</td>
<td>109</td>
<td>86</td>
</tr>
</tbody>
</table>

Note: The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.

Sources: Asian Development Bank (ADB) project and/or program completion reports issued during the 2012–2014 reporting years, and ADB Strategy and Policy Department.
ADB was less successful at finishing operations on time (Table 6). Fewer than half of the successful sovereign operations in 2012–2014 were completed on schedule or even by 1 year after their intended closing dates. The share of projects completed beyond the original target date increased to 80% when those with delays of 1 year or less were included.

The ones that met their deadlines were well-prepared and got off to a fast start. They were also managed efficiently and benefited from ample DMC capacity. A good example was a hydropower project in the PRC. Civil works and equipment were procured in advance. The plant was built and equipped and went into operation well ahead of schedule. The project demonstrated another good practice by starting to train the personnel of two implementing companies at the project design stage and following up with on-the-job instruction during implementation.

Table 6: Sovereign Operations Completed on Time, 2012–2014

<table>
<thead>
<tr>
<th>Reporting Year</th>
<th>Total Operations (number)</th>
<th>On Time&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Rated Successful (number)</th>
<th>Successful and On Time&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>% of Total</td>
<td>Number</td>
</tr>
<tr>
<td>2012</td>
<td>61</td>
<td>33</td>
<td>54</td>
<td>42</td>
</tr>
<tr>
<td>2013</td>
<td>48</td>
<td>20</td>
<td>42</td>
<td>35</td>
</tr>
<tr>
<td>2014</td>
<td>42</td>
<td>19</td>
<td>45</td>
<td>32</td>
</tr>
<tr>
<td>2012–2014</td>
<td>151</td>
<td>72</td>
<td>48</td>
<td>109</td>
</tr>
</tbody>
</table>

Note: The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.

<sup>a</sup> On time means that a project’s actual closing date was within 1 year of its original intended completion date.

Sources: Asian Development Bank (ADB) project and/or program completion reports issued during reporting year 2012–2014, and ADB Strategy and Policy Department.

Once delays exceeded 1 year, they tended to be lengthy. The average delay for the 55 successful operations completed more than 1 year late was 2.3 years.

Slow start-up was often to blame. When not enough advance action was taken, operations could not set up effective project management units, mobilize qualified consultants, and complete detailed engineering designs as quickly as needed (Table 7).

The main bottlenecks in project implementation were slow procurement of civil works, midcourse changes in project design, the inability of contractors to deliver quality goods and services on time, and complications in land acquisition and resettlement.

---

<sup>40</sup> In 4% of successful operations reviewed, the dates of actual closing are not available in the PCRs.

### Table 7: Reasons for Delays in Successful Sovereign Operations, 2012–2014

<table>
<thead>
<tr>
<th>Reasons Cited</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Start-up</strong></td>
<td></td>
</tr>
<tr>
<td>1. Slow consultant recruitment</td>
<td>42</td>
</tr>
<tr>
<td>2. Lack of DMC familiarity with ADB procedures, slow compliance with loan</td>
<td>33</td>
</tr>
<tr>
<td>conditions, lengthy domestic procedures</td>
<td></td>
</tr>
<tr>
<td>3. Slow establishment of project implementation units, inadequate capacity</td>
<td>21</td>
</tr>
<tr>
<td>of project management staff, slow ADB response</td>
<td></td>
</tr>
<tr>
<td><strong>Implementation</strong></td>
<td></td>
</tr>
<tr>
<td>1. Delays in procurement of construction works</td>
<td>58</td>
</tr>
<tr>
<td>2. Changes in project design and scope</td>
<td>38</td>
</tr>
<tr>
<td>3. Land acquisition and resettlement issues</td>
<td>25</td>
</tr>
<tr>
<td>4. Poor performance of contractors and consultants</td>
<td>21</td>
</tr>
<tr>
<td>5. Other factors (security, political, and weather conditions)</td>
<td>21</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank.

Note: The percentages indicate the proportions of the total number of successful sovereign operations which had delays of more than 2 years and cited reasons for the delays in their completion or validation reports. These reports may cite more than one reason.

Sources: ADB project and/or program completion reports (PCRs), PCR validation reports issued during reporting year 2012–2014, and ADB Strategy and Policy Department.

Despite late completion, these projects dealt with the targeted issues, delivered their outputs, achieved their desired outcomes, and were rated successful overall when eventually finished. Nonetheless, significant delays increase costs and reduce project benefits for DMCs. ADB has taken numerous steps since 2007 to reduce these delays, especially at start-up. These efforts are continuing.

**e. Sustainability**

ADB has made incremental progress on ensuring that the achievements of its operations are sustained after it completes them, but it is still off track to meet the 2016 goal of having four of every five operations rated both successful and likely sustainable. The share in 2012–2014 was 61%, up from 57% in 2011–2013 (Table 8). It rose to 55% from 51% for ADF operations.\(^{42}\)

---

\(^{42}\) Of the 151 ADB operations validated by IED and under review for 2012–2014, 92 were rated both successful and likely sustainable. These included 57 of the 104 operations funded by the ADF. The indicator excludes 6 operations that were rated likely sustainable but less than successful overall.
Table 8: Successful and Likely Sustainable Sovereign Operations, 2011–2014

<table>
<thead>
<tr>
<th>Reporting Year</th>
<th>Total Operations (number)</th>
<th>Successful (number)</th>
<th>Sustainable Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Successful and Likely Sustainable Operations (number)</td>
</tr>
<tr>
<td>2011</td>
<td>72</td>
<td>46</td>
<td>38</td>
</tr>
<tr>
<td>2012</td>
<td>61</td>
<td>42</td>
<td>36</td>
</tr>
<tr>
<td>2013</td>
<td>48</td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td>2014</td>
<td>42</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td>2011–2013</td>
<td>181</td>
<td>123</td>
<td>103</td>
</tr>
<tr>
<td>2012–2014</td>
<td>151</td>
<td>109</td>
<td>92</td>
</tr>
</tbody>
</table>

Note: Success rates used the ratings by the Independent Evaluation Department.
Sources: Asian Development Bank project and/or program completion reports (PCRs), PCR validation reports, and project performance evaluation reports issued during 2010–2014.

Sustaining outcomes after an ADB operation ends often depends on the availability and retention of the human and financial resources needed to properly manage, operate, and maintain it. Commitments to policy and regulatory reform are also needed, particularly when this affects whether user fees will be high enough—or sufficient budget will be allocated—to cover the costs of operations and maintenance.

A project’s benefits are more certain to last when they work for all stakeholders. ADB integrated feedback from Mongolia’s trading community and other end users in the design of a project to modernize the country’s customs operations. This ensured that the new processes and systems would provide returns for both the public sector and the business community over the long term. By speeding up clearing times and customs procedures, the project aimed to boost trade and customs revenues. It appears to have done both.

Making sure that projects meet precisely identified needs and that communities have an interest in sustainability can also help to ensure that benefits are long-lasting. A livelihood support project in Pakistan trained communities in remote service- and infrastructure-deprived dryland areas how to choose, plan, fund, oversee, and carry out their own small projects to reduce household poverty. These schemes continued to be properly run by local organizations after the ADB project closed. Farmers were repaying microcredit loans the project enabled, and the Punjab state government was carrying on the lending program.

ADB reinforced the long-term sustainability of a successful project to improve technical and vocational education and training (TVET) in the Kyrgyz Republic by developing revenue-generating activities. The TVET schools it supported would normally have depended mainly on government funding to sustain a key project achievement—the delivery of short skills courses to help young people

43 The sustainability criterion looks at the likelihood that the human, institutional, financial, and other resources are sufficient to maintain the outcome achieved over the economic lifetime of the project (ADB. 2014. Guidelines for the Validation of Project/Program Completion Reports. Manila).
and unemployed adults find work.\textsuperscript{46} The project encouraged the schools to prepare business plans to market their courses and rent out workshops and school facilities. The revenues from the school’s new business activities have defrayed the costs of utilities, salaries, other operations, and maintenance—i.e., the areas where long-term funding failures, often associated with government budget cuts, usually hurt sustainability most.

Reliable ongoing funding was the one indispensable need most often unmet in the 17 projects completed in 2012–2014 whose successfully delivered outcomes may prove unsustainable. These operations, which were generally in the transport, water, urban infrastructure and services, or energy sectors, lacked dependable and/or sufficient financing for operations and/or maintenance going forward.

The first project under ADB’s national highway investment program in Pakistan is an example of how post-completion funding gaps often put sustainability at risk.\textsuperscript{47} The project did its job—raising traffic flows and cutting vehicle operating costs on 170 km of highway—but not enough funds were available afterward for proper maintenance. The revenues raised when the government resorted to tolling the highways fell short of what was needed to implement a road maintenance plan prepared under the project. The policies on overloading and safety developed under the project are not being enforced, which means that overweight vehicle traffic will likely damage the project roads.

In an urban environmental project in the PRC, the problem involved tariff reform and cost recovery.\textsuperscript{48} Facilities to counter a worsening water pollution problem in the Songhua and Tumen river basins were installed and are operating properly. However, the two municipal governments involved have not yet raised water, wastewater, and solid waste tariffs to the levels planned and needed to recover costs or make the project financially viable. Long-term sustainability is an ongoing concern.

Securing broader and more reliable sources of funding is essential to sustainability in infrastructure operations. In the transport sector, for instance, the flow of financial resources to agencies responsible for managing and maintaining road assets over their lifetime is usually determined on a year-to-year basis, often through negotiations with finance ministries. This can make future funding unpredictable.

ADB is addressing the need for broad-based improvements in asset management. It is updating its capacity development framework to underscore the central part that DMC agencies play in both a project’s effective implementation and its post-completion sustainability. ADB project officers are being asked to pay full attention to future sustainability when they prepare projects. This includes an evaluation of the institutional structures, management skills, and other capabilities of the agencies involved in project implementation, as well as an assessment of the availability of resources to achieve sustainability.

Uncertain sustainability in ADB-supported operations calls for a major rethinking of standard project design and implementation arrangements. ADB and DMCs must concentrate much more on making post-completion sustainability—including guaranteed funding for operations and maintenance—a reality, and they should begin doing so as early as in the project concept stage.

### 4. Nonsovereign Operations

ADB’s nonsovereign operations success rate, which rose from 59% in 2011–2013 to 67% in 2012–2014, is rated on track but watch to reach the 80% target in 2016.

Of the 14 nonsovereign finance operations that were not fully successful in 2012–2014, 4 were in Kazakhstan. The global financial crisis in 2008–2009 and a collapsing real estate market hit the country’s banking sector hard. However, the aftereffects of the financial crisis on DMCs may be waning, which would have positive implications for the portfolio. The finance operation success rate jumped from 43% in 2011–2013 to 55% in 2012–2014; 10 of the 12 operations completed in 2014 (83%) were rated successful (Figure 6).

![Figure 6: Completed Nonsovereign Operations Rated Successful, 2010–2014 (%)](image)

Notes:
1. The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.
2. The success rates used the ratings by the Independent Evaluation Department.
3. The total number of extended annual review reports reviewed by the Independent Evaluation Department in 2010–2014 reporting years was 56.

Sources: Asian Development Bank extended annual review reports, extended annual review validation reports, and project performance evaluation reports issued during 2009–2014.

---

ADB undertakes nonsovereign operations—i.e., lending or investments involving neither governments nor government guarantees—so that it can help DMCs build their private sectors and create an environment in which business can flourish. This in turn will help generate the kind of sustained economic growth that has already raised so many out of poverty across the region. Nonsovereign operations also allow ADB to reach specific underserved populations that it cannot help directly—small-scale farmers, for instance, or the unemployed and low-income women entrepreneurs in towns and cities, all of whom can benefit from onlending via financial intermediaries to small and medium-sized enterprises (SMEs). In 2007, a $6 million ADB loan facility for the Bank of Baku in Azerbaijan met both objectives—private sector development and providing support to hard-to-reach socioeconomic groups. First, it helped strengthen the country’s emerging private banking sector. Second, the loan helped the Bank of Baku increase its SME portfolio and provide 57 loans to expand local SMEs. This generated more income and jobs for disadvantaged local people that ADB could not have helped without directing its resources through a private sector go-between.

ADB can direct its nonsovereign support in ways that help DMCs ease non-income poverty. ADB’s first private sector water investment in Indonesia installed or upgraded 1,900 km of water supply pipes and greatly reduced the revenue losses of the utility operating the aging Jakarta network. Many of the 70,000 new customers the project added to this network were low-income households that could not have afforded the service before. It was the long tenor and extended repayment period that ADB could offer on this local currency loan that enabled the utility to extend its clean water pipelines without a large increase in the tariff.

5. Rising Outcome Achievement

The outcome achievement rate of completed sovereign and nonsovereign operations continued to rise in 2014, passing the 80% mark for the first time (Figure 7). Of the 29 operations that met or exceeded their targeted outputs in 2014, 25 (86%) also achieved their intended outcomes. This shows a strong link between outcome and output delivery.

---


6. Technical Assistance

The success rates for TA projects climbed again in 2012–2014 to 89% for ADB operations overall and 88% in the ADF subset—both over the 2016 target of 80% (Figure 8). They topped 90% in all TA categories except one: advisory, where the 78% showing was still better than in 2011–2013 (74%). The rates were also at or above the 80% target in ADB’s core areas of operations: infrastructure, education, and finance.

These success ratings were determined through self-evaluation in TA completion reports. In 2014, IED carried out a corporate evaluation study of a sample of these reports from 2007 to 2012 and gave these TA projects an overall TA success rating of 72%.

The 11% of overall TA operations that were not fully successful during 2012–2014 suffered from flaws and adverse circumstances. They included complex and overambitious design; unrealistic time frames; weak monitoring; human resource constraints; weak performance by executing agencies, consultants, or ADB; poor implementation arrangements; and changing government priorities.

The lower success rate for advisory TA projects is explained by the fact that ADB stopped categorizing TA as advisory at approval in 2011. TA projects that would have been so classified up to then have since been included in other categories, whose performance have benefited fully from the overall improving implementation and rising success rates of ADB’s TA operations. Advisory-category TA projects completed during the review period are therefore older and less likely to reflect the most recent upswing in performance.

7. Delivering Gender Equality Results

ADB’s rate of completed sovereign operations delivering the intended gender equality results increased from 49% in 2010–2012 to 55% in 2011–2013 and to 60% in 2012–2014. ADB needs to maintain this momentum to achieve the 70% target in 2016 and is rated on track but watch to do so. The 2012–2014 rate for ADF operations was 59%.

These operations helped DMCs make headway on gender equity. Millions of girls were able to start attending better schools. Women gained positions and a say in the community-based organizations of rural farming villages and fishing settlements. Project-backed credit and training helped women raise their incomes and standing in society, as well as sustain the families that they often headed on their own.

An ADB project in Pakistan’s Sindh Province set out to free women from restraints imposed by strict traditional gender divisions in small coastal communities. About 12,000 women were trained in livestock extension, natural resource and fisheries management, vocational skills, and health care. The 1,500 community women’s organizations the project established provided 1,100 loans to female entrepreneurs and their families. These organizations and the micro business successes this lending generated gave women more respect, influence, and power in the isolated and generally poor project areas. By helping 5,100 women register to vote, the project broke new ground in these communities. It also ensured that 6,100 women who had long been denied a legal identity gained one. This will enable them to access social safety net programs under the Benazir Income Support Program, also funded

---

Figure 8: Completed Technical Assistance Projects Rated Successful, 2007–2014 (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB projects</td>
<td>77</td>
<td>75</td>
<td>75</td>
<td>73</td>
<td>73</td>
<td>78</td>
</tr>
<tr>
<td>ADF projects</td>
<td>75</td>
<td>73</td>
<td>78</td>
<td>80</td>
<td>84</td>
<td>89</td>
</tr>
</tbody>
</table>


Notes:
1. The reporting year for technical assistance (TA) completion reports is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014.
2. The success rates were derived from 469 TA completion reports (excluding project preparatory TA projects) issued during 2012–2014. These projects were approved during 1998–2013.

Sources: ADB TA completion reports issued during reporting years 2007–2014, and ADB Strategy and Policy Department.

---

Lives were changed for this generation of women and the next. The $20–$150 monthly income gains that the project helped women earn are allowing many of them to provide a better education for their daughters, as well as their sons.

An education project to improve the quality and coverage of upper secondary education in Viet Nam developed a new gender-sensitive curriculum and produced 4.9 million textbooks and 35,000 leaflets to promote gender equality and the need to preserve the cultures of the country’s ethnic minorities. The 90,000 copies of a schoolgirl’s handbook the project helped develop included basic instruction on gender equity and reproductive health for ethnic minority girls. More than 90,000 teachers, 53% of them female and 12% from ethnic minorities, took part in training programs that dealt with gender and ethnic minority issues. Vietnam’s Excellent Teachers published under the project highlighted the need for more female teachers and more career options for female teachers.

The most important prerequisites for good gender equality results are well-prepared gender action plans and adequate budget and human resources to implement and monitor these plans properly. Despite improvements, some PCRs still lacked adequate reporting in 2014 on the intended gender equality results at entry and actual performance on completion. In other cases, the gender action plan was not implemented fully because the project itself was only partly completed.

8. Impact Evaluation Studies

ADB completed 18 impact studies during 2009–2014, including 2 finished in 2014. Another 25 were ongoing, including 7 started in 2014. ADB has stepped up these evaluations because it needs to know more about whether and how its projects change the lives of the people in its DMCs. The two finalized in 2014 both involved quasi-experimental approaches.

A study on the impact of farm roads in Bhutan found that people began traveling by vehicle more often after an ADB project and needed less time to get to their destinations. They found it easier to access markets and basic services, including health, education, and agricultural extension. Production of high-value crops such as ginger and oranges grew in the area after the project made access to markets more convenient and less expensive and reduced the farmers’ dependence on midstream traders.

B. Results in Strategy 2020 Core Operational Areas

1. Overall Performance

ADB measures its achievement of results in the five core operational areas designated by Strategy 2020: infrastructure, environment, regional cooperation and integration, finance sector development, and education. In 2014, 46 of the 75 operations reviewed, or 61%, contributed to 1 or more of the core operational results indicators.

The 2014 DEfR compared the planned outputs and outcomes at the operations’ design stages with what they actually achieved at completion for 20 indicators. ADB’s overall operations met or exceeded the annual 85% achievement benchmark on the design targets for all of these indicators except new households connected to electricity. They surpassed the 100% mark on almost half. ADF results met or beat the 85% standard on 11 of their 14 indicators and exceeded the original targets on 5.

Operations beat some of their targets for a variety of reasons. Revolving funds financed more energy subprojects than expected and reached more borrowers in the finance sector. New government incentives attracted more industries to ADB-backed clean energy operations. Some local currencies depreciated against the US dollar, allowing ADB and the DMCs to scale up outputs. Rapid urbanization created higher than projected demand for electricity, and more efficient operations allowed energy providers to meet this demand. Better-than-expected results from livelihood training for women also buoyed results.

The missed target for new households connected to electricity by ADB operations overall was due to the cancellation of parallel cofinancing for an energy undertaking in Bangladesh. As a result, the project could not deliver most of its planned electrification output, which was to provide new power supply for 250,000 households. Two of the three indicators for which ADF operations missed their targets were in the water sector: households with new or improved water supply, and households with new or improved sanitation. Results in both areas suffered from cancellation of a project in the Kyrgyz Republic that encountered implementation problems. The performance of ADF operations on the roads-built-or-upgraded indicator was affected by two projects. Inflation, currency depreciation, and implementation delays raised the costs of a transport project in Viet Nam and significantly reduced the length of road it was able to rehabilitate. Weaknesses in design and implementation meant that a transport project in Papua New Guinea did not meet its targets for road rehabilitation and upgrades.

2. Sector Results

Energy. Through four projects completed in 2014, ADB helped add 4.9 gigawatts to the region’s energy generation capacity. Three projects installed 2,900 km of transmission and distribution lines. This

---

58 Of the 75 operations, 29 contributed to results outside of the five core operational areas. There are 23 core operations indicators in level 2, but no operations in 2014 involved results in urban rail- and bus-based mass transit systems built or upgraded, and the four RCI operations did not set results targets at their design stages as the RCI indicators were developed after these projects were approved.


60 ADB. 2014. Completion Report: Community-Based Infrastructure Services Sector Project (Supplementary) in the Kyrgyz Republic. Manila.


included a 280 km transmission line for energy exports from Tajikistan to help restore the power supply in Afghanistan after years of conflict. About 760,000 households in Kabul now have electricity almost 24 hours a day, up from 4 hours in 2002.

**Transport.** ADB aided the building or upgrading of 7,200 km of roads in 15 sovereign projects, including 6,400 km of rural roads. About 50% of the rural roads were constructed under an investment program in some of India's poorest agricultural areas. The program also provided farmers in the states of Assam, Orissa, and West Bengal with the knowledge, equipment, and materials to increase yields and reduce risk. This helped them to diversify their income sources and leverage the benefits of the new faster and less costly road access to markets. Crop spoilage and damage fell by 20%. Elementary school enrollment rates rose, and more students were able to commute to nearby towns for high school. Safe, paved roads allowed more rural people to get modern medical care, a change that was particularly crucial for pregnant women and newborn babies. ADB operations helped build or upgrade 950 kms of expressways and national highways. Three were regional connectivity projects. Two projects in the PRC built or upgraded 1,100 km of railway lines on which an average 92,000 ton-kilometers of freight moves each day.

**Water.** Four projects installed or upgraded 10,000 km of water supply pipes, and six projects provided improved water supply for 735,000 households. One benefited impoverished coastal communities in Pakistan where the availability of drinking water had fallen to critically low levels due to the increased salinity of the Indus River (footnote 54). The operation provided water supply pipes, hand pumps, and water tanks for 16,000 households in 850 villages through infrastructure schemes that were identified and managed by the communities. Residents who once had to fetch water from canals 30–60 minutes away or buy it from commercial sources now have a supply in or near their homes.

Four projects upgraded sanitation in 510,000 households; three boosted wastewater treatment capacity in the DMCs by 424,000 cubic meters per day; and five developed irrigation, drainage, and flood management on 549,000 hectares of land.

**Finance.** ADB's Trade Finance Program (TFP), which fills market gaps by providing guarantees and loans to banks to support trade, backed 1,900 loans to more than 1,500 SMEs in 18 DMCs in 2014.

---


64 ADB. 2014. Completion Report: Rural Roads Sector II Investment Program (Project 4) in India. Manila.
The TFP facilitated $3.8 billion in trade, of which $2.0 billion was supported by cofinancing and $1.8 billion by ADB. Of the TFP’s 18 countries of operation, Bangladesh, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam were the most active. Three other ADB projects extended financing to 4,000 SMEs.

Of the 833,000 borrowers whose income prospects were bolstered by five ADF-funded microfinance operations in Bangladesh, the Lao PDR, Pakistan, Sri Lanka, and Tajikistan, 97% were women. They proved to be both creditworthy and good entrepreneurs. Two projects with microcredit components focusing on women—one in Bangladesh, the other in Sri Lanka—discovered that the prompt, dependable repayment characteristics of women allowed ADB funding to revolve more quickly, which in turn enabled the participating women’s groups and nongovernment organizations to lend more to more people than expected. These projects also provided training to help borrowers improve their odds of success. Overall, 811,000 women gained income opportunities and self-esteem under five ADB operations. Their families shared in their returns. Savings and overall food consumption in their generally poor households rose, as did spending on medical care and education for their children.

**Education.** The numbers for completed education projects were strong: 12.4 million students, almost half of them girls, benefited from the construction and rehabilitation of schools through seven education operations; 476,000 teachers were trained; and the systems and quality of education were upgraded for 19.1 million students with the help of five operations. Education operations, almost all financed by the ADF, also strengthened inclusiveness. A project in Viet Nam built 2,400 classrooms and other school facilities for 171,000 secondary school students in 22 economically disadvantaged provinces where the poor and ethnic minorities had lacked equal access to education (footnote 36). By 2011, this had raised the ratio of schools per 1,000 square kilometers in ethnic minority areas within these provinces by a quarter from the level in 2004. The student participation rates in the project provinces rose by 14.5% for girls over the same period, compared with 11.2% nationwide, and by 11.2% for ethnic minorities, compared with 8.4% nationally.

**Regional integration.** Four projects supported regional integration, including three that helped increase cross-border cargo traffic in the region by 35.1 million tons. ADB operations continued to build and repair roads and upgrade the infrastructure, efficiency, and transparency of customs systems to speed up and ease the flow of goods between DMCs. Two Central Asia Regional Economic Cooperation (CAREC) projects reduced travel times between major cities and towns along their routes, supported economic diversification, and promoted trade in domestic and international markets. They covered 160 km and advanced the effort to fully develop CAREC transport corridor 1, designed to connect markets

---

65 ADB’s TFP follows the calendar year, not the DEfR reporting year.
between East Asia and Europe via 13,600 km of high-quality roads and efficient border crossings. A regional power transmission project initiated energy trade that delivered 790 gigawatt-hours (GWh) of power exports from Tajikistan to Afghanistan in 2013. By promoting bilateral trade in the energy sector, ADB helps DMCs in the region that lack energy resources meet their power needs, and those that have an excess gain markets for exports.

**Environment.** Three completed sovereign energy efficiency projects helped cut greenhouse gas emissions by the equivalent of 736,000 tons of carbon dioxide per year. ADB supported an energy efficiency financing model in the PRC that enabled industries and other businesses in Guangdong Province to lower energy consumption. This was achieved by funding the installation of more energy-efficient equipment, adoption of modern technologies to recover waste energy, and reduction in the use of electricity produced by coal. The faster-than-expected revolving of loan proceeds made it possible for two multitranche financing facility tranches to exceed the targets for both energy savings and emissions reduction.68

Two railway operations also led to lower emissions and better use of energy while reducing travel times and costs. ADB’s four sanitation and three wastewater treatment operations raised wastewater treatment capacity and diminished pollution of the environment.

### C. Expanding Development Results

Almost 5 decades of growth and socioeconomic progress in the DMCs have changed the development landscape. External development assistance, including ADB financing, is now a smaller component of the DMCs’ much-expanded gross domestic product, public expenditures, and investment.69 ADB is adopting measures to enlarge its lending capacity, including the proposal to combine ADF lending operations with the ordinary capital resources (OCR) balance sheet, but it is also finding new ways to widen the impact its operations can have.70

ADB can broaden its role in developing Asia and the Pacific and its value to its DMCs through the multiplier effects its support can deliver. Among the many channels available for this approach are the ones ADB is already using

---


69 In 2013, the total approved ADB OCR and ADF amount accounted for 0.1% of DMCs’ total GDP, 0.2% of gross capital formation, and 0.8% of government consumption. These shares have declined over time.

to (i) leverage other financing, (ii) facilitate partnerships for RCI, (iii) support policy and institutional changes, and (iv) provide knowledge solutions and promote innovations.

1. Leveraging Financing

By mobilizing financing from other development partners and the private sector, ADB ratchets up the size and benefits of its operations to a scale well beyond what it could support on its own. ADB pursued this approach to generate almost $10 billion of official cofinancing and $14 billion of commercial cofinancing during 2012–2014.

ADB financed 57% of the $102.9 million cost of completing a regional power transmission project in Afghanistan and Tajikistan in 2014 (footnote 59). The 38% covered by the cofinancing raised from the Islamic Development Fund and the Organization of the Petroleum Exporting Countries Fund for International Development greatly enlarged the project’s benefits. It delivered electricity from Tajikistan to Afghanistan and reduced power outages in Kabul from an average of 20 hours a day to almost none.

ADB also helped leverage major external financing for a capital-intensive railway operation in the PRC, this time from the private sector.71 The $930 million in private financing that accompanied ADB’s $299.6 million loan amplified the results of the Taiyuan–Zhongwei railway project. It serves as a model for how ADB participation and due diligence can help reduce perceived risks and bring private investors on board to scale up a project’s development impact. Since completion in 2012, the 940 kilometers of new rail line have been carrying 21.9 billion ton-kilometers of freight and 5.1 billion passengers a year in one of the PRC’s least-developed areas.

ADB’s partnerships and leveraging are particularly effective when ADB seeks to help its DMCs meet the costs of natural disasters. After the strongest tropical cyclone ever recorded swept across the Philippines in November 2013, ADB joined with Australia and the World Bank in providing urgent assistance for the government’s preparation of a damage and needs assessment. A team of 40 from across ADB’s departments helped in completing and presenting the assessment report to an international donors’ meeting within a month of the disaster. The report estimated overall recovery and reconstruction needs at $8.2 billion and served as the basis for budgeting by the Philippine Congress and mobilizing $3 billion in support from development partners worldwide, including ADB, the Japan International Cooperation Agency, and the World Bank.72

2. Partnerships for Regional Integration and Cooperation

Regional cooperation and integration is one of ADB’s three strategic agendas. RCI partnerships between ADB and its DMCs magnify the impact of ADB financing by energizing cooperation between the DMCs. Closer collaboration between DMCs and greater integration of their economies establishes a dynamic path for sustained long-term growth and mutual benefits.


ADB’s support to improve connectivity between the CAREC countries will have long-reaching effects across Central Asia. One regional project developed a unified automated information system with satellite-based communications at 37 border-crossing points to modernize customs operations in the Kyrgyz Republic. The automated system, coupled with simplified border procedures, reduced average customs processing time from 60 minutes in 2005 to 5–15 minutes in 2012. Over the same period, customs collection rose from $110 million to $640 million.

ADB supports RCI in the small island countries of the Pacific. Its investment in ports, airports, roads, and ICT—along with assistance in improving policies and institutions—establishes closer ties between these DMCs so that they can grow and develop together. One example is a submarine broadband project completed in 2013 that provided the people of Tonga with faster internet connections with other Pacific countries and the world. Another operation with strong RCI benefits helped reduce new cases of HIV/AIDS in the Pacific by establishing testing and counseling for HIV, training medical personnel, upgrading laboratory equipment, and launching an information and education campaign. The $7 million ADF project grant was ADB’s first to a regional organization.

An operation with even wider regional health impacts helped to control avian influenza across Asia and the Pacific. Financed by the ADF, the Japan Special Fund, and ADB’s Technical Assistance Special Fund, the project promoted pandemic preparedness in DMCs. Its alignment with the long-term regional strategies of the Association of Southeast Asian Nations (ASEAN), the Food and Agriculture

---


74 ADB. 2011. Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Kingdom of Tonga for the Tonga-Fiji Submarine Cable Project. Manila.


76 The influenza pandemic was caused by a novel influenza A (H1N1) virus of swine origin.
Organization of the United Nations, and the World Health Organization facilitated the creation of regional structures and alliances.\textsuperscript{77} In the wake of this project, a global report on the pandemic found that DMCs had improved their early warning and response systems.\textsuperscript{78}

Under the South Asian Subregional Economic Cooperation Program, ADB worked with the governments of Bangladesh, Bhutan, and Nepal to shorten border processing times by improving trade facilities, procedures, and policies.\textsuperscript{79} The program is also supporting the efforts of these DMCs to accede to or move closer to accession to the Revised Kyoto Convention on international trade standards.\textsuperscript{80} The benefits will be mutually reinforcing and expand organically in all three countries.

ADB was a partner in international support for the adoption by six East and Southeast Asian governments in 2014 of a framework for regional investments in the Greater Mekong Subregion. An ADB TA project helped prepare diagnostic reports used to formulate the framework, which identifies 92 high-priority investment and TA projects in 10 sectors in Cambodia, the PRC, the Lao PDR, Myanmar, Thailand, and Viet Nam. This will provide a road map to guide and mobilize large third-party development investments during 2014–2018.\textsuperscript{81}

3. Supporting Policy and Institutional Changes

Good policy and sound institutions propel and widen development gains and make them last. ADB seeks to leverage its financial resources by supporting policy and institutional reforms. These operations concentrate on strengthening public sector management, helping create an environment in which the private sector can grow, and enabling institutions to play their designed development roles effectively.

ADB used policy-based lending (PBL) to support the government’s establishment of a medium-term expenditure framework for transparent, accountable, and efficient use of public funds in Samoa.\textsuperscript{82} An ADB program filled rehabilitation and reconstruction budget needs after the 2008–2009 global economic crisis and a tsunami disaster in 2009. It helped make the legal and regulatory environment more conducive to private sector investment, improve the management of state-owned enterprises, deregulate the telecommunications industry, and liberalize air transport. The program also opened up official records of government contracts and performance to public scrutiny.

PBL is an effective reform tool, because it ties the release of ADB financing to the achievement by DMCs of specific policy actions. A PBL operation in the Lao PDR helped the government expand lower secondary schooling by 1 year and carry out other national educational reforms that greatly expanded

\textsuperscript{80} The Revised Kyoto Convention is an international standard that promotes trade facilitation and effective controls through the application of efficient trade procedures.
the impact of ADB’s modest financial intervention (about $22 million).\footnote{ADB. 2014. Completion Report: Basic Education Sector Development Program in the Lao People’s Democratic Republic. Manila.} The country now has the international norm of 12 years of primary and secondary education, and the lower secondary curriculum has been overhauled to give students a better chance in the country’s job market after they graduate. Higher enrollment and better math and science exam scores indicate that wide long-term development benefits lie ahead as students come up through the reformed education system.

Through another PBL operation, ADB worked with the Assam state government in India to make the state’s budget planning and reporting systems more transparent and computerize the taxation, revenue, expenditure, treasury, and debt accounts.\footnote{ADB. 2013. Completion Report: Assam Governance and Public Resource Management Sector Development Program in India. Manila.} The state was able to increase spending on infrastructure and social services with the surpluses that resulted. The Assam government won a national prize in 2013 for its use of performance-based reviews introduced under the program to raise the quality of public services.\footnote{At the 16th National Conference on e-Governance on 11–12 February 2013, the Computerization of Registration Project (Panjeeyan) under Assam Governance and Public Resource Management Sector Development Program was awarded Gold in the category of Government Process Reengineering from the Department of Administrative Reforms and Public Grievances, Government of India.}

The institutional development supported by an ADB operation introduced effective social protection in Mongolia.\footnote{ADB. 2009. Grant Assistance to Mongolia: Protecting the Health Status of the Poor during the Financial Crisis. Manila.} The country’s poor were deeply affected by the 2008–2009 global economic crisis, and the project introduced a new means-based scheme to identify households in the lowest 5% income category and provide them with cards that guaranteed them free medical services and medicines. These subsidies will continue under a social health insurance law amended in 2015 with ADB’s support.\footnote{ADB. 2007. Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to Mongolia for the Third Health Sector Development Project. Manila.}

4. Promoting Knowledge Solutions and Innovations

ADB showcases international good practices and innovative solutions to practical problems in its DMCs. These are then replicated, adding to the development impact over time.

In cooperation with the ASEAN Capital Markets Forum, ADB provided support to develop a standardized ASEAN methodology for assessing corporate governance that is aligned with international best practices. It aims to encourage the public listing of companies in ASEAN DMCs and make their
corporations more visible and transparent. Potential investors could not compare the corporate performance ratings across ASEAN DMCs before, since national methodologies differed. The first ASEAN corporate scorecard was published in 2013. It is likely to draw greater attention to and strengthen the brand of ASEAN corporations across global investor markets.

An innovative approach adopted by a project to halt and reverse 50 years of ecological and wildlife destruction in the Sanjiang Plain wetlands of the PRC both protected the environment and raised the living standards of local people. The process designed by the government and ADB involved local communities in the rescue and restoration operation and provided new, improved eco-friendly livelihoods to the people it affected. The project established an integrated conservation and development model for replication in similarly threatened areas throughout the country.

Strategies pioneered by an ADB agricultural extension support project completed in 2014 will likely have extended benefits for Viet Nam’s agriculture sector and disadvantaged farmers and ethnic communities in five of the country’s poorest provinces. The project strengthened the country’s agriculture science and technology systems, infrastructure, and human resources. It also pilot-tested new ways to carry out research and deliver extension services at the grassroots level. These innovations enabled impoverished smallholders to choose what kind of agricultural research they most needed, as well as who among them was most in need of the extension help. The stronger relationship this built between the government extension system and the poor and their communities is likely to generate lasting impacts, as is the partnership the project helped create between agribusiness firms and vocational schools and colleges.

IV. LEVEL 3: ADB’S OPERATIONAL MANAGEMENT

Level 3 assesses how well ADB is managing its new and ongoing operations. The 30 indicators measure ADB’s performance based on the quality of its operations at entry and during implementation; its disbursements of ADB financing and mobilization of cofinancing and private sector financing for DMCs; and the alignment of its operations with the Strategy 2020 agendas and operational areas, as well as its promotion of Strategy 2020 drivers of change. Level 3 assesses operations that are newly approved and ongoing. These assessments do not correlate with the ratings under level 2 of completed operations, which were approved much earlier. However, good performance by ADB’s new and ongoing operations on level 3 indicators should lead to successful results at the finish line and strengthen ADB level 2 scores in the future. Most of the new indicators introduced during the update of the results framework in 2014–2015 are in level 3. They include indicators that measure the procurement readiness of infrastructure projects, as well as financing for education, health, and private sector operations.

A. Implementation Quality

In 2014, the share of the sovereign operations rated satisfactory during implementation rose for the third straight year. The ratings—95% for ADB operations overall and 96% for ADF operations—were both well above the 85% target. The 99% satisfactory rating for ongoing nonsovereign operations also topped last year’s performance and the 95% target.

The high rating for sovereign operations is partly the product of a blunt binary performance monitoring system used in some of the evaluation dimensions. The system indicates only whether operations encounter technical, financial management, and safeguard performance problems. It does not measure how serious these problems may be. The superior showing of nonsovereign operations on the indicator should also be taken in context. Nonsovereign operations earn a satisfactory rating during implementation as long as ADB’s Office of Risk Management does not assign them its highest risk ratings. ADB’s requirement that 95% of its operations overall not involve serious credit risk provides a high floor for achieving this indicator target.

---

91 The data on sovereign project performance are based on the project performance rating system. Operations rated satisfactory are those classified as on track and potential problem. See footnote 18 and the signals and scoring methods in the pocket at the back of the report.

92 Risk is rated on a low-to-high scale of 1–14. Nonsovereign operations are rated satisfactory if their risk ratings are lower than 13.

93 ADB will identify more precise indicators for the quality of an operation’s implementation when it reviews the results framework in 2015–2016.
Operational start-up slowed. The **time from approval to first contract in sovereign projects** lengthened from about 11.6 months in 2013 to 15.2 months in 2014 for ADB operations overall and from 11.5 months to 16.0 months for the ADF subset. ADB was **off track** in both overall and ADF operations to meet the target of 9 months by 2016 (Figure 9).94

**Figure 9: Average Time from Approval to First Contract Award**

(months)

![Graph showing average time from approval to first contract award](image)

Source: ADB Operations Services and Financial Management Department.

In 12 of the 83 projects reviewed, the first contract signing came more than 24 months after approval. Procurement holdups were a major reason.95 Sometimes, ADB and government approval procedures required protracted consultation between multiple agencies, or government funding was lacking. Delays in financing land acquisition and resettlement put one project on hold, and the slow review of procurement by ADB and the executing agency later widened the gap between approval and the first signed contract to 4 years. On other occasions, preparation of detailed engineering designs after project approvals forced changes in project scope. In one of these cases, the civil works contract was signed 5 years after the project was approved.

ADB sees start-up delays as a core impediment to better operational performance and has intensified its efforts to get projects up and running more quickly.96 The projects in the current review period that were particularly slow to take off were approved before ADB mainstreamed the use of project readiness filters. If the three projects approved before 2011 are excluded from the overall computation, the average time from approval to first contract in 2014 falls from over 15 to 14 months for both ADF operations and ADB operations overall.

---

94 The 2014 performance ratings may not be fully comparable with those in the 2013 DEfR. A one-time cleanup of contract award and disbursement projections in eOperations was undertaken in 2014 to ensure accuracy and consistency of projection inputs across departments.

95 This information is based on a survey of project officers for projects in which it took more than 24 months to sign the first contract.

The actions called for by the midterm review of Strategy 2020 to improve project implementation include steps to deal with the two main causes of start-up delays in 2014: poor project readiness and overly long procurement periods. The steps include rationalizing ADB’s business processes, promoting total project readiness, streamlining ADB’s procurement procedures, and building capacity in both ADB and DMC executing and implementing agencies.

A 10-point procurement action plan adopted by ADB in 2014 introduced a risk-based system to shorten the procurement process when less oversight is needed. ADB will conduct a rigorous assessment of the procurement risks of country, sector, and agency systems. This will determine how much ADB supervision is necessary in specific cases, as well as the scope for delegating some procurement responsibilities to DMCs. Since August 2014, ADB has been focusing on prior review of high-risk contracts and using post-contract review for procurement involving lower risks.

ADB updated its project design facility in 2014 to finance detailed engineering designs before planned projects start. The updated results framework now has an indicator for procurement readiness. It sets explicit targets to help ADB attain the goals in the midterm review action plan of improving procurement and design readiness.

B. Quality at Entry

The fifth biennial quality-at-entry assessment in 2014 evaluated a sample of country programs and operations approved during 2012–2013. As in the two previous 2-year reporting periods, all the country partnership strategies (CPSs) reviewed had satisfactory ratings. The assessment found that 95% of sovereign projects and 94% of nonsovereign projects were rated satisfactory or better, surpassing the 90% targets.

---

97 ADB. 2014. “Procurement Reform–10-point Action Plan–New Staff Instruction and Revised PAIs 3.01 to 3.12.” This is an appendix to the memorandum issued by the Operations Services and Financial Management Department dated 22 July 2014.

98 Post-contract sampling review will apply to low-risk and low-value contracts in cases where ADB’s assessment has found the executing agency to have sufficient procurement capacity.

The CPSs did a good job of reflecting ADB’s inclusive economic growth, environmentally sustainable growth, and regional cooperation and integration (RCI) strategic agendas and incorporating the Strategy 2020’s drivers of change. On the other hand, country programs need to reflect greater coherence and closer coordination between the Private Sector Operations Department and the regional departments generally and in private sector operations in particular. ADB’s RCI work, which has centered on ADB-supported programs, should focus instead on the DMCs’ own approaches and plans.

The operational and organizational agendas outlined in the midterm review action plan should help deal with these issues. The remedies include an update of the CPS business process, guidelines, and results framework.

The satisfactory ratings for supporting inclusive economic growth by all seven of the CPSs are not surprising, given ADB’s primary areas of engagement. ADB’s core operational areas include the infrastructure sectors (transport, energy, and water and other municipal infrastructure and services); education (all levels, including vocational training); and finance (including microfinance). These kinds of operations help generate jobs and open up opportunities for people to benefit from growth. Although this made CPS support for the first two pillars of inclusive economic growth (growth and creation of jobs and opportunities, and inclusive access to jobs and opportunities) more than likely, some strategies paid too little attention to the third—social protection.

The quality at entry of sovereign operations is rated satisfactory for 95% of projects. Scores rose considerably from 2012 in three of the nine dimensions: development outcome and impacts, which centers on the quality of the operation’s design and monitoring framework; policy and institutional aspects, which covers macroeconomic and sector policy environment, and institutional capacity building; and implementation arrangements. Steady improvement in quality at entry is the result of ADB’s tighter sector concentration under Strategy 2020, more focused and sustained country and sector engagement, and the more intensive interdepartmental and peer review required by the new business processes during project preparation.

Many sovereign projects fell short in their assessment of sustainability at entry, a shortcoming that is often echoed by poor sustainability results at completion. The major issue was the lack of analysis and planning needed to ensure that tariffs would recover costs in projects that would generate revenues or that governments would provide sufficient budgetary resources to sustain those that did not.

Quality at entry was high in nonsovereign operations—94% had satisfactory ratings. They performed best on creating an enabling environment; strategic alignment; and market, financial, economic, and technical feasibility. Quality at entry in the finance sector lagged that of infrastructure operations but has improved. Steadily rising ratings for ADB’s nonsovereign operations since 2010 are the result of internal reform and the staff’s greater ability to plan and execute them.
ADB began using new indicators in 2014 to monitor project readiness each year (footnote 4). Data showed that ADB has become better at taking time-consuming steps needed for a prompt start-up before rather than after project approval.\footnote{Procurement readiness is considered to have been achieved when bid documents were launched before project approval for major construction or goods contracts. An infrastructure operation is considered to have been design-ready at approval when it already had detailed engineering designs suitable for preparing and launching bidding documents for major construction or goods contracts or preliminary design and specifications suitable for preparing and launching bidding documents for (i) construction contracts that involve detailed design, and/or (ii) turnkey or engineering procurement and construction contracts.} The share of sovereign infrastructure projects that were procurement-ready increased to 32\% in 2014 from 26\% in 2013 and only 10\% in 2012 (Figure 10). The proportion of sovereign infrastructure projects that were design-ready was 60\% in 2014, slightly lower than in 2013 (65\%) but higher than in 2012 (52\%). Greater project readiness is expected to accelerate start-ups, shorten completion delays, and help improve project quality.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure10}
\caption{Project Readiness (\%)}
\end{figure}

Source: Asian Development Bank regional departments and resident missions.

C. Development Finance

The results framework captures ADB’s performance as a development bank based on disbursement to its DMCs of financing it has approved, as well as the mobilization and leveraging through its operations of cofinancing and private sector financing through public–private partnerships (PPPs).

1. Disbursement

Disbursement volume grew considerably in 2014 in all operational categories—sovereign and nonsovereign, total ADB, and ADF. It rose to $10.2 billion overall, up 17\% from $8.7 billion in 2013 and helped by vigorous ADB efforts to improve project implementation and remove procurement and disbursement bottlenecks (Table 9). Only the 2009 total was larger, and that year’s figure included a $2 billion one-time disbursement under the Countercyclical Support Facility to respond to the global economic crisis.
Sovereign loan and grant disbursements grew by $1.2 billion, or 15%, to $8.9 billion. This reflected increases of $0.7 billion in disbursements of project and results-based lending (RBL) and $0.5 billion in policy-based lending (PBL). Nonsovereign loan disbursements rose by 35% to $1.1 billion.

The average sovereign disbursement ratio for projects, RBL, and PBL increased in 2014 to 22.0% from 20.3% in 2013. However, the disbursement ratio for sovereign projects and RBL, excluding PBL, rose only marginally—from 17.8% in 2013 to 18.3% in 2014. The ratio for ADF operations was 16.5%, down from 17.2%. The project and RBL disbursement ratios were off track to reach the 2016 targets of 22% for these ADB operations overall and 20% for those receiving support from the ADF. Although the RBL disbursement ratio was high at 59.4% in 2014, the amount disbursed—$96 million—represented only 1.3% of the overall sovereign project and RBL amount.

The low 2014 disbursement ratio for sovereign projects and RBL, excluding PBL, is partly attributable to the higher approved amount in 2013. ADB calculates the disbursement ratio by dividing the total disbursements for the year by the total undisbursed amount at the start of that year from all approved loans and grants. Total sovereign project and RBL approvals in 2013 were $11.4 billion, $2.3 billion or 25% more than the $9.2 billion in 2012. This high approved amount in 2013 meant a large undisbursed balance on 1 January 2014—the denominator of the disbursement ratio. Even the large increase in disbursements in 2014 thus shifted the disbursement ratio only marginally. Although the rise in the disbursement ratio is slowed in an expanding portfolio, the growing volume of disbursements indicates that ADB is on the right track in its efforts to improve its project implementation and disbursement performance.

The disbursement ratio of nonsovereign loans increased to 36.5% in 2014 from 36.1% in 2013. Nonsovereign loan disbursement ratios are usually higher than those for sovereign operations because projects are generally at an advanced stage of design and readiness when ADB is approached for potential financial assistance.
ADB has worked to improve disbursements, and the volume increase is part of the result. Contact between ADB teams, DMC project directors, and government officials has been more frequent, and ADB has quickly flagged the projects that fall behind. ADB has also cascaded responsibility for contract award and disbursement targets to project officers and analysts at all levels, and it has linked staff performance ratings to successful disbursement. However, if it is to give the sovereign disbursement ratio a further boost, ADB needs to achieve even greater project readiness and smoother project implementation.

To improve disbursement, the midterm review action plan requires that ADB ensure that its large and medium-sized resident missions have full information and communication technology (ICT) system access to the information at headquarters that they need to carry out their increased disbursement responsibilities effectively. ADB will intensify staff training on procurement, contract administration, and disbursement. It will link the allocation of ordinary capital resources (OCR) to individual DMCs to project performance, including performance on disbursement. It will remove the ceiling on imprest accounts for executing agencies that have enough capacity. The action plan also committed ADB to cutting back the time it takes to make payments on withdrawal applications and creating a portal to allow clients to file withdrawal applications online.

2. Cofinancing

ADB catalyzed a record amount of **direct value-added cofinancing** in 2012–2014 to augment its own financing and help DMCs meet their tremendous development needs.\(^{101}\) Total 3-year cofinancing increased by 7.3% to $23.6 billion from $22.0 billion in 2011–2013 and was equivalent to 58% of the financing ADB approved during the period. This earned ADB operations a rating of **on track but watch** to reach the 2016 target of 70%. The $9.1 billion mobilized in 2014 was a record and represented 67% of the ADB financing approved in the year. The official and the commercial cofinancing totals both increased (Figure 11).

The $4.3 billion in official and other concessional cofinancing generated for 56 ADB projects in 2014 was another new high. More than one-third of this amount was leveraged by three operations: a sustainable energy development program in Pakistan, a community development project in the Philippines, and a competitiveness improvement program in Viet Nam.\(^{102}\) ADB also mobilized $144 million for 111 sovereign TA projects in 2014.

---

\(^{101}\) Direct value-added cofinancing refers to any transaction–specific arrangement under which funds or risk-sharing capacity provided by a third party is associated with ADB funds, guarantees, or other financial instruments. These arrangements involve coordination and formal agreements among financing partners that bring about defined client benefits.

The cofinancing increases were driven in part by ADB’s use of predictable programmatic frameworks. ADB signed these framework arrangements with Germany’s KfW and the Islamic Development Bank to provide $4 billion of cofinancing during 2014–2017. It also sought out new nontraditional partners in the changing development finance landscape, including foundations, corporate social responsibility programs, and sovereign wealth funds. This led to sovereign project cofinancing in 2014 with the Uzbekistan Fund for Reconstruction and Development ($270 million) and Shanghai Pudong Development Bank ($162 million).

The Trade Finance Program (TFP) accounted for about 42% of the total $4.8 billion in commercial cofinancing. Parallel loans, which followed at 31%, were the biggest contributor to the rise in 2014, increasing from $0.1 billion in 2013 to $1.5 billion.\(^{103}\) B loan cofinancing rose from $0.2 billion to 0.9 billion.\(^{104}\) Other commercial cofinancing products in 2014 involved risk transfer, parallel equity, and guarantee cofinancing.\(^{105}\)

The midterm review stressed the importance of partnerships and leveraging to ADB’s development agenda and reaffirmed the Strategy 2020 goals to have cofinancing grow more quickly than ADB’s financing and to equal it by 2020. ADB will explore new products, develop risk-sharing arrangements to expand its headroom, and engage early with development partners and DMCs to create more cofinancing opportunities. It will design larger projects than ADB’s own envelope would normally

\(^{103}\) In parallel financing, the project is divided into specific, identifiable components or contract packages, each of which is financed separately by ADB and financing partners. Under tied terms, financing cannot be administered by ADB, and the financing partners implement and administer the assigned components in parallel with the ADB-financed ones by using their own procurement guidelines (ADB. 2014. Financing Partnerships. Operations Manual. OM E1/OP. Manila).

\(^{104}\) A B loan is a tranche of a direct loan nominally advanced by ADB (usually in foreign currency), subject to eligible financial institutions taking funded risk participation within such a tranche. It complements an A loan funded by ADB (ADB. 2007. Credit Enhancement Operations. Operations Manual. OM D9/BP. Manila).

\(^{105}\) In addition to commercial cofinancing for operations, ADB also mobilized $2 million in nonsovereign TA cofinancing and other concessional cofinancing.
allow with the intent of attracting cofinancing. It will also continue to seek new partnerships and deepen cooperation in existing ones.

3. Public–Private Partnerships

ADB expands its development reach and effectiveness by supporting a wide range of PPP project development transactions. PPPs are contractual arrangements in which a government partners with the private sector to deliver infrastructure and services. These can take several forms, including simple contracts under which the private sector manages service delivery and the more complex concession agreements where private parties finance and build infrastructure and operate it over a fixed period to generate returns before transferring the ownership to the government. ADB was involved in 16 PPP agreements signed in 2014, up from 4 in 2013. Despite this noteworthy increase, ADB must almost match the 2014 performance again in 2015 and 2016 to reach a cumulative 2013–2016 target of 50.

Of the PPP development transactions signed in 2014, 11 were concession contracts and supported by four projects—two in India, one in Mongolia, and one in the Philippines. Four service contracts were concluded under four projects in India and Sri Lanka. An urban infrastructure project in India involved a management contract.

ADB has helped bring about PPPs through its advisory services to DMCs. Under TA approved in 2011, it acted as the transaction advisor to the Government of Mongolia and helped engage private financing for a planned 450-megawatt combined heat and power plant in Ulaanbaatar. This is a

---


$1.2 billion investment and the country’s first PPP. ADB advised the government in prequalification, shortlisting of the qualified consortia, preparation of contractual documents, and negotiating all other key project agreements. A concession agreement was signed with the winning bidder in June 2014, and financial close is targeted for the first quarter of 2016.

Three concession contracts were signed in the Philippines in 2014 with support from ADB’s Project Development and Monitoring Facility. The integrated, holistic assistance from ADB and its cofinancing partners provided a catalyst for these transactions. ADB’s involvement included prior review in the selection of the firms for the indefinite delivery contract facility and the first indefinite delivery contract assignment, appraisal of procurement and consultant recruitment methods, review of the terms of reference for transaction advisors, and assessment of consultant performance.

ADB has been the transaction advisor since November 2013 for the Turkmenistan–Afghanistan–Pakistan–India Natural Gas Pipeline Project. This led to the establishment of a four-nation pipeline company in November 2014 to spearhead the construction and operation. The company will build, own, and operate a planned 1,800 km pipeline that is intended to move up to 33 billion cubic meters of natural gas a year from Turkmenistan southeastward to Afghanistan, Pakistan, and India over 30 years. The pipeline will allow Turkmenistan to diversify its gas export markets and provide a crucial new source of fuel for its three DMC project partners.

---

111 Indefinite delivery contracts involve prequalifying firms or individuals in advance. Actual engagements are then undertaken through a streamlined process when work begins.
Under a partnership arrangement signed in May 2014, ADB will assist the Government of Kazakhstan in its stewardship of the country’s sovereign wealth fund resources. The government aims to tap these funds to diversify its economy, build up the country’s competitiveness, and achieve more sustainable and inclusive growth. The enhanced cooperation between ADB and the government under this groundbreaking framework will be cofinanced in part by a government program to use the equivalent of $5.5 billion from the National Fund of Kazakhstan to support reforms, small and medium-sized enterprises, and the banking sector.

ADB also monitors the PPP leveraging achieved by its financing. The ratio rose to 6.0 in 2014 from 4.2 in 2013 (Figure 12), which meant that every $1.00 of ADB’s financing was accompanied by $5.00 in financing by the private sector in 2014. This lifted the 2013–2014 average ratio to 5.7 but still leaves ADB off track to meet the indicator target of 8 by 2016.113

The better ratio in 2014 was mainly because of onlending activities and project development facilities. Onlending through financial intermediaries provides financing needed for PPPs and attracts additional financiers. Project development facilities offer resources vital to the successful preparation and tendering of PPPs. Both approaches have high leverage.

An ongoing ADB multitranche investment facility is backing a renewed effort by the Government of India to accelerate infrastructure development by increasing private sector investment.114 ADB provided a financial intermediary loan to the India Infrastructure Financing Company to finance PPPs through senior and subordinated debt. In line with the company’s operational mandate, ADB’s loan is supporting PPPs in the road, airport, water supply and sanitation, and power sectors (including clean

---

113 The average ratio over 2015 and 2016 needs to be 9 for ADB to achieve the average ratio target of 8 for the 4 year 2013–2016 period.

114 ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the Accelerating Infrastructure Investment Facility in India. Manila.
and renewable energy). Under the first tranche of the facility in 2014, ADB’s financing of $97.2 million achieved a leverage ratio of 15.5 and helped catalyze a total of 1.5 billion of private sector investment in infrastructure projects.

ADB’s $100 million loan to two private firms to cofinance a $400 million investment in the rehabilitation and expansion of water distribution networks in the PRC made clean water more available in rural and semi-urban communities. The loan enabled ADB to support multiple stand-alone water supply projects that would be too small and expensive for it or international banks to finance directly.

The midterm review action plan calls on ADB to increase its involvement in developing PPPs and leveraging greater private financing. In September 2014, ADB established the Office of Public–Private Partnership to provide independent transaction advisory services to DMC governments, enhance ADB’s capacity to support PPP operations, and help structure bankable PPP projects. In November 2014, the Board approved the establishment of the Asia Pacific Project Preparation Facility, which is expected to begin operating in 2015. The facility will help DMCs prepare infrastructure projects for PPP financing.

D. Strategy 2020 Development Agendas and Operations

All ADB operations should be closely aligned with ADB’s three strategic agendas—inclusive economic growth, environmentally sustainable growth, and RCI. The midterm review calls for renewed emphasis on support for the third pillar of the inclusive economic growth agenda: social protection. The updated results framework changed the target for social protection from monitor to above baseline. It also added several standard explanatory data indicators. They cover operations supporting inclusive business; infrastructure projects benefiting lagging areas; financing for clean energy, urban transport, and railways; financing for climate change from global and regional funds; and operations and TA supporting second-generation RCI. In addition, the results for some indicators were affected by the review of the project classification system (Appendix 3).

ADB operations moved closer into line with the Strategy 2020 agendas in 2014. They have exceeded the targets or are on track but watch for almost all indicators—signs of a successful response to the poor rating in the 2013 DEfR. However, ADB provided almost no health financing in 2014. Social protection received modest support as well.

---


1. Inclusive Economic Growth

ADB integrates support for inclusive economic growth in its CPSs, but the approach is determined by country context. As a result, the corporate results framework does not set targets for the agenda’s first two pillars—growth and creation of jobs and opportunities, and inclusive access to jobs and opportunities. Instead, it monitors the shares of the operations supporting each. From 2014, however, the third pillar—social protection—has a target. Its share must be above the baseline.

The proportion of ADB operations supporting pillar 1, growth and creation of jobs and opportunities, declined slightly during 2012–2014 to 42% from 45% in 2011–2013 because of a drop in total infrastructure operations (Figure 13). More energy operations and public sector management operations raised the proportion of ADF operations supporting pillar 1 from 43% in 2011–2013 to 44% in 2012–2014.

The share of overall ADB operations supporting pillar 2, inclusive access to jobs and opportunities, rose from 54% in 2011–2013 to 58% in 2012–2014. This was the result of increased operations in education, agriculture, and transport, as well as in support of inclusive finance and financing for small and medium-sized enterprises. The proportion of ADF operations supporting pillar 2 was stable at 55%.

Operations with a social protection component edged 0.4 of a percentage point higher to 5.4% of the ADB total in 2012–2014. This met the requirement that they be above the baseline of 4.8% and was partly because of an increase in the number of education projects that had a substantial social protection component. The ADF performance on the indicator dropped from 7.7% in 2011–2013 to 7.3% in 2012–2014. The number of ADF-funded education and finance sector operations with a social protection element rose by 22% in 2012–2014, but ADF operations in public sector management fell by 25%.
In response to the midterm review’s call for greater social protection support, ADB has developed an operational plan for 2014–2020 to strengthen social assistance and social insurance programs. Under the midterm review action plan, ADB is refining its 2013 staff guidelines on integrating support for inclusive economic growth in CPSs.

A $25 million ADF-financed project approved in 2014 will help equip young people with the knowledge needed by Mongolia’s agriculture, construction, and road and transport sectors by helping to upgrade technical and vocational education and training (TVET). About 44% of the country’s current TVET graduates have not received the training that would get them a job in a growing economy where the demand for the right skills is strong. The project will link the TVET systems to industry needs, institute competency-based training and assessment, set up training systems for teachers, improve secondary education career guidance, and support schools that specialize in technology.


Sources: ADB Regional and Sustainable Development Department, and Strategy and Policy Department.
ADB provided funding in 2014 for six nonsovereign projects that supported inclusive business and accounted for one-quarter of total private sector operations. These projects are designed to be commercially viable, help people at the foot of the income pyramid, and generate high development impacts. ADB is developing an inclusive business action plan in line with a recommendation of the midterm review.

One inclusive business operation approved in 2014 will benefit the rural poor in parts of the PRC where untreated wastewater discharged into lakes and rivers is polluting the drinking water of towns and villages downstream. Some of these communities have few or no other sources of potable water. ADB's $300 million loan will help private businesses build sewage pipelines and a series of small wastewater treatment plants that will use technologies developed specifically to improve the health and safety of people in the countryside.

Another project with inclusive business goals will provide two banks with loans of $200 million each to broaden access to rural finance in India for small farm households and self-help groups made up mostly of women. About 56% of India's population—680 million people—live in rural areas and depend on agriculture for a living, but banks have often failed to provide them with adequate services. An accompanying TA project will develop financial service products to link small farmers to markets.

About 55% of ADB’s overall infrastructure operations helped lagging areas in DMCs during 2012–2014. The rate for the ADF subcategory was 61%. These projects aim to improve lives in areas or regions where economic growth and social development have fallen behind. Most involved energy infrastructure or transport, which can connect the poor to markets and increase their access to social services.

ADB approved $85 million in ADF financing in 2014 to scale up investments in rural infrastructure in six of Viet Nam’s lagging provinces over 4 years. The project will improve irrigation infrastructure, upgrade river embankments and dikes to protect against flooding and saline intrusion,

---

120 ADB approved 25 private sector operations in 2014, of which 24 involved ADB financing and 1 was fully funded by the Clean Technology Fund, a multidonor trust fund. The project supported by the Clean Technology Fund was the Rantau Dedap Geothermal Power Project (Phase 1) in Indonesia. ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Administration of Loan to PT Supreme Energy Rantau Dedap for Rantau Dedap Geothermal Development Project (Phase 1) in the Republic of Indonesia. Manila.


and rehabilitate roads. The improvements will raise the incomes and living standards of farming families and members of a disadvantaged ethnic minority who are living just above the poverty line, as well as bolster the prospects of small traders and agribusinesses.

The updating of the staff guidelines on integrating inclusive economic growth in CPSs will include an analysis of access to infrastructure in lagging areas to improve this kind of ADB support.

2. **Environmental Sustainability, and Climate Change Mitigation and Adaptation**

ADB beat the 2016 target for support for environmental sustainability in both its overall and ADF operations during 2012–2014 (Figure 14). Its share increased to 51% in 2012–2014 from 43% in 2010–2012 for ADB operations overall and from 35% to 47% in the ADF subset. Financing for environment sustainability rose by 4 percentage points for ADB overall from the 2010–2012 level and by 10 percentage points for ADF operations. ADB’s goal is to do more to help DMCs reduce vulnerabilities arising from environmental degradation, growing water and air pollution, and natural hazards. It approved 81 of these projects in 2014, including 36 financed by the ADF. Most involved transport infrastructure, such as the development of railways and urban mass transit systems.

![Figure 14: Support for Environmental Sustainability (%)](image)

A $150 million socially inclusive urban development project approved in 2014 will improve sewage pipelines, water supply pipelines, and roads for about 758,000 people through the use of eco-friendly engineering in the PRC’s Yunnan Province. Another 2014 project, funded by $38 million from ADB’s Strategic Climate Fund, will help the Maldives move toward the use of clean, cost-effective energy to produce electricity by replacing inefficient diesel generators on 160 outer islands with solar–diesel hybrid grids.

---


125 ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to the Republic of the Maldives for the Preparing Outer Islands for Sustainable Energy Development Project*. Manila.
ADB’s investments in 33 operations with clean energy components totaled $2.4 billion in 2014, 20% higher than the $2.0 billion required by the midterm review. Of this amount, $0.5 billion was from external sources, such as the Global Environment Facility and the Clean Energy Financing Partnership Facility. This was 70% greater than the $0.3 billion in 2013. These operations will reduce greenhouse gas emissions by the equivalent of about 9.0 million tons of carbon dioxide each year.

ADB is increasing financing for urban transport and railways to deliver safe, low-carbon, and affordable transport infrastructure and services in the DMCs. This is in line with its goals in the midterm review and the 2010 Sustainable Transport Initiative Operational Plan. During 2012–2014, ADB allocated 21% of its transport investments to sustainable transport, dividing the $2.3 billion about equally between urban transport and railways. Sustainable transport investments totaled $938 million—or 25% of total transport lending—in 2014 alone. ADB aims to raise urban transport’s share of all transport lending to 30% by 2020 and that of railways to 25%.

The $805 million approved for railway projects in 2014 was ADB’s largest 1-year investment in rail ever and accounted for 21% of the total transport approvals, up from 9% in 2013. The biggest investment was for the $505 million South Asia Subregional Economic Cooperation (SASEC) Railway Connectivity Project in Bangladesh.

ADB scaled up urban transport operations to respond to the flow each year of 44 million people from the countryside into the region’s towns and cities. ADB estimates that 80% of all new economic growth in its DMCs will be generated in their urban areas. These operations aim to improve public transport systems (including mobility for pedestrians and nonmotorized bicycles), enhance transport demand management, and increase the use of clean vehicle technology.

During 2012–2014, $1.24 billion of ADB’s transport investment was directed to urban transport in Bangladesh, the PRC, Georgia, India, Mongolia, and Viet Nam. About $514 million of this supported the building and expansion of metro systems in Viet Nam that will develop the urban economies and improve livability and air quality in Ha Noi and Ho Chi Minh City.

At the Rio+20 conference in 2012, ADB and seven other multilateral development banks committed to providing more than $175 billion in loans and grants during 2012–2021 to help make transport systems in developing countries more sustainable. ADB’s target is $30 billion. Its annual average investment in the transport sector of $3.62 billion in 2012–2014 places it well ahead of its commitments.

The share of ADB’s overall operations addressing climate change mitigation and/or adaptation remained stable at 44% in 2012–2014. ADF operations increased by 6 percentage points to 38%.

At $2.9 billion, overall financing for climate change mitigation and/or adaptation was little changed in 2012–2014 from 2011–2013. The ADF investments of $713 million in 2012–2014 were up 19% from the 2011–2013 level. ADB’s work to help DMCs access global and regional funding for climate-friendly investments produced strong results in 2014. It mobilized $442 million in 2012–2014, which was 58% more than in 2011–2013.

A green power multitranche financing facility (MFF) approved in 2014 will help Sri Lanka meet its growing demand for reliable electricity at a low cost, build energy efficiency, and diversify the generation mix with renewable sources. The first tranche will deliver a new 30-megawatt run-of-river hydropower plant, improve transmission capacity, and reduce carbon emissions.

ADB has integrated climate change adaptation and resilience objectives into one component of a Greater Mekong Subregion (GMS) tourism infrastructure project. Climate-friendly infrastructure technology was incorporated to shrink the carbon footprint of the tourist facilities, e.g., through the use of energy-efficient lighting and solid waste and wastewater management systems. Improvements will be designed to reduce the use of vehicles powered by fossil fuels and withstand the effects of major weather events that climate change may bring.

ADB’s steadily growing support for disaster risk management (DRM) rose 36% to about $3.3 billion annually during 2012–2014 from $2.4 billion in 2011–2013. This exceeded the midterm

---

128 Global and regional funds such as the Climate Investment Funds, the Global Environment Facility, bilateral sources, and B loans.
review commitment of $2 billion a year. The bulk—$3.0 billion, or 87%—went to disaster risk reduction and the rest to early recovery and reconstruction projects.

DRM financing was particularly strong in 2014, increasing by $1.0 billion from $3.9 billion in 2013. About 85% of the total addressed a mix of hydrometeorological hazards, such as flooding, storms, and droughts. The top recipients of DRM-related financing in 2014—all of them DMCs particularly vulnerable to natural disasters—were India ($1.4 billion or 28%), the PRC ($0.9 billion, 18%), Bangladesh ($0.8 billion, 16%), Sri Lanka ($0.4 billion, 7%), Nepal ($0.3 billion, 6%), and Pakistan ($0.2 billion, 4%).

ADB’s ordinary capital resources (OCR) have been the major source of funding for DRM, especially for emergency assistance loans, but support has also come from the ADF disaster response facility introduced under the 11th ADF replenishment for 2013–2016.131

3. Regional Cooperation and Integration

ADB’s RCI operations increased in 2012–2014 in both number and financing. The RCI share in total operations rose from 20% in 2011–2013 to 22% for ADB overall and from 27% to 29% in the ADF subcategory. During 2012–2014, 21% of all ADB financing was allocated to RCI, up from 20% in 2011–2013. The figure for ADF financing climbed to 33% from 31%.

The approval of priority transport and energy projects identified under the SASEC program quadrupled the RCI totals for South Asia from $272 million to $1.2 billion. A $50.4 million road connectivity project for Bhutan is an example of SASEC RCI projects. It will help expand trade with neighboring countries by building new roads and improving part of the Southern East–West Highway in

---

remote areas near the border with India where poverty levels are high.132 The $505 million SASEC project in Bangladesh will upgrade a section of the Dhaka–Chittagong railway corridor to a double-track line with modern signaling equipment. This will open the way for Bangladesh to become a major transport and transshipment center for the subregion (footnote 127). In India, a SASEC road connectivity investment program ($300 million) will build transport in an international trade corridor by expanding about 500 km of roads in north Bengal and the northeastern region of India.133 The project area, bordering Bangladesh, Bhutan, Myanmar, and Nepal, is a strategic thoroughfare linking South Asia and Southeast Asia.

ADB’s Central Asian RCI operations augment the work of the Central Asia Regional Economic Cooperation (CAREC) member countries to transform the subregion’s economy. CAREC ministers endorsed a framework to develop economic corridors in 2014. The cities of Almaty in Kazakhstan and Bishkek in the Kyrgyz Republic signed a memorandum of understanding to develop an economic corridor between them—the first such joint endeavor at the local government level under the CAREC program and a sign of a new way forward and fresh opportunities for the program’s DMCs and ADB. ADB’s RCI financing in Central Asia rose from $792 million in 2013 to $856 million in 2014, mostly for transport operations.

After no new RCI operations in 2013, two were approved in the Pacific in 2014. The projects included the first tranche of an MFF to improve higher education in 12 Pacific island countries.134 Pacific DMCs, ADB, and the ADB Institute are working together to identify ways for these countries to integrate more with the growing economies of Asia. A TA project funded by the Japan Fund for Poverty Reduction will help improve transport logistics and facilitate trade in the subregion.135

The number of RCI operations in Southeast Asia rose to seven in 2014 from six in 2013, but financing dropped to $454 million from $990 million because the projects were smaller. The number of ADF operations and ADF financing were both higher. In 2014, ADB apportioned $30 million from the ADF and $117 million from OCR to a cross-border highway project to provide a link in the GMS Northern Economic Corridor connecting Ha Noi and the Hai Phong and Cai Lan ports in Viet Nam with Kunming in the PRC’s Yunnan Province.136

---

132 ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kingdom of Bhutan for the South Asia Subregional Economic Cooperation Road Connectivity Project. Manila.
133 ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the South Asia Subregional Economic Cooperation Road Connectivity Investment Program. Manila.
Four RCI operations were approved in East Asia in 2014, up from one in 2013. Financing almost tripled from $200 million. Two loans totaling $350 million were approved for the PRC to improve road infrastructure and support urban environment improvement in Yunnan Province along the GMS North-South Economic Corridor.\(^{137}\) ADB facilitated a memorandum of understanding between the PRC and Viet Nam on jointly developing cross-border economic zones and helped them draft a joint master plan. ADB also strengthened support for regional cooperation between the PRC and Mongolia under the CAREC program. To promote cooperation among developing countries, the Government of the PRC and ADB worked together through a TA project to set up the Regional Knowledge Sharing Initiative.\(^{138}\) The initiative organized forums for the exchange of knowledge and experiences on topics such as adaptation to climate change, balanced and integrated urban development, urban–rural links, national carbon markets, and PPPs.

Private sector operations approved in 2014 contributed to RCI mainly by financing cross-border infrastructure. Two were in energy. ADB approved a $144 million direct loan and a $77 million B loan to be funded by commercial banks to the Nam Ngiep 1 Power Company to meet the rising demand for electricity in the Lao PDR and Thailand.\(^{139}\) The project will help build a 290-megawatt hydropower plant that will add 100 gigawatt-hours (GWh) to the Lao PDR’s grid and transmit another 1,400 GWh of supply to Thailand each year. The 185-megawatt Adjaristsqali hydropower plant to be built in Georgia with the support of a $75 million ADB loan will begin providing 50 GWh for domestic needs in 2017 and 400 GWh for sale abroad, mainly to Turkey.\(^{140}\) Through the Trade Finance Program (TFP), ADB works to fill market gaps by providing banks with guarantees and loans that support trade—and thus, RCI—between DMCs.

ADB is deepening the RCI results achieved through previous projects by stepping up its second-generation RCI operations. This includes support for the development of economic hubs and corridors, usually based on transport corridors it has already helped establish. These operations

---

\(^{137}\) ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People’s Republic of China for the Yunnan Pu’er Regional Integrated Road Network Development Project. Manila. (See also footnote 124).


\(^{139}\) ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Lao People’s Democratic Republic for the Nam Ngiep 1 Power Company Limited for the Nam Ngiep 1 Hydropower Project. Manila.

\(^{140}\) ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan to Adjaristsqali Georgia LLC for the Adjaristsqali Hydropower Project in Georgia. Manila.
further facilitate cross-border trade and capital market and finance sector arrangements. They have included support for such regional public goods as climate change mitigation and adaptation and the control of communicable diseases.

In 2012–2014, 28 ADB operations overall, 23 ADF operations, and 177 TA projects qualified as second-generation RCI undertakings. Examples included a maritime transport project in Papua New Guinea, a project to strengthen sanitary and phytosanitary systems in the GMS, regional support to improve CAREC border services, projects to develop green power in Bhutan for home and South Asian consumption, and a project to rehabilitate and manage coral reef resources in Indonesia.¹⁴¹

ADB’s RCI operations are moving in the right direction. They are more geographically diversified across the region than before. Private sector involvement is gaining traction, and policy reforms in the DMCs are opening avenues for it to continue to grow. As part of the follow-up to the Strategy 2020 midterm review, ADB is creating its first RCI operational plan to improve performance and find new directions.

4. Strategy 2020 Operational Areas

ADB continued to target its financing on Strategy 2020 core operational areas, which accounted for 88% of total financing in 2014 after a drop to 83% in 2013 (Table 10). ADB approved $13.5 billion in loans and grants. Of the overall amount, $12.0 billion was in the strategy’s five core areas, and $2.7 billion was in its “other” operational areas (with some overlapping).¹⁴² The total was down $684 million from the $14.2 billion approved in 2013. Infrastructure dominated in the core areas, accounting for 66%, or $8.9 billion. These operations were mainly in transport ($4.4 billion for 45 projects) and energy (27 projects totaling $2.7 billion). Public sector management continued to have the largest share of ADB’s “other” operations overall (11%), but agriculture was the biggest “other” area by volume in the ADF subcategory (13%) (Appendix 4).


¹⁴² “Other” operational areas include $1.1 billion for operations with regional cooperation or environment as a theme that also counts toward financing for core operational areas.
Table 10: Financing for Strategy 2020

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
</tr>
<tr>
<td>ADB Operations Overall</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Core operational areas</td>
<td>11,388</td>
<td>84</td>
<td>11,511</td>
</tr>
<tr>
<td>B. Other operational areas</td>
<td>2,163</td>
<td>16</td>
<td>2,702</td>
</tr>
<tr>
<td>C. Operations under B with regional cooperation or environment as theme</td>
<td>603</td>
<td>4</td>
<td>312</td>
</tr>
<tr>
<td>Total financing for core operational areas (A+C)</td>
<td>11,991</td>
<td>88</td>
<td>11,822</td>
</tr>
<tr>
<td>Total ADB financing (A+B)</td>
<td>13,551</td>
<td>100</td>
<td>14,213</td>
</tr>
<tr>
<td>ADF Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Core operational areas</td>
<td>2,251</td>
<td>77</td>
<td>2,362</td>
</tr>
<tr>
<td>B. Other operational areas</td>
<td>661</td>
<td>23</td>
<td>1,488</td>
</tr>
<tr>
<td>C. Operations under B with regional cooperation or environment as theme</td>
<td>190</td>
<td>7</td>
<td>197</td>
</tr>
<tr>
<td>Total financing for core operational areas (A+C)</td>
<td>2,441</td>
<td>84</td>
<td>2,559</td>
</tr>
<tr>
<td>Total ADB financing (A+B)</td>
<td>2,912</td>
<td>100</td>
<td>3,850</td>
</tr>
</tbody>
</table>

Note: Appendix 4 provides a breakdown of ADB financing by areas and sectors.
Source: ADB Strategy and Policy Department.

ADB is expanding support for better education to 4.7%–10.0% of total operations by 2016 to accelerate development of the region’s human capital. Education’s share rose to 6.0% in 2014, but the challenge now is to reach more DMCs while continuing to lift the overall volume. ADB intends to expand its catalytic role in helping the young get the skills they need to find good jobs. This will mean greater assistance and new approaches to match the supply of skills provided by technical and vocational education and training and secondary and higher education to the demand in the job market. It will also involve financial innovation and greater use of information and communication technology (ICT) and PPPs.

ADB has started to use MFFs to help DMCs deliver on their long-term road maps in the education sector. One component of the first MFF and regional project in education will help make flexible distance learning a cost-effective alternative to undergraduate study abroad for Pacific DMCs. The use of ICT offers major efficiencies in a region where distance and expense have posed tremendous barriers for young people wishing to benefit from education opportunities internationally. The program’s support of a regional higher education role for the University of the South Pacific adds a building block to Pacific RCI.

The midterm review calls for ADB’s financing for the health sector to increase. The total in 2014 was only $0.2 million, a small part of an $80 million multisector project in Indonesia. ADB is off track to meet the 2016 1.5%–5.0% target.

Under the current work program and budget framework, ADB plans to expand health operations to 2% by both volume and number during 2015–2017. ADB will build its capabilities in health operations by hiring qualified staff and engaging consultants. The midterm review action plan commits

---

ADB to making the financial resources available to reach a target of 3%–5% of overall financing by 2020. An update of its operational plan for health is scheduled for approval in 2015.

ADB approved a sizeable $2.2 billion during 2012–2014 for food security. Support included financing to raise productivity through better agriculture and natural resources management, enhance infrastructure to make the food system more resistant to extreme weather events and climate change, expand financial services in rural areas to support food production, and reform policies so that the available resources will be used more efficiently. Outside the agriculture and natural resource sector, 50% of the food security financing went to infrastructure and 30% to financial intermediation. Nonsovereign operations are playing a growing part and now account for 30%, mainly to build up agribusinesses and inclusive finance in rural areas. ADB is developing an agriculture and food security operational plan under the midterm review action plan.146

E. Strategy 2020 Drivers of Change

Both ADB operations overall and the ADF subset are rated good for support for the five Strategy 2020 drivers of change—private sector development and private sector operations, governance and/or capacity development, gender mainstreaming, knowledge solutions, and partnerships. This was a broad and solid improvement over 2013, when the DEfR rated ADB’s overall support for the drivers of change mixed and the ADF’s poor. ADB has worked to improve this performance. The one weak spot is an off track rating for ADB operations overall on one of the partnerships indicators—use of country systems.

1. Private Sector Development and Operations

Greater financing to help develop the enabling environment for the private sectors in DMCs boosted the share of ADB operations supporting private sector development and operations to 45% in 2012–2014 from 38% in 2011–2013. It rose from 29% to 34% in ADF operations. The financing share for ADB operations overall was 42% in 2012–2014, up from 35%. The share in ADF funding increased to 33% from 27% in the previous period.

A $400 million policy-based loan approved in 2014 to help Indonesia attract more private sector investments will develop better debt and risk management systems, make public procurement more transparent, diversify the sources of infrastructure financing, and lower the cost of doing business.147 It will develop the regulatory and strategic framework to begin with and focus later on institutional capacity.

development. The program will also support discussions with multilateral and bilateral development partners and leverage their ongoing and programmed support to enhance these reforms.

Financing for **private sector operations** increased from 15.5% of total OCR approvals in 2013 to 18.4% in 2014, but more is needed if ADB is to meet the 2016 target of 20.0%. Private sector operations used all of the resources allocated for them in 2014. Further expansion will depend in part on what resources are made available.

Developing micro, small, and medium-sized enterprises is a particularly effective way for ADB to support inclusive economic growth. ADB’s $40 million loan to Khan Bank in Mongolia will help remove a key restraint on the growth of these grassroots businesses—poor access to credit. The project aims to give these enterprises the financial boost they need, particularly in underserved rural areas and poor communities. By doing so, it will also help diversify and strengthen the resilience of an economy that depends heavily on the mineral industry.

The midterm review reaffirmed ADB’s strategic goal of scaling up private sector operations to 25% of OCR approvals by 2020. Its action plan provides steps to heighten the efficiency and efficacy of private sector operations to help ADB meet this goal. They include the adoption of rolling annual approval targets and the reform and streamlining of business processes for small projects with high development impact (without compromising quality). An economic capital planning framework is being designed to give ADB greater flexibility in resource planning over several years. ADB is also working to improve its offerings of local currency products for the private sector.

### 2. Governance and/or Capacity Development

The number of operations involving governance and/or capacity development rose from 53% of the ADB-wide total in 2011–2013 to 60% in 2012–2014. The focus is typically greater in the ADF subset, where the share increased to 74% from 66% in the preceding period. The financing volume was higher in both categories, possibly because of new business processes adopted in 2014 that improved the quality of mandatory governance risk assessment. ADB began reviewing its current approach to capacity development to help prepare a new operational plan for 2015–2020.

Goverance and capacity development operations are often complex, but they also offer opportunities for game-changing innovation. ADB is helping the government in India’s Punjab State mobilize more resources and control expenditure. This means tackling the difficult issue of power subsidies. ADB has begun applying new e-solutions through ICT to improve the efficiency, transparency,
and accountability of institutions. This also encourages participation by citizens. ADB signed on to the Open Government Partnership in 2014 and is committed to advancing open government and social accountability in its DMCs.\(^{151}\) An open data program it is supporting in the Philippines will establish online feedback loops between the government and citizens on how to improve government spending programs.\(^{152}\)

### 3. Gender Mainstreaming

Gender mainstreaming is receiving above-target support in both the overall ADB category and the ADF subset. The share of operations that were classified as either effective gender mainstreaming or gender equity theme stood at 55% for ADB operations overall and 58% for ADF operations in 2012–2014, similar to the proportions in 2011–2013. The trend suggests a leveling of performance at 55%–60%, which would be higher than the 2016 targets of 45% for ADB overall and 55% for ADF operations. ADB is doing well on this indicator because of its greater attention to quality at entry, its adoption of more stringent gender requirements in project design, and a general improvement in gender action plans.

ADB is committed under the midterm review to delivering more projects with gender equity as a theme. Their share in overall sovereign operations improved slightly in 2014 to 8%. One such operation approved in 2014 illustrates their potential for major impacts. This program will harness the untapped human resources of India’s Kerala State, where many young women have a basic education but either lack the skills needed for employment or encounter gender discrimination in their search for work.\(^{153}\) These women make up most of the state’s unemployed and will account for more than half of the 60,000 higher secondary and undergraduate students the program will help prepare to enter the job market. Support will include gender-tailored career counseling and vocational training in English communication, basic information technology, and trades needed by the state’s growing service sector.

In 2014, more than 90% of education and health operations and more than 80% of those in water and other urban infrastructure and services were designed to support gender mainstreaming. The gender mainstreaming shares in the transport, energy, finance, and public sector management sectors remained at or below 50%. These patterns have been stable, which may partly explain the plateauing of mainstreaming results.

Water and urban infrastructure operations offer good gender mainstreaming opportunities, and ADB has been effective in exploiting them. An integrated urban development project approved in 2014 to help transform the resource-exhausted city of Baiyin in the PRC into an inclusive and environmentally sustainable center emphasizes new livelihoods for women.\(^{154}\) It will help them transition from small-scale farming, mining, and the currently limited work opportunities in the city to jobs in the new urban industrial area the project is developing. Training will be provided for many types of employment, including work in restaurants, accounting, labor law, and security.

---


\(^{153}\) ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to India for Supporting Kerala’s Additional Skill Acquisition Program in Post-Basic Education*. Manila.

ADB’s 2014 knowledge products and services on gender equality issues included a multilateral development bank workshop that discussed difficult problems involving the voice and empowerment of women. The workshop attracted more than 140 participants. Regional workshops were organized to help capitalize on the leadership potential of women in the public management and water sectors. These included the flagship Asia Women Leadership Program and the Women, Water, and Leadership Workshop. Among ADB’s gender-related publications during the year were (i) country gender diagnostics for Bhutan, the Maldives, Timor-Leste, and Uzbekistan; (ii) gender briefs on social protection, leadership, and the labor market; and (iii) the ADB experience series on the voice and agency of women in local governance, community-based organizations, and legal reforms and identity.

4. Knowledge Solutions

ADB is committed to producing and sharing knowledge in the region. Downloads of web-distributed knowledge solutions rose from 360,000 in 2013 to 530,000 in 2014. The increase was helped by the reorganization and retagging of documents to improve their discovery by leading search engines. The numbers for followers, likes, and engagement on main social media grew considerably in 2014 as ADB expanded its efforts to establish its social media presence. The rise was spurred by consistent uploading of fresh content, as well as timelier and better posts.

The midterm review action plan includes steps to enhance collaborative knowledge management and innovation in ADB. These include developing a common ICT-based knowledge platform and providing an easy-to-use knowledge sharing tool, building a repository of sector and thematic learning materials, and exploring systems to extract operational knowledge. A $1.5 million cluster TA project approved in 2014 will help implement this action. It will link ADB knowledge more closely with operations and connect development practitioners in ADB with those in the DMCs and the other development
agencies. ADB adopted a knowledge solutions results framework in 2014 that includes indicators to track its knowledge products, services, and innovative operations.

ADB works to ensure that its knowledge solutions respond to country needs and are produced efficiently. It has initiated knowledge dialogues with middle-income DMCs, such as the PRC and Indonesia, to better appreciate where knowledge can contribute most to addressing their particular development concerns.

5. Partnerships

ADB builds partnerships that bring parties together to achieve a common purpose while sharing risks, responsibilities, resources, knowledge, and benefits. Among the diverse types of partners ADB has sought out and engaged are the region’s civil society organizations (CSOs). All 104 of ADB’s sovereign operations approved in 2014 included CSO participation in project design or implementation—well above the 90% annual target.

This was the first year for which ADB collected detailed information on the CSO roles in project design. The data indicated the depth of this participation—high, medium, or low—as well as the form the participation took—information generation and sharing, consultation, collaboration, and partnerships (Table 11). Results showed that CSOs were involved in information generating and sharing and in consultation for more than 80% of project designs. The figures were also significant for collaboration (60%) and partnerships (42%).

Table 11: Civil Society Organization Participation in the Design of Sovereign Operations (% of approved operations)

<table>
<thead>
<tr>
<th>Approach</th>
<th>Depth of Participation</th>
<th>Total Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Information generation and sharing</td>
<td>21</td>
<td>45</td>
</tr>
<tr>
<td>Consultation</td>
<td>15</td>
<td>44</td>
</tr>
<tr>
<td>Collaboration</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td>Partnerships</td>
<td>31</td>
<td>9</td>
</tr>
</tbody>
</table>

Note: Based on a survey conducted in February 2015 with 104 responses.
Source: Asian Development Bank Regional and Sustainable Development Department.

By involving CSOs in design, ADB improves a project’s governance and sustainability. Water user CSOs helped validate the design of a project in Bangladesh that aims to help farmers improve poorly maintained irrigation infrastructure and cultivate high-value crops. The water users’ associations will help manage, operate, and maintain a system that will irrigate about 20,000 hectares of rice lands through an agreement with the Bangladesh Water Development Board.

Country ownership is the bedrock of effective development assistance, and ADB measures it in part by the indicator on operations aligned with country results frameworks. The indicator shows the extent to which ADB’s operations are clearly linked to a DMC’s development plans. ADB and ADF operations have consistently exceeded the 90% target, and almost all operations were aligned with country results frameworks in 2014.

The indicator on sovereign operations using country systems captures ADB’s use of public financial management systems and country procurement systems. Performance on this indicator reflects the level of ADB’s effort to use country systems to reduce transaction costs and, more importantly, to help improve these systems. ADB operations using country systems rose to 55% overall in 2014 from 50% in 2013, but this was still below the baseline of 59% and thus off track (Table 12). ADF operations improved from 48% in 2013 to 49% in 2014 and are meeting the annual performance target.

Table 12: Sovereign Operations Using Country Systems (%)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ADB Operations Overall</th>
<th>ADF Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Baseline 2013 2014</td>
<td>Baseline 2013 2014</td>
</tr>
<tr>
<td>Financial management systems</td>
<td>70 67 70</td>
<td>63 64 64</td>
</tr>
<tr>
<td>Procurement systems</td>
<td>48 33 39</td>
<td>32 31 34</td>
</tr>
<tr>
<td>Sovereign operations using country systems</td>
<td>59 50 55</td>
<td>47 48 49</td>
</tr>
</tbody>
</table>

Source: ADB Strategy and Policy Department.

Growth in policy-based operations, which by design use a country’s public financial management systems, pushed this indicator higher in 2014 for ADB operations overall. While results-based lending (RBL) disburses against results and uses country systems, its share is still small. Three RBL operations have been approved since 2013.

---

In 2014, ADB approved its first RBL program in the Philippines to help the senior high school system reform itself and transition from a 10-year to a 12-year curriculum. The $300 million intervention focuses on a limited number of results indicators that are essential to program success and is accompanied by TA to strengthen government systems and support reforms. The addition of two grades, coupled with a rapidly growing school-age population, requires a major expansion of the sector’s physical facilities. The program will use PPPs to produce this infrastructure and respond to the growing demand in a fiscally sustainable way. A voucher program is expected to give parents and students more choices and enable about 800,000 students from low-income families to attend private schools each year.

ADB still needs to widen and deepen its use of country systems. A review of procurement and consultant policy and guidelines under the midterm review action plan will examine the issue. ADB plans to expand the use of country systems in its upper middle-income DMCs, whose systems generally have the human resources, expertise, and institutional capacity to implement ADB supported operations.

---

158 ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan to the Republic of the Philippines for the Senior High School Support Program. Manila.
V. LEVEL 4: ADB’S ORGANIZATIONAL MANAGEMENT

Level 4 measures ADB’s organizational performance in three areas: human resources, budget resources, and process efficiency and client orientation. Human resource indicators track whether ADB is providing the level of human resources needed to support operations. ADB also monitors progress toward its aim of creating a diverse and inclusive work environment for its staff. Budget resource indicators measure efficiency in ADB’s use of its administrative budget. Those in the area of business processes monitor the performance of ADB’s internal processes in supporting operations and its ability to respond to the needs of its DMCs. Taken together, the nine level 4 indicators show whether ADB is managing its internal resources and processes effectively to support operational management (level 3) and deliver results (level 2).

A. Managing Human Resources

1. Supporting Operations

The percentage of budgeted international and national staff in operations departments remained slightly above the 55% annual performance standard in 2014 at 56%. To leverage more private sector financing for DMCs, ADB established the Office of Public–Private Partnership as a new operational office in 2014.159

Speedier hiring of qualified staff is a signal of more efficient human resource management. The time used to hire staff for positions in all categories—international, national, and administrative—was shorter in 2014 than in 2013.160 The average period from advertisement to job acceptance was 77 days for national staff, 80 for administrative employees, and 97 for international staff positions (Table 13).

<table>
<thead>
<tr>
<th>Year</th>
<th>International Staff</th>
<th>National Staff</th>
<th>Administrative Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>110</td>
<td>75</td>
<td>97</td>
</tr>
<tr>
<td>2013</td>
<td>114</td>
<td>82</td>
<td>88</td>
</tr>
<tr>
<td>2014</td>
<td>97</td>
<td>77</td>
<td>80</td>
</tr>
<tr>
<td>Average per category (2012–2014)</td>
<td>107</td>
<td>78</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank Budget, Personnel, and Management Systems Department.

---

159 The Office of Public–Private Partnership is classified as an operations department. In 2014, selected staff members from the operations departments and the Regional and Sustainable Development Department were redeployed to the new office.

160 Hiring time is the time elapsed from the date the vacancy is posted to the date an offer is accepted by the applicant.
ADB will continue to monitor and act to improve these results. The current hiring time target for external recruitment is 88 days. If positions are filled from within ADB through promotions or transfers, the goal is about 50 days. The actual hiring times are longer than targeted in all staff categories. At 50 days, the gap is particularly wide for international positions (Table 14).

**Table 14: Hiring Time, 2013–2014**
*(average number of days from internal and external sources)*

<table>
<thead>
<tr>
<th>Staff Category</th>
<th>2013</th>
<th>2014</th>
<th>Service Level Standards</th>
<th>2013</th>
<th>2014</th>
<th>Service Level Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>International staff</td>
<td>157</td>
<td>138</td>
<td>88</td>
<td>92</td>
<td>77</td>
<td>49</td>
</tr>
<tr>
<td>National staff</td>
<td>136</td>
<td>121</td>
<td>88</td>
<td>64</td>
<td>61</td>
<td>51</td>
</tr>
<tr>
<td>Administrative staff</td>
<td>132</td>
<td>116</td>
<td>88</td>
<td>63</td>
<td>65</td>
<td>51</td>
</tr>
</tbody>
</table>

Note: External refers to hiring from outside the Asian Development Bank (ADB). Internal refers to positions filled from within ADB. Service level standards are the number of days within which ADB is currently expected to fill vacancies in specific staff categories.

Source: ADB Budget, Personnel, and Management Systems Department.

ADB also needs to ensure that its staff has and will continue to have the right talent and skills mix, and that its operations use this expertise in the best ways possible. An ongoing skills audit is determining existing skills and gaps so that ADB can redeploy and train staff when necessary and make efficient use of its human resources. A workload audit and a workforce analysis, both scheduled to be completed in 2015, will help determine future staff resource needs. The findings from these three studies will inform ADB's human resource management decisions and help achieve the strategic priorities of the midterm review.

### 2. Promoting Diversity and Inclusion

The representation of women in international staff was static at 35% in 2014, and ADB needs to monitor its performance on this diversity and inclusion indicator closely. It is rated on track but watch. Limited budget growth and the slowing pace of recruitment may make it difficult for ADB to reach the 37% target by 2016. At 46%, the share of women in entry level positions (1–4) exceeded the 40% target. ADB must still do more to recruit qualified female applicants for international positions throughout the organization. Greater effort is

---

161 See footnote 18 and the signals and scoring methods in the pocket at the back of the report.
particularly needed to expand the representation of women at the pipeline levels (5–6). As of 2014, women comprised 29% of the international staff in these positions, which was below the 2016 target of 35%. However, ADB has significantly increased the proportion of upper staff level positions (7–10) held by women. Faster rates of promotion and hiring of women for senior international staff positions pushed their representation to 26.5% in 2012 and 27.6% in 2013 from 19.7% in 2011. While the 2014 ratio, at 26.0%, is slightly lower, it met the 2016 target of 25%–27%.

ADB adopted a diversity and inclusion action plan in 2014. Its aim is to manage its human resources more effectively—including the elements of gender, nationality, and cultural background. ADB also wants to better engage and motivate its workforce and translate the organizational culture and work environment into operational results. In addition to pursuing greater gender balance, all departments and offices have identified actions to promote a more diverse and inclusive workplace. These include conducting awareness-raising events on topics such as respect for ethnic and cultural diversity, providing more opportunities for national staff to participate in meetings, and organizing work teams composed of staff from different backgrounds.

B. Improving Budget Efficiency

ADB's budget resources management in 2014 is rated good, which reverses the poor performance in 2013. Internal administrative expenses (IAEs) per $1 million disbursed declined from $63,100 in 2011–2013 to $60,650 in 2012–2014.

\[\text{International staff levels 5 and 6 are referred to as pipeline levels under ADB's staff level system.}\]
Both aspects of budget efficiency improved. Disbursements grew to $10.2 billion from $8.5 billion in 2013. Actual IAE spending dropped from the previous year for the first time ever. It shrank by 5.8% after growing by 9.6% in 2012 and 5.6% in 2013. The growth in the IAE budget has slowed steadily from 12.9% in 2011. The budget is up by only 3.5% for 2015, and 85% of the increase is because of price adjustments (Figure 15). While ADB should continue to try to improve cost efficiency, it also needs to take care that this does not reduce operational and organizational performance.

**Figure 15: First-Time Decline in Actual Internal Administrative Expenses**

![Bar chart showing the decline in IAE](chart)

IAE = internal administrative expenses.

Note: Value for 2015 is based on projections.

Source: Asian Development Bank Budget, Personnel, and Management Systems Department.

The share of operational expenses for portfolio management decreased from 61.5% in 2013 to 59.8% in 2014. This indicator measures the adequacy of ADB’s resources and support for project implementation. Overhead dropped partly because national staff vacancies rose temporarily in 2014 when recruitment did not keep pace with attrition. ADB is rated on track but watch to achieve the 2016 indicator target of 62%–64% per year.

### C. Client Orientation

1. Empowering Resident Missions

ADB continued to empower resident missions in 2014 by expanding their resources and authority. The aim, reaffirmed by the midterm review, is to deliver better services to ADB’s DMCs and respond more efficiently to their needs. About 50% of the international and national employees in ADB’s operations departments were working in resident missions in 2014. The slight increase from 49% in 2013 reflected postings of international staff from headquarters and the expansion of the newly established Myanmar Resident Mission.

The importance of resident mission empowerment was emphasized in the midterm review, and ADB’s regional departments are delegating greater operational responsibilities to resident missions.

A joint venture arrangement that was adopted first by ADB’s Central and West Asia Department gives sector directors at ADB headquarters responsibility for portfolio performance and assigns the role
of overseeing the client relationship to the country directors at resident missions. The arrangement has made collaboration between headquarters and resident missions more seamless.

Under the midterm review action plan, operational implementation will be fully delegated to the six largest resident missions, and smaller ones will receive additional responsibilities. The resident mission in the PRC now implements most urban, energy, and railway sector operations in the country. In Mongolia, another East Asia Department DMC, the resident mission administers transport, health, and urban sector projects. The South Asia Department handed implementation of all urban and transport projects in India to the resident mission in October 2014. By the end of 2015, the India Resident Mission will administer all projects in the country, as the Bangladesh Resident Mission already does in that DMC. The Southeast Asia Department is also decentralizing responsibilities to resident missions. The Viet Nam Resident Mission now handles much of ADB’s transport and energy portfolios in the country. By mid-2015, the resident mission will be completely in charge of implementing the portfolio in Indonesia. ADB has also posted staff from headquarters and added new positions to boost the project administration capacity of resident missions and representative offices in the Pacific region.164

ADB modified other responsibilities and procedures in 2014 to cut procurement processing time further and improve administrative efficiency and project results. The contract approval ceiling for country directors at the resident missions and sector directors at headquarters was doubled to $20 million from $10 million. The regional departments now consult the Operations Support and Financial Management Department on contracts above $20 million and up to $40 million. ADB’s Procurement Committee, which previously had to review all contracts of more than $10 million, is now only responsible for approving contracts that exceed $40 million. These changes have streamlined the business process, especially for smaller contracts.

Under the risk-based procurement approach ADB began using in 2014, the level of procurement risks is assessed as early as at the country programming stage.165 The results inform the procurement planning for individual projects. In cases where risks are low, the process is simplified. Rather than conducting pre-reviews of most contracts, as would have done in these cases before, ADB will examine a sample of low-risk contracts after they are awarded. This selective approach ensures sound fiduciary management, while cutting back on transaction costs and the time spent on procurement.

164 ADB’s Pacific Department includes two regional offices and two representative offices. The Pacific Liaison and Coordination Office supports ADB operations in Nauru, Solomon Islands, and Vanuatu. The South Pacific Subregional Office supports operations in the Cook Islands, Fiji, Kiribati, Samoa, Tonga, and Tuvalu. ADB also has representative offices in Papua New Guinea and Timor-Leste.

165 The approach identifies risks and proposes mitigation measures for different procurement packages. It permits streamlined processes for low-risk contracts.
The procurement reforms began showing results late in 2014. ADB spent an average of 58 days during the year reviewing procurement contracts for sovereign operations above $10 million (Figure 16), 1 day longer than the Procurement Committee took the same in 2013. The average review time for ADF contracts during 2014 was 74 days, up from 62 days in 2013. However, review times shortened considerably after ADB approved the 10-point procurement action plan in August 2014, which included the delegation to regional departments of approval responsibility for contracts of $10 million–$20 million. During September–December 2014, the time between the receipt of bid evaluation reports and contract approval was almost halved from 67 days to 34 days for ADB as a whole. The review time for ADF contracts also dropped sharply from 87 to 42 days. The shorter review times in the last quarter of the year helped cut the end-to-end average procurement time in 2014 by 5.5%.

![Figure 16: Procurement Processing Time for Contracts $10 million and above (number of days)](image)

Source: ADB Operations Services and Financial Management Department.

**D. Monitoring Business Processes**

ADB took longer to prepare and approve sovereign and nonsovereign operations in 2014. The average sovereign operation processing time from the start of loan fact-finding to Board approval overshot the 6.0 month target by 1.4 months. In the case of two projects, changes in government requirements more than doubled processing time from 8 to 17 months. The average time from approval to effectiveness shortened slightly in both the ADB overall (6 months) and ADF (5 months) categories.

Some processing delays need to be considered in a wider context. Project teams that extend the processing period to carry out engineering designs and procurement in advance also shorten the subsequent start-up and implementation periods. ADB needs to differentiate between processing...

---

166 This indicator measures the time between the receipt of the bid evaluation report and the approval of the report by ADB. Under the procurement reforms, the approving authority has been decentralized, with sector directors and country directors approving such reports for contracts worth $10 million–$20 million, regional departments and the Operations Support and Financial Management Department approving reports for contracts above $20 million and up to $40 million, and the Procurement Committee approving reports for contracts worth more than $40 million.

delays caused by burdensome and inefficient planning, preparation, and coordination (which should be reduced) and extended processing that improves project readiness and saves time later on.

Nonsovereign operation processing time was also longer in 2014—an average of more than 9.4 months from the start of due diligence to Board approval, up from 6.2 months in 2013. Two projects experienced major difficulties that greatly extended their processing times. One was held up by a protracted land acquisition issue and the other by negotiations between multiple partners and the settling of cross-border arrangements. When these two projects are excluded, the average nonsovereign operation processing time drops to 6.8 months.

ADB is learning from experience, including experience with projects that have proceeded more smoothly (Box 1). They show that engaging with the borrowers early on and anticipating and solving problems ahead of time can cut processing time and still deliver high-quality operations.

**Box 1: Learning from Experience**

An Asian Development Bank (ADB) project approved in 2006 to support private banks and leasing companies in Azerbaijan included a small loan to AccessBank. That led to micro loans for 88,000 new and existing small and medium-sized enterprises (SMEs) in businesses as diverse as food packaging and beekeeping. Many of them flourished, and AccessBank grew dramatically. ADB and the government recognized that raising rural incomes by supporting SMEs was a way to reduce Azerbaijan’s economic overreliance on the volatile oil and gas market. Based on the AccessBank success, ADB approved a $20 million loan to DemirBank in 2014 to provide more financing for micro businesses and SMEs, mostly in rural areas. Using lessons learned from ADB’s previous operation, the ADB project officer was able to initiate discussions with DemirBank and become thoroughly familiar with its processes and business before the concept review paper was finalized. The new project was approved in less than 3 months.

ADB maintained its quick emergency response times when natural disasters struck in 2014. These included a tropical cyclone that hit Solomon Islands in April (Box 2). When a major disaster occurs, ADB dispatches a team to assess needs and how it can help a DMC recover and rebuild. After unprecedented flooding in northern Afghanistan, ADB and its partners quickly approved a $40 million grant to reconstruct damaged irrigation and road infrastructure. From fact-finding to grant approval on 16 October 2014, the project took less than 3 months to process.¹⁶⁸

---

**Box 2: Swift Response**

Prolonged heavy rainfall brought on by Tropical Cyclone Ita caused severe flooding in Solomon Islands in April 2014, destroying roads, bridges, housing, and sewerage and water supply systems. Twenty-three people died, and close to 10,000 lost their homes. On 4 April 2014, a state of disaster was declared in the capital of Honiara and western Guadalcanal Province. The government requested urgent international assistance on 5 April 2014. The Asian Development Bank (ADB) and other development partners conducted a rapid assessment mission to estimate the damage caused and how much assistance would be needed for reconstruction. ADB dispatched a fact-finding mission in July 2014. ADB approved a loan and a grant to restore roads and bridges in August 2014, and the project became effective in October 2014.


---

VI. SUMMARY: ACHIEVEMENTS, CHALLENGES, AND ACTIONS

ADB made headway on several fronts in 2014. The operational success rate rose again. Projects produced most of the intended results—and did so within budget 9 times out of 10. Ratings for quality at entry were high. ADB disbursed more financing, leveraged more private sector resources, and raised more cofinancing than ever before. It moved its operations closer into line with Strategy 2020’s strategic agendas, core operational areas, and drivers of change. Budget efficiency improved. Resident missions have been given more responsibility, authority, and staff.

ADB lagged on other fronts, however. Half of its successful projects were completed well behind schedule, and nearly 40% may not be sustainable. Disbursements rose overall, but the ratio for sovereign projects was too low to meet the 2016 target. Public–private partnerships leverage was not growing fast enough to reach the target by 2016. Financing for health was well short of Strategy 2020 midterm review goals, support for social protection was modest, and ADB was not yet making enough use of country systems. Project processing time lengthened. The midterm review of Strategy 2020 undertaken in 2013–2014 committed ADB to a series of actions to address these challenges.

A. Achievements

1. Design and Implementation Quality Improved

Rising success rates. In the 2012–2014 reporting years, 73% of ADB’s overall sovereign projects, 68% of ADF sovereign projects, 67% of ADB’s and 68% of ADF policy-based operations, and 67% of nonsovereign operations were completed successfully. The TA project success rate remained close to 90%. The outcome achievement rate continued its upward trend and exceeded 80% for the first time in 2014. Output and outcome performances were tightly linked as most operations that delivered their outputs achieved their outcomes. The introduction of the results framework in 2008 prompted a sustained corporate effort to improve the effectiveness of ADB’s portfolio and projects. Operations are now more ready at start-up than they were before, and TA is building DMC capacity in advance to forestall implementation delays and produce better end results.

Achieving results within budget. The intended results were achieved or exceeded for 19 of 20 indicators in completed ADB operations overall in 2014 and in 11 of 14 ADF category indicators. Almost 90% of successfully completed operations delivered the results on budget. Operations completed in 2014 resulted in tangible benefits for millions of people, including strong results in the following key areas:

(i) Energy. ADB projects helped to install 4.9 gigawatts of generation capacity and 2,900 km of transmission and distribution lines. A 280 km transmission line that moved electricity exports from Tajikistan helped to restore the power supply in Afghanistan after years of conflict.

---

169 The reporting year is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014. Results for all completed operations are measured in reporting years.
(ii) **Transport.** ADB supported the building or upgrading of 7,200 km of roads. This included 6,400 km of rural roads, about half of which were in the poorest areas of India. ADB helped build or upgrade 950 km of expressways and national and regional highways, as well as 1,100 km of railway lines in the PRC on which an average 92,000 ton-kilometers of freight moves each day.

(iii) **Water.** ADB projects laid 10,000 km of new or upgraded water pipelines and connected 735,000 households to improved water supplies. The projects gave 510,000 households better sanitation; added 424,000 cubic meters per day to the region’s wastewater treatment capabilities; and made 549,000 hectares of land more productive by upgrading irrigation, drainage, and flood management.

(iv) **Finance.** ADB’s Trade Finance Program funded onlending to more than 1,500 small and medium-sized enterprises (SMEs) in 2014 through 1,900 transactions worth $3.8 billion, mostly in ADF countries. Of the total, $2 billion was cofinanced. Of the 833,000 people who benefited from microfinance loans, 97% were women. Another 4,000 SME loan borrowers benefited from other ADB projects.

(v) **Education.** ADB projects provided 12.4 million students with new or better schoolrooms and education facilities. Almost half of them were girls. These projects trained 476,000 teachers and elevated the quality of the education for 19.1 million of the region’s young people.

(vi) **Regional cooperation and integration.** ADB’s regional cooperation and integration operations helped move an additional 35.1 million tons of cargo across the region’s national boundaries faster and more easily during the year. Goods are flowing more quickly on new or rehabilitated roads and more smoothly through customs systems and procedures that ADB has helped make more efficient and transparent.

(vii) **Environment.** Energy efficiency projects cut greenhouse gas emissions by the equivalent of 736,000 tons of carbon dioxide a year. ADB’s sanitation operations also reduced pollution by boosting the region’s wastewater treatment capacity.

**High quality at entry.** ADB’s fifth biennial quality-at-entry assessment found that all of the country partnership strategies sampled from the 2012–2013 approval period, including those for ADF countries, were rated **satisfactory** overall. They were also judged **satisfactory** or better for their integration of the inclusive economic growth agenda. The 90% target for satisfactory ratings was beaten by both ADB’s sovereign projects (95%) and its nonsovereign operations (94%).
2. Expanding Development Financing

Growing disbursements. ADB’s work to remove procurement and other bottlenecks helped raise total disbursements by 17% from $8.7 billion in 2013 to $10.2 billion in 2014.

Record-high cofinancing. Cofinancing reached a new overall high of $9.1 billion in 2014. ADB mobilized official cofinancing of $4.3 billion, up from $3.6 billion, and leveraged $4.8 billion in commercial cofinancing, up from $2.8 billion. Its use of programmatic cofinancing framework arrangements made future cofinancing more predictable and helped push the totals higher. A drive to attract such nontraditional partners as foundations also produced good cofinancing results.

More public–private partnerships. ADB supported the signing of 16 PPP agreements in 2014, quadruple the number in the year before. The PPP leverage ratio rose from 4.2 in 2013 to 6.0 in 2014. For each $1.00 of ADB’s project financing allocated to PPPs, $5.00 was financed by the private sector.

3. Improved Alignment with Strategy 2020

ADB’s operations overall and those supported by the ADF did well in aligning with and supporting Strategy 2020’s agendas, core operational areas, and drivers of change in 2014. This major improvement from the previous year was the result of ADB’s concerted response to the mixed performance on operational alignment reported in the 2013 DEfR.

4. Stronger Organization Effectiveness

Better budget efficiency. Budget efficiency improved in 2014. It was boosted by higher disbursements and lower internal administrative expenses, which contracted by 5.8% in 2014—the first such decline in ADB’s history.^170

Empowering resident missions. ADB is accelerating its delegation of staff and responsibility for implementation to resident missions in 2014. Country directors and sector directors can now approve contracts of up to $20 million. The increasing empowerment of resident missions fosters the One ADB approach and is making coordination between the resident missions and headquarters more seamless and effective.

Early signs of improved procurement efficiency. It took ADB 58 days to review procurement contracts worth more than $10 million in its operations overall during 2014 and 74 days in its ADF projects, longer than in 2013 and above the targets in the results framework. However, review time shortened considerably after September 2014 when ADB started to implement its 10-point procurement action plan. The average review time in September–December 2014 was 34 days for ADB operations overall and 42 days for the ADF subset—or about half the 67 days required for ADB operations and 87 days for ADF operations in January–August 2014. This indicates that further improvements are likely in 2015 and beyond.

^170 While ADB should continue to pursue budget efficiency, it must also be careful that this does not reduce operational and organizational effectiveness. The 2009–2012 DEfRs reported that ADB’s budget was inadequate; see example, ADB. 2013. 2012 Development Effectiveness Review. Manila.
B. Challenges

1. Design and Implementation Need More Improvement

Need for a further rise in success rates. For reasons unchanged since the 2013 DEfR, 27% of sovereign projects, 33% of policy-based operations, and 33% of nonsovereign projects were rated less than successful during the 2012–2014 reporting years. They suffered from multiple yet familiar issues. Designs were overly ambitious, and projects lacked readiness at start-up. Execution was hindered by weak and complex implementation arrangements, lengthy procurement, and the poor performance of consultants and contractors, as well as delays in or inadequate responses by ADB and government agencies to implementation issues, changes in government priorities, and an array of unfavorable exogenous factors. Nonsovereign infrastructure projects were almost all successful, but nonsovereign financial operations were still weighed down by the effects of the 2008–2009 global financial crisis, which have reduced investment opportunities, led to prepayments, and raised credit stress levels for banks.

A new methodology used for the 2014 DEfR resulted in lower success rates than there would have been in previous years. This year’s calculations considered only the project completion ratings from Independent Evaluation Department (IED) validation reports. Previous reviews used the IED ratings when they were available, but also included the self-evaluation ratings of the regional departments’ project completion reports (PCRs) in about one-quarter of cases. Excluding the unvalidated PCR ratings and the downgrading by IED of 16% of the PCR successful ratings in this review period cut the success rates by 5 percentage points from what they would have been had the 2013 DEfR methodology still been used. The methodology change brings the DEfR's and IED's annual evaluation report ratings into line. The reporting year for level 2 indicators was also changed from January–December to July–June to allow for the time lag between the finalization of PCRs and validation by IED.

Inadequate sustainability. Despite some improvement, ADB is off track to meet its sustainability target. The results of about 39% of its completed operations in 2012–2014 overall and of 45% of those in the ADF category may not be sustained. Most suffer from one or more of several common problems. They often cannot retain the human and financial resources needed for good management and operations and maintenance over the project’s economic life. Tariffs for those that generate revenues are set too low or government budgeting for those with no revenue is not enough to cover costs. The financial viability of the operating agency itself is sometimes uncertain.

Time overruns. Half of successful sovereign operations completed in 2012–2014 finished more than 1 year behind schedule. The core problem was poor project readiness, which in turn delayed both start-ups and implementation. Most of the projects in the review period had been designed more than 6 years earlier, when limited action was taken in advance to prepare detailed engineering designs, hire contractors, develop safeguard measures, establish a project management unit, allocate government funding, or obtain statutory permits. This led to predictable issues later on. Consultants and contractors were engaged only after delays and/or performed poorly. Project designs needed to be changed, and resettlement did not go smoothly. The lack of DMC familiarity with ADB requirements also created bottlenecks. All of this was sometimes compounded by insufficient ADB support. Improved project readiness, streamlined business process, and stronger design and implementation capabilities in both ADB and DMCs are the solutions to these overruns.
2. Longer Processing and Start-up Time

**Processing time.** Processing times for both sovereign and nonsovereign operations were longer than in 2013. The average time from fact-finding to Board approval overshot the 6.0-month annual target for sovereign operations by 1.4 months. The average for nonsovereign operations was 9.4 months, compared with an annual target of 8.0 months. A lack of readiness and advanced actions contributed to the delays in some sovereign operations. The protracted processing periods of two nonsovereign operations that faced particular land acquisition issues and multiple party negotiations drove the average overall time for nonsovereign operations higher.

**Start-up time.** Start-ups slowed. The average period from approval to first contract stretched to more than 15 months in 2014 from under 12 months in 2013. While project circumstances differed, the two major factors were lack of readiness and lengthy procurement processes.

3. Further Increase in Development Financing Needed

**Disbursement ratios of sovereign projects off track.** While total disbursements grew, the disbursement ratios of sovereign projects are too low to meet the 2016 targets in either ADB’s sovereign operations overall or the ADF category. The growth in disbursement volume was outpaced by the growth in total financing approvals in the relevant years. This left the disbursement ratio relatively flat. Greater project readiness at approval would lift both the volume and the ratio of disbursements.
Cofinancing underperforming. ADB mobilized a record-high volume of cofinancing in 2014. During 2012–2014, cofinancing accounted for 58% of total ADB financing, still considerably lower than the 70% target for 2014–2016. ADB needs to maintain its strong momentum to reach the target.

More public–private partnerships needed. In 2014, ADB supported 16 PPP transaction agreements, compared with 4 in 2013. Although the increase in PPP agreements brings the 2-year 2013–2014 total to 20, ADB must almost match the sharply higher 2014 performance in 2015 and 2016 to reach the target of 50 during 2013–2016. The PPP leveraging ratio also improved in 2014, but the 2013–2014 average ratio of 5.7 was still well below the target of 8.0 needed for 2013–2016.


Modest social protection operations and off track health financing. The share of overall ADB operations that had a social protection component was 5.4% in 2012–2014, up slightly from 5.0% in 2011–2013. The share in ADF operations slipped from 7.7% to 7.3%. ADB approved hardly any financing for health in 2014.

Inadequate use of country systems. Although ADB seeks to use country systems to reduce transaction costs and help these systems improve, it is off track on this indicator. The rate rose from 50% in 2013 to 55% in 2014 but was still below the baseline of 59%. The scope for using country systems needs to be expanded.

C. Strategy 2020 Midterm Review Actions

DEfRs support the close monitoring, reflection, and learning needed to identify weaknesses in ADB’s performance and find ways to make it better. Until 2012, they also provided action plans. This role has been assumed from the 2013 and 2014 DEfRs by the 2014 midterm review of Strategy 2020 and the action plan that followed. With the exception of one area where the 2014 DEfR recommends additional measures, the 192 actions in the midterm review plan fully address the major findings of this report. Some actions may produce quick wins, but many others will require consistent effort, regular review, and a long time to yield results. Improving overall project performance, for example, will be a lengthy task.

Some of the midterm review action plan measures that ADB has begun implementing or will soon carry out are particularly relevant to the findings of the 2014 DEfR.

1. Improving Design and Implementation

Improving project readiness. The addition of targets to the results framework and the midterm review action plan is one part of ADB’s stepped-up effort to make projects more implementation-ready from the start. ADB is using project readiness filters to classify projects into high and low readiness categories so that implementation schedules become more realistic. ADB is allocating resources to prepare feasibility studies, project designs, and detailed engineering designs before its approval of the project financing.

Streamlining business processes. Procurement needs to be both on schedule and done properly to prevent delays and poor project performance, but meeting procurement timelines has been a critical
problem. ADB has delegated more procurement authority to regional departments and resident missions and set strict time targets, including targets for recruiting consultants. These steps aim to reduce the time ADB spends on procurement, as does ADB’s adoption of a new risk-based approach. Starting in 2015, ADB will assess the procurement risks in its DMCs, beginning at the country programming stage. It will use the results to design risk-adjusted procurement requirements for individual projects. When the procedures can be simplified and still ensure sound fiduciary management, project transaction costs will decline. ADB will review its procurement and consultant guidelines to make more improvements.

**Improving ADB systems and staff capacity.** ADB is developing an end-to-end monitoring system that will track progress from the inclusion of a project in the country operations business plan to its financial closing. It will be matched by an e-system that will monitor procurement actions from preparation of bid documents to contract completion. The eOperations system is being refined to better meet ADB’s performance needs. To track project progress more closely and detect warning signs faster, ADB will standardize portfolio and project performance reporting and indicators. Non-operations departments will adopt service standards so they can support operations more effectively. ADB’s staff will undergo regular training programs to help improve procurement, contract administration, and disbursement. Because consultant performance has been poor in some projects, the midterm review action plan calls for the use of a 90:10 technical quality–cost ratio in the evaluation of proposals (rather than the traditional 80:20 ratio) to give more weight to quality.

### 2. Expanding Development Finance

**Raising disbursement rates.** More frequent contact between ADB teams, DMC project directors, and government officials—and earlier flagging of problem projects—helped increase overall disbursements in 2014. ADB also strengthened accountability for disbursement performance. It set contract award and disbursement targets and linked the performance ratings of staff at all levels to achieving them. The midterm review action plan requires ADB to take many other steps to increase the speed, volume, and ratios of its disbursements. ADB will upgrade its information and communication technology systems to make sure that resident missions have full access to the information at headquarters.
that they need to carry out newly delegated disbursement responsibilities. It will link its allocations of ordinary capital resource to DMCs to project performance, including performance on disbursement, and set up an online portal where clients can apply for and receive withdrawals faster. ADB will remove the ceiling on imprest accounts and statements of expenditures for executing agencies that have adequate capacity. It will reduce the average time between its receipt of withdrawal applications and payment for prior review contracts to 5 days.

**Increasing cofinancing levels.** ADB is putting credible cofinancing targets in CPSs and country operations business plans and assigning goals to individual departments. Procedures will be made more straightforward and transaction costs cut. ADB will develop projects larger than it can finance on its own with the specific intent of attracting cofinanciers. It will look into new products and ways of sharing risk with development partners. ADB will engage earlier and in a more comprehensive way with DMCs and current development partners to develop more cofinancing opportunities. It will also continue to spread its net more widely in its search for new cofinancing candidates.

**Expanding public–private partnerships.** ADB has set up an office to spearhead PPP transaction advisory services. It will develop a TA facility on a cost-recovery basis for transaction advisory services. The Asia and Pacific Project Preparation Facility will be established to help formulate and prepare regional and infrastructure projects for PPPs. Over the longer term, its policy-based lending operations and TA projects will help build the well-functioning financial markets and sound institutional capacity that will invite and support greater private sector participation in DMC economies.

3. **Sharpening Strategic Alignment**

**Boosting support for health, social protection, and inclusion.** ADB is drawing up new operational plans or updating existing ones to help it deliver the improvements prioritized by the midterm review. This includes a revamp of the operational plan for the health sector. ADB adopted a new operational plan for social protection during 2014–2020 to improve its performance. The plan will guide greater ADB involvement in social assistance, social insurance, and labor market programs. ADB will refine staff guidelines issued in 2013 to integrate inclusive economic growth more fully into CPSs and has committed to making resources available to support all three pillars of this agenda. It is also preparing a new action plan to promote inclusive business.

**Expanding use of country systems.** ADB will apply its results-based lending modality more often to make greater use of country systems and strengthen DMC capacity at the same time. A review of ADB’s approach to its upper middle-income DMCs is also likely to lead to more country system use.

4. **Consideration of Further Action for Sustainability**

The 2014 DEfR suggests that ADB consider expanding measures on sustainability in the midterm review action plan. The midterm plan does not include actions aimed directly at improving the financial and operational sustainability of infrastructure projects. Some measures touch on this challenge indirectly, including those dealing with capacity development, but ADB needs to develop and carry out more direct actions to improve its sustainability results.

Future DEfRs will continue to closely monitor ADB’s performance to highlight problems and help find fresh solutions to both emerging and long-standing issues.
APPENDIXES
List of ADB Developing Member Countries

Table A1.1: ADB Developing Member Countries

<table>
<thead>
<tr>
<th>Afghanistan</th>
<th>Indonesia</th>
<th>Mongolia</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>Kazakhstan</td>
<td>Myanmar</td>
<td>Thailand</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Kiribati</td>
<td>Nepal</td>
<td>Timor-Leste</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Kyrgyz Republic</td>
<td>Pakistan</td>
<td>Tonga</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Lao People’s Democratic</td>
<td>Palau</td>
<td>Turkmenistan</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Republic</td>
<td>Papua New Guinea</td>
<td>Tuvalu</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>Malaysia</td>
<td>Philippines</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>Maldives</td>
<td>Samoa</td>
<td>Vanuatu</td>
</tr>
<tr>
<td>Fiji</td>
<td>Marshall Islands</td>
<td>Solomon Islands</td>
<td>Viet Nam</td>
</tr>
<tr>
<td>Georgia</td>
<td>Federated States of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>Micronesia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank.

Notes:
1. Five former developing members—Brunei Darussalam; Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China—have graduated from regular ADB assistance and are not included in this table.
2. The classification of Brunei Darussalam as a graduated developing member will be made effective upon the signing of a memorandum of understanding with ADB that will outline the systematic nature and strategic directions of assistance.


Table A1.2: Classification of ADB Developing Member Countries

<table>
<thead>
<tr>
<th>OCR-Only</th>
<th>Blenda,b</th>
<th>ADF-Onlyb</th>
<th>FCASc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>Armenia</td>
<td>Afghanistan</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>Bangladesh</td>
<td>Bhutan</td>
<td>Kiribati</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>Georgia</td>
<td>Cambodia</td>
<td>Marshall Islands</td>
</tr>
<tr>
<td>Fiji</td>
<td>Indiaa</td>
<td>Kyrgyz Republic</td>
<td>Federated States of Micronesia</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Mongolia</td>
<td>Lao People’s Democratic</td>
<td>Nepal</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Pakistan</td>
<td>Republic</td>
<td>Nepal</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Palau</td>
<td>Maldives</td>
<td>Nepal</td>
</tr>
<tr>
<td>Philippines</td>
<td>Papua New Guinea</td>
<td>Marshall Islands</td>
<td>Samoa</td>
</tr>
<tr>
<td>Thailand</td>
<td>Sri Lanka</td>
<td>Myanmar</td>
<td>Solomon Islands</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>Timor-Leste</td>
<td>Nauru</td>
<td>Tajikistan</td>
</tr>
<tr>
<td></td>
<td>Uzbekistan</td>
<td>Palau</td>
<td>Tonga</td>
</tr>
<tr>
<td></td>
<td>Viet Nam</td>
<td>Tuvalu</td>
<td>Tuvalu</td>
</tr>
</tbody>
</table>


Note: ADF countries refer to a combination of blend countries and ADF-only countries.

a Countries that are eligible to borrow from the ADF and have access to OCR.
b Countries with access to the ADF under the 11th replenishment of the ADF (2013–2016).
c Countries that are classified as FCAS based on harmonized multilateral development bank score.
d India is eligible for ADF assistance under ADB’s graduation policy but currently does not have access to the ADF.

Appendix 1: List of ADB Developing Member Countries
Delivering Results in Fragile and Conflict-Affected Situations

The Asian Development Bank (ADB) categorized nine of its developing member countries (DMCs) as nations facing fragile and conflict-affected situations (FCAS) in 2014. Afghanistan was affected by conflict, and Nepal was still in transition from a conflict. Kiribati, the Marshall Islands, the Federated States of Micronesia (FSM), Nauru, Solomon Islands, Timor-Leste, and Tuvalu were considered to be affected by fragile situations.¹

A. Country Context

The Millennium Development Goal (MDG) target of halving extreme poverty has been achieved in two FCAS countries with data. During 1990–2011, the number of people living below $1.25 a day in the FSM dropped from 47% to 18%. The extreme poverty rate in Timor-Leste fell from 71% to 33% during the same period.

Timor-Leste is also on track to achieve the 2015 MDG for reducing maternal mortality. However, progress is slower in other FCAS DMCs, including Afghanistan, Kiribati, the FSM, and Solomon Islands. Most FCAS countries are unlikely to meet this MDG or the goal for reducing the proportion of underweight children.

Vulnerability to disasters eased somewhat in FCAS countries overall during 2014, but Solomon Islands and Timor-Leste were rated among the 10 countries most exposed to disaster risks in the 2014 World Risk Report.² The report considers a country’s exposure to such natural hazards as earthquakes, cyclones, floods, droughts, and a rise in sea levels. It assigns an index score that combines this exposure risk with an assessment of susceptibility and coping and adaptive capacities based on social, economic, and ecological conditions and political and institutional structures.

The average score for the FCAS countries in ADB’s country performance assessments (CPAs) rose slightly in 2014, reversing an overall decline in 2013. Ratings remained mixed. The scores for Kiribati, Nepal, and Timor-Leste were much better. Those for Afghanistan and the Marshall Islands showed slight declines. The CPA is the foundation of ADB’s performance-based allocation of funds for DMCs eligible for assistance from the Asian Development Fund (ADF). The CPA examines each country’s policy and institutional framework and assesses its ability to support sustainable growth, poverty reduction, and the effective use of development assistance.

¹ Based on the 2013 ADB country performance assessment score and the World Bank country policy and institutional assessment score for the fiscal year 2014. Under its FCAS operational plan, ADB has adopted a harmonized multilateral development bank score for determining FCAS in its DMCs since 2013. This is the average of the World Bank’s country policy and institutional assessment and ADB’s country performance assessment score, with FCAS established quantitatively by a score of 3.2 or less. The presence of a United Nations and/or a regional peace-keeping or peace-building mission during the previous 3 years also categorizes a DMC as a FCAS country. Nauru is not eligible for assistance from the International Development Association and is therefore not on the harmonized list, but it is recognized as fragile by ADB. Myanmar will not be classified as a FCAS country by ADB unless it has a CPA rating of 3.2 or less (ADB. 2013. Operational Plan for Enhancing ADB’s Effectiveness in Fragile and Conflict-Affected Situations. Manila).

B. Operations

**Completed sovereign operations.** The success rate of completed sovereign operations in FCAS countries was stable at 55% during the 2012–2014 reporting years. The rate of these operations in non-FCAS countries during the same period was 74%. Of the 11 completed operations, 6 were rated successful—5 in Nepal and 1 in Tuvalu. While operational difficulties remained, successful operations in FCAS countries benefited from sound design and implementation arrangements and government ownership and commitment to achieve results.

For instance, ADB’s $16.8 million ADF loan to Nepal helped to enhance technical and vocational education and training for unskilled youth. Despite delays due to changes in the country’s political situation and problems in procuring consulting services, goods, and works, the project strengthened the skills and knowledge of more than 1,000 teachers and 8,200 others through community-based training programs in 20 districts. The project also innovated by using both public and private sector training providers. It helped the country develop a new technical and vocational education and training policy based on this model.

The Improved Financial Management Program in Tuvalu, supported by a $3.24 million ADF grant and completed successfully in 2012, established policies to improve the management and monitoring of government debt. The program’s policy advice and capacity building activities helped the government formulate a medium-term financing framework that aims to align budgetary priorities with Tuvalu’s development objectives. It helped the government implement the Public Enterprise Act, establish procedures for divestment of state-owned enterprises (SOEs), improve accountability and transparency in the assistance provided to SOEs, and enhance SOE efficiency and effectiveness.

The less successful operations were constrained by insufficient readiness, weak project designs, inadequate country capacities, and lack of proper monitoring mechanisms during implementation.

**Completed technical assistance operations.** The success rate of technical assistance (TA) operations in FCAS countries increased from 79% in 2011–2013 to 81% in 2012–2014. That exceeded the 80% target but was lower than the improvement in the TA performance in non-FCAS countries, where the rate increased from 85% in 2011–2013 to 89% in 2012–2014. ADB TA operations during 2012–2014 concentrated on six of the nine FCAS countries—Afghanistan, Nauru, Nepal, Solomon Islands, Timor-Leste, and Tuvalu. Further TA is needed to help the three Pacific countries in which ADB had no TA operations during the period—Kiribati, the Marshall Islands, and the Federated States of Micronesia. Advisory TA and capacity development TA projects, which constitute the majority of the TA operations in FCAS countries, helped these DMCs improve their governance, public financial management, education and training, maritime safety administration, disaster risk management, and social protection planning and management.

**Implementation quality.** More of ADB’s ongoing FCAS country sovereign operations were performing well in 2014. The share of overall FCAS sovereign operations for which implementation was

---

3 The reporting year for completed operations is 1 July–30 June, e.g., the 2014 reporting year is 1 July 2013–30 June 2014. The 2012–2014 review period was 1 July 2011–30 June 2014.


rated on track rose to 76% from 61% in 2012. Despite the sharp improvement, the 2014 FCAS country share fell well short of the non-FCAS performances—80% for ADB operations overall and 83% for ADF operations. FCAS countries face more obstacles to successful implementation of development operations than non-FCAS DMCs do.

**Disbursement.** The overall volume of ADB disbursements to FCAS countries declined to $296 million in 2014 from $372 million in 2013. The disbursement volume for sovereign projects and results-based lending, excluding policy-based lending, also decreased from $304 million to $263 million. The sovereign disbursement ratio for FCAS country projects and results-based lending dropped in 2014 to 9.1% from 12.7% in 2013 and was considerably lower than the 18.3% ratio for ADB’s ADF operations overall. The FCAS countries’ overall disbursement volume and ratio were both lowered by slow disbursements to Afghanistan, where national elections and the effects of armed conflict added to implementation delays in some operations. The FCAS DMC disbursement ratio, excluding Afghanistan, was 13.5%.

**Cofinancing.** Cofinancing levels in FCAS country operations fluctuate, given the small number of DMCs involved and the impact that a new cofinanced operation (or the absence of one) can have. The total 3-year official direct value-added cofinancing was down 7.7% to $1.00 billion in 2012–2014 from $1.09 billion in 2011–2013. It represented 51.3% of total ADB approvals for FCAS countries in the latest period, below the 58% share for ADB’s total overall. On an annual basis, the figure declined from $475 million in 2013 to $321 million in 2014, again mainly due to the slowing of operations in Afghanistan. The major cofinanciers in FCAS countries in 2014 were the European Investment Bank, Norway, and the Organization of the Petroleum Exporting Countries Fund for International Development.

**Processing time.** Processing time in FCAS country operations dropped to 5.4 months from 6 months in 2013. This was shorter than the overall ADB and ADF averages, due in part to two disaster rehabilitation- and recovery-related projects that gained relatively speedy approval. Following intense flooding, an emergency assistance project in Afghanistan was approved 2.8 months after fact-finding started. The processing time for a similar flood-related emergency project in Solomon Islands was only 1.5 months.

**C. Challenges**

The seven Pacific FCAS DMCs still have only limited capacity to perform such core state functions as formulating policy, managing the economy and public finances, generating government revenue, and administering an effective civil service. Afghanistan continues to suffer from a low-intensity armed conflict, as well as weak administrative and technical capacity and inadequate public finance.

Nepal’s peace process has been largely completed. The post-conflict political transition, albeit protracted, has also progressed. Many contentious issues in the drafting of a new constitution—including those related to judicial and electoral systems and governance structures—have been resolved. The

---

6 ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Afghanistan for the Northern Flood-Damaged Infrastructure Emergency Rehabilitation Project.* Manila.

7 ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Solomon Islands for the Transport Sector Flood Recovery Project in the Solomon Islands.* Manila.

new Constituent Assembly and government have expressed a commitment to promulgate the new constitution, and progress toward this goal continued in early 2015. Socioeconomic reforms are still needed, nonetheless.

D. Overcoming Fragility

The 2014 midterm review of ADB’s Strategy 2020 highlights the importance of ADB’s support to the FCAS countries.\textsuperscript{9} It calls on ADB to be flexible, understand the local context, make long-term commitments, and ensure country ownership when helping these DMCs deal with their unique challenges.

1. Understanding the Local Context

ADB’s strategies, programs, and projects in FCAS DMCs are informed by assessments of their fragility and/or conflict situations and their political economies. These help determine the correct ADB response to their distinctive local conditions and constraints.

Fragility assessment. Under two regional TA projects for FCAS countries, ADB has developed and piloted conflict-sensitive approaches in Afghanistan and South Asia; has conducted fragility assessments in selected urban settlements in the Pacific; and is carrying out an analysis of the political economy in the FSM after completing such analyses in Papua New Guinea and Vanuatu.\textsuperscript{10}

Fragility and conflict-sensitive approaches for strategic formulation. Fragility and conflict-sensitive approaches have been mainstreamed in most strategy documents and project reports. This includes the country operations business plans for all the FCAS countries. These approaches have also been integrated into a regional operations business plan for the Pacific and country partnership strategies for Nepal.

2. Country Leadership and Ownership

ADB’s support for FCAS DMCs promotes broad ownership by key stakeholders, including government, civil society, the private sector, and development partners.

In partnership with other development stakeholders and beneficiaries, ADB and the United Nations Development Programme have supported a government-led effort to build local capacity on the peace-sensitive approach in Nepal. A training program for civil servants at all government levels is being led by the Nepal Administrative Staff College.

ADB will strive to fill knowledge and skills gaps in its approach to implementing projects in FCAS counties. ADB will continue its policy dialogue with governments and development partners to bring all the relevant stakeholders on board. The fragility assessments under the ongoing TA are expected to produce peace-building indicators that will help improve the design and implementation of future projects.


3. Long-Term Commitment

ADB has engaged in long-term state-building efforts to provide a foundation in FCAS DMCs for social and economic development.

Use of the multitranche financing facility in Afghanistan. The multitranche financing facility gives ADB the ability to support development efforts over the medium and long terms in a flexible and efficient manner. ADB has used the modality in Afghanistan and will continue to do so.

Improving public sector management and governance in the Pacific. ADB has deepened its policy dialogue with Pacific governments on public financial management. It has provided several DMCs with policy-based loans and grants to support reforms in the areas of public sector management, public financial management, SOEs, and business regulations and laws. They include the Marshall Islands, Nauru, Solomon Islands, and Tuvalu.

Private sector financing in Afghanistan. ADB has made $198.1 million in direct private sector investments in Afghanistan and has helped attract other private investors from abroad into infrastructure and finance sector projects that are important to the country’s socioeconomic development.11 The experience paves the way for similar investment in other FCAS countries.

Private sector development and reforms in the Pacific. ADB has been supporting investments in broadband infrastructure in Solomon Islands and may undertake a project to improve international connections to Yap Island in the FSM.12 Its efforts to help develop the private sectors of DMCs are focused on improving access to finance and financial services, modernizing business laws, improving the efficiency of SOEs, helping governments create public–private partnership frameworks, and promoting private sector participation in infrastructure. The economic empowerment of women is a crosscutting theme in ADB support.

Promoting regional cooperation. ADF support in the Pacific region has been increased through access to regional ADF funds to finance the submarine fiber optic communication cable system in Tonga, Fiji, and Solomon Islands.13 This kind of infrastructure builds cooperation between the Pacific DMCs and helps integrate their economies. Funding has also been made available for pipeline projects that promote regional cooperation, including a multitranche financing facility for higher education in the Pacific. It will help ease the costs for students receiving education from the region’s best institutions, such as the University of the South Pacific.14 Other projects in the pipeline will provide a submarine cable to connect Samoa to regional and global communications infrastructure and upgrade Pohnpei Port in the FSM.15

Regional TA plays an important role in the Pacific by leveraging the benefits of investment projects through capacity development. ADB efforts concentrate on developing human resources and public financial management to create the policy and business environment that encourages innovation.

---

11 The value represents the total private sector investments in Afghanistan from 2004 to 2014.
13 ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Solomon Islands for the Broadband for Development Project. Manila; ADB. 2011. Report and Recommendation of the President to the Board of Directors: Proposed Grant to Kingdom of Tonga for Tonga–Fiji Submarine Cable Project. Manila.
15 The Samoa Submarine Cable Project and the Pohnpei Port Development Project are expected to be approved in 2015.
ADB also supports the cooperation and integration efforts of the 10 DMCs participating in the Central Asia Regional Economic Cooperation Program, including Afghanistan. The program promotes project-based cooperation in transport, energy, trade facilitation, and trade policy.

4. Flexibility in Operations

ADB’s existing assistance modalities and business processes can be applied flexibly in FCAS DMCs without compromising due process.

**Procurement reforms.** A procurement governance review approved in February 2013 set out ways for ADB to adopt a more streamlined, risk-based approach to procurement. ADB’s Operations Services and Financial Management Department has been implementing a 10-point procurement action plan to help reduce project delays, increase administrative efficiency, and improve project delivery. The streamlined procurement processes will benefit FCAS countries, since their contracts tend to be small and these processes can be coupled with ongoing capacity-building measures.

**Addressing climate change and food security in the Pacific.** ADB is committed to providing broad technical and financial support during 2009–2015 to help Pacific DMCs implement national measures that will promote continued economic growth in the face of climate change. ADB projects in its priority sectors of natural resource management, water, energy, transport, and urban development will include climate change-related measures to reduce risks and build resilience. ADB will also support adaption to and mitigation of the effects of climate change through policy and legal reform; institutional capacity building; and information, education, and communication campaigns.

**Financing innovations in Afghanistan.** The ADB-managed Afghanistan Infrastructure Trust Fund pools external resources to cofinance and complement ADB-assisted infrastructure projects. This ADB-managed financing and implementation window is particularly useful to smaller aid agencies wishing to contribute to infrastructure development in Afghanistan by tapping ADB’s competitive advantage, technical expertise, and sound fiduciary arrangements for implementing large infrastructure projects.

---

16 ADB. 2013. *ADB Procurement Governance Review.* Manila; “Procurement Reforms - 10 Point Action Plan - New Staff Instruction and Revised PAs 3.01 to 3.12” This is an appendix to the memorandum issued by the Operations Services and Financial Management Department on 22 July 2014.
The Revised Project Classification System

The project classification system (PCS) enables the Asian Development Bank (ADB) to track, capture, analyze, and report on the nature and trends of its operations with respect to sectors and subsectors, ADB’s strategic agendas and drivers of change, impact on poverty, and location.

ADB revised the PCS in 2014 to (i) align it with the midterm review of Strategy 2020, (ii) simplify it to increase the value it adds to ADB’s operations and overall reporting, and (iii) generate a suite of Strategy 2020 reports to support corporate reporting and the efficient use of data for management decision making. The changes are described fully in the 2014 final report on the PCS.

Sectors and subsectors. The key activity areas were discontinued. Information and communication technology was decoupled from the former transport and information and communication technology sector and made a separate sector. Social protection was discontinued as a subsector of the health sector, and social protection initiatives were separated into clearly distinguishable subsectors under education, finance, health, and public sector management. The multisector category was redefined to include only ADB corporate management, policy, and strategy development projects; and all other operations were classified in the appropriate sector destinations. All rural water operations were allocated to the agriculture, natural resources, and rural development sector and discontinued as subsectors of the water and other urban infrastructure and services sector. Table A3.1 shows the revised and previous sector titles.

Table A3.1: Comparison of Former and Revised Sector Lists

<table>
<thead>
<tr>
<th>Former Sector Titles</th>
<th>Revised Sector Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Natural Resources</td>
<td>Agriculture, Natural Resources, and Rural Development</td>
</tr>
<tr>
<td>Education</td>
<td>Education</td>
</tr>
<tr>
<td>Energy</td>
<td>Energy</td>
</tr>
<tr>
<td>Finance</td>
<td>Finance</td>
</tr>
<tr>
<td>Health and Social Protection</td>
<td>Health</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>Industry and Trade</td>
</tr>
<tr>
<td>Public Sector Management</td>
<td>Public Sector Management</td>
</tr>
<tr>
<td>Transport and Information and Communication Technology</td>
<td>Transport</td>
</tr>
<tr>
<td>Water Supply and Other Municipal Infrastructure</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>Multisector</td>
<td>Water and Other Urban Infrastructure and Services</td>
</tr>
</tbody>
</table>

Note: Changes are highlighted in bold.

Strategic agendas and drivers of change. The former thematic classification titles were eliminated. ADB’s three strategic agendas and five drivers of change, including their subcomponents or pillars, were adopted into the PCS in accordance with Strategy 2020. Through this alignment, (i) the former economic growth and social development themes were subsumed under the inclusive economic growth strategic agenda and its pillars; (ii) disaster risk management was incorporated into

---

the environmentally sustainable growth strategic agenda; (iii) knowledge solutions and partnerships were introduced as new drivers of change, in line with Strategy 2020; (iv) the gender equity theme was replaced by the current gender mainstreaming classification to avoid duplication and redundancy; and (v) governance and capacity development were combined into a single driver of change, as they are in Strategy 2020. Data entry for the pillars of the inclusive economic growth strategic agenda was automated in accordance with the assessment of ADB’s operations for inclusive economic growth in ADB’s corporate results framework.\footnote{21} Table A3.2 compares the former and revised theme lists and strategic agenda classification category.\footnote{22}

**Table A3.2: Comparison of Current and Revised Theme Lists**

<table>
<thead>
<tr>
<th>Former: Themes</th>
<th>Revised: Strategic Agendas and Drivers of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth (GRO)</td>
<td>Inclusive Economic Growth (IEG)</td>
</tr>
<tr>
<td>Social Development (SOD)</td>
<td>Environmentally Sustainable Growth (ESG)</td>
</tr>
<tr>
<td>Environmental Sustainability (ENV)</td>
<td>Regional Cooperation and Integration (RCI)</td>
</tr>
<tr>
<td>Gender Equity (GEN)</td>
<td>Gender Equity and Mainstreaming (GEM)</td>
</tr>
<tr>
<td>Private Sector Development (PSD)</td>
<td>Private Sector Development (PSD)</td>
</tr>
<tr>
<td>Governance (GOV)</td>
<td>Governance and Capacity Development (GCD)</td>
</tr>
<tr>
<td>Capacity Development (CAD)</td>
<td>Knowledge Solutions (KNS)</td>
</tr>
<tr>
<td>Partnerships (PAR)</td>
<td></td>
</tr>
</tbody>
</table>


All active and closed projects, programs, and technical assistance projects approved since 2000 were reclassified in accordance with the revised PCS. The revised PCS, effective from 1 April 2014, changed the previously reported data on sector financing and strategic agenda for inclusive economic growth. Table A3.3 shows the former and revised data for ADB’s investment in its core and other areas of operations during 2010–2013, based on the 2014 PCS. Table A3.4 provides revised computation of the number of operations that supported inclusive economic growth in the same period.

**Table A3.3: Financing for Strategy 2020**

<table>
<thead>
<tr>
<th>Strategy 2020 Areas of Operations</th>
<th>2013 DEFR</th>
<th></th>
<th>Using Revised PCS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010–2012</td>
<td>%</td>
<td>2013</td>
<td>%</td>
<td>2010–2012</td>
</tr>
<tr>
<td>A. Financing for Core Sectors</td>
<td>11,909</td>
<td>88</td>
<td>12,140</td>
<td>85</td>
<td>11,388</td>
</tr>
<tr>
<td>Energy</td>
<td>3,508</td>
<td>26</td>
<td>3,878</td>
<td>27</td>
<td>3,546</td>
</tr>
<tr>
<td>Transport</td>
<td>4,325</td>
<td>32</td>
<td>4,276</td>
<td>30</td>
<td>4,626</td>
</tr>
<tr>
<td>Water</td>
<td>1,455</td>
<td>11</td>
<td>2,010</td>
<td>14</td>
<td>1,050</td>
</tr>
<tr>
<td>ICT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>Other infrastructure</td>
<td>1,053</td>
<td>8</td>
<td>421</td>
<td>3</td>
<td>223</td>
</tr>
<tr>
<td>Finance Sector Development</td>
<td>1,112</td>
<td>8</td>
<td>911</td>
<td>6</td>
<td>1,455</td>
</tr>
<tr>
<td>Education</td>
<td>456</td>
<td>3</td>
<td>644</td>
<td>5</td>
<td>451</td>
</tr>
</tbody>
</table>

\footnote{21}{ADB. 2015. *ADB’s Results Framework: Interim Update to Align with the Midterm Review of Strategy 2020*. Manila.}

\footnote{22}{The revised driver of change is not included as it does not impact the values in Development Effectiveness Review.}
Table A3.3: Financing for Strategy 2020 (continued)

<table>
<thead>
<tr>
<th>Strategy 2020 Areas of Operations</th>
<th>2013 DEfR</th>
<th>Using Revised PCS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
</tr>
<tr>
<td>B. Financing for Other Sectors</td>
<td>1,644</td>
<td>12</td>
</tr>
<tr>
<td>Agriculture</td>
<td>324</td>
<td>2</td>
</tr>
<tr>
<td>Health</td>
<td>212</td>
<td>2</td>
</tr>
<tr>
<td>Industry</td>
<td>164</td>
<td>1</td>
</tr>
<tr>
<td>Public Sector Management</td>
<td>943</td>
<td>7</td>
</tr>
<tr>
<td>C. Operations under B supporting</td>
<td>370</td>
<td>3</td>
</tr>
<tr>
<td>environmentally sustainable growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>or regional cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Financing for Strategy 2020</td>
<td>12,278</td>
<td>91</td>
</tr>
<tr>
<td>Core Operational Areas (A+C)</td>
<td>13,552</td>
<td>100</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, ADF = Asian Development Fund, DEfR = development effectiveness review, ICT = information and communication technology, PCS = project classification system.

* Formerly included information and communication technology subsector.
* Other infrastructure includes the following subsectors: other urban services, renovation and protection of cultural heritage, urban housing, urban policy, institutional and capacity development, and urban slum development.
* Formerly included social protection subsector.

Note: Percentages may not add precisely due to rounding.
Sources: ADB eOperations (accessed 7 January 2014), and ADB Strategy and Policy Department.

Table A3.4: Results Framework Indicator—Operations Contributing to Inclusive Economic Growth (%)

| Indicator                                      | Baseline Year | 2013 DEfR | Using Revised PCS |
|                                               |              | Baseline Value | 2013 | Baseline Value | 2013 |
| Operations contributing to IEG focusing on    | 2010–2012    | 49           | 49   | 46           | 46   |
| growth and creation of jobs and opportunities  |              |              |      |              |      |
| Operations contributing to IEG focusing on    | 2010–2012    | 45           | 47   | 54           | 53   |
| inclusive access to jobs and opportunities     |              |              |      |              |      |
| Operations contributing IEG focusing on        | 2010–2012    | 5            | 7    | 5            | 5    |
| social protection                              |              |              |      |              |      |
| Operations supporting environmental sustainability | 2010–2012 | 43           | 46   | 43           | 46   |
| Operations supporting regional cooperation and | 2010–2012    | 21           | 19   | 21           | 19   |
| integration                                    |              |              |      |              |      |

DEfR = development effectiveness review, IEG = inclusive economic growth, PCS = project classification system.
Note: Percentages may not add precisely due to rounding.
## Financing for Strategy 2020

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
</tr>
<tr>
<td><strong>ADB Operations Overall</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Core operational areas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>11,388</td>
<td>84</td>
<td>11,511</td>
</tr>
<tr>
<td>Energy</td>
<td>9,483</td>
<td>70</td>
<td>9,560</td>
</tr>
<tr>
<td>Transport</td>
<td>3,546</td>
<td>26</td>
<td>3,788</td>
</tr>
<tr>
<td>ICT</td>
<td>4,626</td>
<td>34</td>
<td>4,034</td>
</tr>
<tr>
<td>Water and other urban infrastructure and services</td>
<td>1,050</td>
<td>8</td>
<td>1,673</td>
</tr>
<tr>
<td>Other infrastructure</td>
<td>223</td>
<td>2</td>
<td>64</td>
</tr>
<tr>
<td>Finance sector development</td>
<td>1,455</td>
<td>11</td>
<td>1,304</td>
</tr>
<tr>
<td>Education</td>
<td>451</td>
<td>3</td>
<td>647</td>
</tr>
<tr>
<td>B. Other operational areas</td>
<td>2,163</td>
<td>16</td>
<td>2,702</td>
</tr>
<tr>
<td>Agriculture</td>
<td>861</td>
<td>6</td>
<td>713</td>
</tr>
<tr>
<td>Health</td>
<td>194</td>
<td>1</td>
<td>158</td>
</tr>
<tr>
<td>Industry</td>
<td>183</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Public sector management</td>
<td>924</td>
<td>7</td>
<td>1,781</td>
</tr>
<tr>
<td>C. Operations under B with regional cooperation or environment as theme</td>
<td>603</td>
<td>4</td>
<td>312</td>
</tr>
<tr>
<td>Total financing for core operational areas (A+C)</td>
<td>11,991</td>
<td>88</td>
<td>11,822</td>
</tr>
<tr>
<td>Total ADB financing (A+B)</td>
<td>13,551</td>
<td>100</td>
<td>14,213</td>
</tr>
</tbody>
</table>
## Financing for Strategy 2020 (continued)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>million</td>
<td>%</td>
<td>million</td>
</tr>
<tr>
<td><strong>ADF Operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Core operational areas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2,251</td>
<td>77</td>
<td>2,362</td>
</tr>
<tr>
<td>Energy</td>
<td>1,770</td>
<td>61</td>
<td>1,990</td>
</tr>
<tr>
<td>Transport</td>
<td>359</td>
<td>12</td>
<td>746</td>
</tr>
<tr>
<td>ICT</td>
<td>954</td>
<td>33</td>
<td>656</td>
</tr>
<tr>
<td>Water and other urban infrastructure and services</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B. Other operational areas</td>
<td>661</td>
<td>23</td>
<td>1,488</td>
</tr>
<tr>
<td>Agriculture</td>
<td>333</td>
<td>11</td>
<td>332</td>
</tr>
<tr>
<td>Health</td>
<td>127</td>
<td>4</td>
<td>97</td>
</tr>
<tr>
<td>Industry</td>
<td>36</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Public sector management</td>
<td>165</td>
<td>6</td>
<td>1,039</td>
</tr>
<tr>
<td>C. Operations under B with regional cooperation or environment as theme</td>
<td>190</td>
<td>7</td>
<td>197</td>
</tr>
<tr>
<td><strong>Total financing for core operational areas (A+C)</strong></td>
<td>2,441</td>
<td>84</td>
<td>2,559</td>
</tr>
<tr>
<td><strong>Total ADB financing (A+B)</strong></td>
<td>2,912</td>
<td>100</td>
<td>3,850</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, ADF = Asian Development Fund, ICT = information and communication technology.

Note: Other infrastructure includes the following subsectors: other urban services, renovation, and protection of cultural heritage, urban housing, urban policy, institutional and capacity development, and urban slum development.

Source: ADB Strategy and Policy Department.
References to ADB Country and Individual Operations

A. Level 2: ADB’s Contribution to Development Results


ADB. 2004. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kyrgyz Republic for the Regional Customs Modernization and Infrastructure Development Project. Manila.


ADB. 2006. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Agriculture Science and Technology Project. Manila.


ADB. 2009. Grant Assistance to Mongolia: Protecting the Health Status of the Poor during the Financial Crisis. Manila.


ADB. 2010. Proposed Grant Assistance to the Kingdom of Bhutan for the Farm Roads to Support Poor Farmers’ Livelihoods Project. Manila.


ADB. 2011. Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Kingdom of Tonga for the Tonga-Fiji Submarine Cable Project. Manila.


ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Grants to Bangladesh, Bhutan, and Nepal for the South Asia Subregional Economic Cooperation Trade Facilitation Program. Manila.


ADB. 2014. Completion Report: Community-Based Infrastructure Services Sector Project (Supplementary) in the Kyrgyz Republic. Manila.


B. Level 3: ADB’s Operational Management


ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan and Grant to the Kingdom of Cambodia for Greater Mekong Subregion Flood and Drought Risk Management and Mitigation Project. Manila.


ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants to Kyrgyz Republic and Tajikistan for the Central Asia Regional Economic Cooperation Regional Improvement of Border Services Project*. Manila.


ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the Accelerating Infrastructure Investment Facility in India*. Manila.


ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to the Republic of the Maldives for the Preparing Outer Islands for Sustainable Energy Development Project*. Manila.


ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan to Adjaristsqali Georgia LLC for the Adjaristsqali Hydropower Project in Georgia*. Manila.


ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kingdom of Bhutan for the South Asia Subregional Economic Cooperation Road Connectivity Project*. Manila.
ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loans, Grant, and Technical Assistance Grant to the Kingdom of Bhutan and Tangsibji Hydro Energy Limited Second Green Power Development Project. Manila.

ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Lao People’s Democratic Republic for the Nam Ngiep 1 Power Company Limited for the Nam Ngiep 1 Hydropower Project. Manila.


ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People’s Republic of China for the Yunnan Pu’er Regional Integrated Road Network Development Project. Manila.


ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the South Asia Subregional Economic Cooperation Road Connectivity Investment Program. Manila.

ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Technical Assistance Grant to India for the Punjab Development Finance Program*. Manila.


ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to India for Supporting Kerala’s Additional Skill Acquisition Program in Post-Basic Education*. Manila.


**C. Level 4: ADB’s Organizational Management**


2014 Development Effectiveness Review

The 2014 Development Effectiveness Review (DEfR) is the eighth in a series of yearly reports by the Asian Development Bank (ADB) on its performance in achieving the priorities of Strategy 2020, its long-term strategic framework for 2008–2020. The results framework on which the DEfR is based was updated in 2014 to reflect the recommendations of the Midterm Review of Strategy 2020. The 2014 DEfR tracks recent development progress in Asia and the Pacific, assesses ADB's development effectiveness, and identifies areas where ADB's performance needs to be strengthened.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to the majority of the world’s poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.