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# Midterm Review of Results-Based Lending for Programs

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Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
DLI	–	disbursement linked indicator
DMC	–	developing member country
DMF	–	design and monitoring framework
IADB	–	Inter-American Development Bank
OBF	–	output-based financing
OCR	–	ordinary capital resources
OSFMD	–	Operations Services and Financial Management Department
PAP	–	Program Action Plan
PDL	–	performance-driven loan
PRC	–	People's Republic of China
PSSA	–	Program Safeguard Systems Assessment
PforR	–	Program for Results
RBF	–	Results-based Financing
RBL	–	Results-based Lending
RRP	–	Reports and Recommendations of the President
SDCC	–	Sustainable Development and Climate Change Department
SPS	–	Safeguard Policy Statement

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## EXECUTIVE SUMMARY

The Asian Development Bank (ADB) introduced Results-Based Lending (RBL) for Programs in June 2013, largely motivated by a need to fill the gap between traditional investment (project) lending and policy-based lending. Key features of the instrument include (i) a strong emphasis on supporting government-owned sector programs; (ii) enhanced accountability for development results by linking disbursement to the achievement of results as defined in disbursement linked indicators (DLI); (iii) the use of developing member countries' (DMCs) own systems strengthened as needed on the basis of technical, fiduciary, and safeguard system assessments; and (iv) development of institutional capacity through an effective use of DLI and other tools. An RBL program requires a clearly defined expenditure framework to help deliver results, which ADB financing will support. The instrument is especially well suited for operations involving a large or diverse range of activities in the social or infrastructure sectors, when the transaction costs of directly monitoring numerous steps in each activity could be excessively high. RBL also supports development coordination and harmonization, when more than one development agency is involved in a program.

The RBL policy was approved on a pilot basis for a 6-year period (from June 2013 to June 2019). The policy called for an implementation review of RBL operations 3 years after the modality became effective. More specifically, the review was to assess: (i) demand for the RBL modality, and the sector and country distribution of operations; (ii) challenges faced by ADB staff and DMCs; (iii) emerging lessons and best practices from the first 3 years of RBL implementation. This paper presents the results of this review, carried out through focus group discussions and online surveys both involving DMC clients and ADB staff, field visits to three RBL borrowers, external consultations with other development partners, and analysis of nine RBL loans approved between June 2013 and June 2016 totaling \$1.9 billion.

All five regional departments have processed at least one RBL operation during 2013–2016. The majority were in the education sector (56% of the total number and 46% of the total amount). Average ADB financing was \$207 million per operation, with the largest one (\$600 million) for the power sector in Indonesia. During the pilot period, RBL accounted for 4.2% of all ordinary capital resources (OCR) and Asian Development Fund (ADF) approvals, which is within the given 5% ceiling set for the first triennium of the pilot phase. As more countries become familiar with and use the RBL modality, demand is expected to grow. The future pipeline for the second half of the pilot period (July 2016 to June 2019) is more oriented towards infrastructure, including support for energy, housing and urban development, irrigation, and transport.

Overall, early experience has been positive. RBL programs have helped build up accountability and DMC ownership by placing the responsibility for achieving results on government structures and not on new project management unit. RBL can lend realism to aspirational government programs through more careful analysis of the results chain. Through the due diligence performed in the preparation of an RBL operation, ADB and DMC clients defined specific targets that may have fallen short of the official ones but were grounded in reality and developed a more thorough understanding of country conditions and limitations. The potential strengthening of DMCs' own systems based on technical and other system assessments should also help sharpen the planning and implementation process, and contribute to its success.

The policy requirements have been followed and implementation is on track. RBL has made ADB's operations faster. Evidence shows that program processing and disbursement are faster than those of other financing modalities. At the same time, it is important to highlight that RBL is

not a quick disbursement tool. Both DMC clients and ADB staff need to work intensively to identify and select appropriate options to achieve the intended program results and mitigate implementation risks. Fiduciary and safeguards assessments are resource intensive exercises. Likewise the development of disbursement linked indicators (DLI) has been difficult for the majority of users. During program implementation, the emphasis shifts from contract and procurement supervision to technical discussions on how best to achieve the targets and implement the program action plan, which often require a broader set of skills and a team approach. While no major change in the design of the instrument appears necessary at this stage, some possible improvements have been identified.

**Greater use of institutional strengthening disbursement linked indicators (DLI).** DLIs and clear setting of the program boundary are fundamental determinants of the architecture of any RBL operations. To capitalize on the potential of RBL to strengthen systems and institutions, ADB could encourage greater use of institutional strengthening DLIs in future RBL operations.

**Enhanced harmonization with the World Bank and other development partners.** Through the adaptation of common results-areas with other developing partners, RBL can provide a strong platform for enhanced donor coordination. With Program for Results (PforR) and RBL instruments, the World Bank and ADB have been developing common results-areas in a few countries. Both institutions have agreed to share DLIs and results-framework for future RBL operations. ADB should continue to closely collaborate with other development partners by sharing common results areas and assessment documents, and making use of suitable assessments prepared by other sources.

**Additional information sharing, guidance and training.** There is a need for additional information sharing, exchange of good practices, and training for ADB staff, members of the Board and government officials. Effective communication and information sharing with the Board is critical to demonstrate that ADB duly follows the guidance embodied in the approved RBL policy paper and associated staff guidance. The RRP template and associated staff guidance should be updated. This should be complemented by more specific and targeted capacity development activities, and enhanced communication across ADB and DMC clients.

**Review of procurement contract thresholds applicable to RBL operations.** Under the RBL policy, high-value procurement contracts may not be contained as part of an RBL program. The specified procurement thresholds were harmonized with such thresholds applicable to the World Bank's PforR financing at the time to strengthen coordination during program implementation between ADB and the World Bank. The amounts were set at \$50 million for works, turnkey and supply, and installation contracts; \$30 million for goods; \$20 million for information technology systems and non-consulting services; and \$15 million for consulting services. The above amounts are no longer applicable to PforR operations. Since May 2015, the World Bank has adopted new procurement thresholds to PforR operations. Those thresholds vary based on the level of risks. ADB has initiated a review of its existing procurement policy and procedures applicable for ADB operations. As part of this work, the thresholds applicable for high value contracts under RBL and approaches for their inclusion should be reviewed.

**Increase the RBL ceiling from 5% to 15% of ADF and OCR approvals for the remaining 3 years of the pilot.** For the first half of the pilot period, ADB limited the resource allocation for RBL programs to 5% of the total OCR and ADF resource allocations. Setting the ceiling at 5% of the 3-year total resource allocation, without specifying the exact annual limit, was appropriate and has provided the needed flexibility for ADB to build the RBL pipeline gradually over the 3 years. The RBL policy paper did not stipulate a specific ceiling for the remaining 3 years of the

pilot but noted that Management may propose to the Board to lift the 5% cap if justified by a review of RBL implementation. Going forward, the current 5% ceiling on RBL is very restrictive in light of rapidly expanding demand for RBL. In these circumstances and in light of the positive implementation experience to date, the resource allocation ceiling for RBL operations should be reviewed and possibly increased to 15% of the total OCR and ADF resource allocations for the second half of the pilot period. The ceiling should be reviewed again near the completion of the pilot.

## I. INTRODUCTION

1. There is a growing demand worldwide for governments and development partners to deliver measurable results from public expenditure. The quest for results needs little defense: better results are critical for economic growth, human development, and infrastructure financing. This increasing demand for results has been driving a wide range of political discussions since the 1990s. Many innovative financing instruments have emerged.

2. Key donor coordination meetings have endorsed the greater use of results-based financing (RBF). The Paris Declaration on Aid Effectiveness (2005) adopted five key principles on making aid more effective: (i) greater country ownership of development programs, (ii) alignment behind national development objectives and use of local systems, (iii) harmonization of development partner's support, notably in procedures and program implementation, (iv) mutual accountability of development partners for achieving development results; and (v) managing for results. The Fourth High Level Forum on Aid Effectiveness (2011, Busan) specifically organized a session to discuss the greater use of RBF which was overwhelmingly supported by development partners.

3. In this context, the Asian Development Bank (ADB) introduced results-based lending (RBL) for programs in June 2013.<sup>1</sup> Key features of this pilot instrument include (i) a strong emphasis on government-owned sector programs; (ii) enhanced accountability for development results by linking disbursement to the achievement of results as defined in disbursement linked indicators (DLI), (iii) the use of developing member countries' (DMCs) own systems strengthened as needed on the basis of the outcome of technical, fiduciary, and safeguard system assessments; and (iv) development of institutional capacity through an effective use of DLI and other tools.

4. The policy was approved on a pilot basis for a 6-year period.<sup>2</sup> To mitigate risks, the RBL pilot excludes activities that would (i) be classified as category A under ADB's Safeguard Policy Statement (SPS) (2009) and (ii) involve procurement of high-value contracts.<sup>3</sup> ADB has limited the resource allocation for RBL programs to 5% of the total ordinary capital resources (OCR) and Asian Development Fund (ADF) resources for the first 3 years of policy effectiveness.

5. The policy requires Management to carry out an implementation review of RBL (the Review) about 3 years after the modality has become effective to take stock of the experience and distill initial lessons. The policy also requires ADB's Independent Evaluation Department to assess the implementation experience of RBL near the completion of the pilot period in mid-2019.<sup>4</sup> This paper presents the results of the Review Management conducted during the first half of the pilot period, which coincides with the 3-year anniversary of the policy effectiveness.<sup>5</sup>

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<sup>1</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.

<sup>2</sup> The policy was approved by ADB in March 2013 and became effective in June 2013.

<sup>3</sup> High-value contracts were defined at the time as contracts that exceeded \$50 million for works, turnkey and supply, and installation; \$30 million for goods; \$20 million for information technology systems and non-consulting services; and \$15 million for consulting services.

<sup>4</sup> The assessment is scheduled in late 2018 based on the Independent Evaluation Department's Work Program.

<sup>5</sup> The first 3 years of pilot period refer to the period from June 2013 to June 2016.

## II. OBJECTIVES

6. The main objective of the Review is to take stock of the early experiences with RBL. More specifically, the Review assessed the following main areas: (i) demand for the RBL modality, and the sector and country distribution of operations; (ii) the challenges faced by ADB staff and DMCs; (iii) the issues discussed during the relevant management and board meetings; and (iv) emerging lessons and best practices from the first 3 years of RBL implementation, including relevant lessons learned through the implementation of the Program for Results (PforR) instrument, a similar World Bank modality. The Review also proposes a number of refinements to make RBL operations more effective for the remainder of the pilot period.

## III. APPROACH

7. The Review was carried out by Strategy and Policy Department (SPD) with the support of external consultants. In addition to analyzing the nine RBL programs approved during the first half of the pilot period, the Review has cross-checked information through the following approaches:

- (i) Focus group discussions involving ADB Management and staff centering around the topics of fiduciary assessments; safeguards; legal agreements; RBL implementation; infrastructure; social sectors; and best practices.
- (ii) Field visits to three countries (People's Republic of China [PRC], Indonesia, and Sri Lanka) that account for four of the nine approved RBL programs, totaling over \$1.00 billion of the \$1.86 billion so far committed to RBL. The programs reviewed cover the two oldest and two recent approvals in one large, one middle and one small sized country, spanning three ADB regions. The Review team met with central and provincial government officials, executing agencies, development partners, and ADB staff involved in the RBL operations.
- (iii) Online surveys of both ADB staff and DMC officials. Separate surveys were prepared and administered to RBL users and non-users to obtain users' feedback on the features of the instrument, and to gauge the awareness and potential demand from non-users. The overall response rate of the survey was 38%.<sup>6</sup>
- (iv) External consultations with other development partners including the World Bank, the African Development Bank (AfDB), the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development (EBRD), Agence Française de Développement (AFD), and KfW.<sup>7</sup>
- (v) The Review team also consulted with the Independent Evaluation Department to seek its views on the approach and scope of the Review, and reflected its suggestions into the Review scoping paper.

8. Through these consultations and analysis, the Review team has tried to provide as thorough an assessment as possible of the early experience in the design and implementation of RBL operations. The main shortcoming of the Review is the short period of time since the approval of the RBL policy. Of the nine approved RBL programs, only two have been under implementation for more than 2 years, and three more have been under implementation for more than 1 year. While it is possible to draw lessons about the design and early

<sup>6</sup> More specifically, the response rate was 59% from ADB users; 23% from ADB non-users; 47% from developing member countries (DMC) users and 22% from DMC non-users (see Para 2 of Appendix 3).

<sup>7</sup> Some of the consultations were arranged through video conference and email. The Inter-American Development Bank (IADB) took part in the Sri Lanka field visit after a joint ADB-IADB seminar on RBF was organized in March 2016.

implementation, the evidence is still limited at this stage about the broader impact of the modality.

#### IV. DEMAND FOR RESULTS-BASED LENDING OPERATIONS

##### A. Utilization for the First Half of the Pilot Period (June 2013–June 2016)

9. **ADB has so far approved nine programs using the RBL modality, worth over \$1.86 billion in ADB financing.** All five regional departments have processed at least one RBL program. Education was the predominant sector, using RBL in five operations (56% of total number of approval). Four more RBL programs—one each in the health, urban, energy, and transport sectors—were approved in the first half of the pilot period. This sector distribution is similar to the initial portfolio structure of the World Bank’s PforR operations.<sup>8</sup> When the World Bank completed its midterm review of PforR operations in April 2015, 22 PforR programs had been approved. Of these, the education sector had processed 18 programs (81% of the total number of PforR programs) while the transport & information and communication technology, urban, water, and governance sectors had processed a total of 4 programs. Over time, the sector composition of the World Bank’s PforR pipeline shifted towards infrastructure: energy, water, and transport and information and communication technology grew from 24% in terms of number and 34% in terms of value during 2012–2015 to a projected 36% in number and 50% in value during 2018–2020.

**Table 1: Results-Based Lending Programs Approved as of May 2016**

Country	Country Group	Program Name	Approval	ADB Amount	Cofinancing	Govt. Share	Program Size <sup>1</sup>	Sector
<b>Sri Lanka</b>	B	Education Sector Development Program	6/2013	200	100 (WB)	4,601	4,901	Education
<b>Sri Lanka</b>	B	Skills Sector Enhancement Program	3/2014	100	127 (WB, KO,GE)	185	961	Education
<b>India</b>	B	Kerala’s Additional Skill Acquisition Program	11/2014	100	2 (JFPR)	47	200	Education
<b>Philippines</b>	C	Senior High School Support Program	12/2014	300	0	4,110	4,410	Education
<b>India</b>	B	National Urban Health Mission	5/2015	300	2 (JFPR)	1,655	3,751	Health
<b>Armenia</b>	B	School Seismic Safety Improvement Program	9/2015	89	0	19	617	Urban
<b>Indonesia</b>	C	Sumatra Grid Strengthening Program	12/2015	600	5,099 (AIIF, WB)	5,136	10,835	Energy
<b>PRC</b>	C	Vocational Educational Development Program	12/2015	150	120	1,340	1,610	Education
<b>Solomon</b>	A	Transport Infrastructure Improvement Program	5/2016	21	28 (AUS)	34	151	Transport
<b>Total</b>				1,860	5,492	17,127	27,436	

AIIF = ASEAN Infrastructure Investment Fund; GE = Germany; Govt. = Government; JFPR = Japan Fund for Poverty Reduction; KO = Korea; PRC = People’s Republic of China; RBL = results-based lending; WB = World Bank.

<sup>1</sup> Amount includes financing gaps estimated at time of approval. For country group classification, please refer to Operations Manual Section A1.

Source: ADB’s Strategy and Policy Department.

10. RBL has proven to be a successful platform for mobilizing cofinancing. With a cofinancing ratio of 49%, the modality compares favorably with the 36% average mobilized by

<sup>8</sup> The Program for Results (PforR) instrument has very similar features to RBL. It was introduced 1 year earlier (in 2012), and its 2-year review was completed in March 2015. Please refer to Appendix 4 and 5.

all sovereign operations during 2013–2015.<sup>9</sup> The use of the RBL instrument has increased over time, both in terms of number and value (Table 2). Average program size fluctuated, from \$167 million in 2014 to \$232 million in 2015 down to \$207 million as of May 2016.

**Table 2: Evolution in the Utilization of RBL Programs  
between June 2013 and June 2016**  
(Numbers and \$ million)

	2013	2014	2015*	2013–2016*
<b>Number of approved RBL</b>	1	3	5	9
<b>Average RBL size</b>	200	167	232	207
<b>Total amount of funding for RBL</b>	200	500	1,160	1,860
<b>ADB ADF and OCR loans and grants</b>	14,185	13,490	16,288	43,963
<b>ADB sovereign operations</b>	12,589	11,571	13,669	37,829
<b>RBL as a % of ADF and OCR operations</b>	1.4	3.7	7.1	4.2

\*Figures include Sustainable Transport Infrastructure Improvement Program in Solomon Islands approved in May 2016. ADF = Asian Development Fund; OCR = ordinary capital resources; RBL = results-based lending. Sources: ADB's Strategy and Policy Department. ADB. *Statement of the Asian Development Bank Operations*. Manila (2 years: 2014–2015).

11. The RBL policy limits the resource allocation for RBL programs to 5% of the total OCR and ADF resource allocation for the first 3 years of the pilot (from the effective date of the policy). Setting the ceiling at 5% without specifying the exact annual limit, was considered appropriate to provide the needed flexibility for ADB to build the RBL pipeline gradually, without rushing to meet annual limits. ADB has carefully managed the growing demand for this instrument within the policy ceiling. From June 2013 to June 2016, RBL programs have accounted for 4.2% of all OCR and ADF approvals (Table 2).

## B. Demand for Future Results-Based Lending Operations

12. **The demand for RBL operations continues to increase with more diversified sectors.** The RBL policy does not stipulate a specific ceiling for the remaining 3 years of the pilot but states that Management may propose to the Board to lift the 5% cap if justified by a review of RBL implementation. For the second half of the pilot period (July 2016–June 2019), there are 24 RBL programs worth over \$8.0 billion in the pipeline. Currently, 15 new RBL programs are at various processing stages, totaling around \$5.0 billion for possible approval between 2016 and 2017.<sup>10</sup> For 2018 and 2019, ADB is beginning to assess the feasibility of nine additional RBL programs, totaling \$3.0 billion equivalent<sup>11</sup> (Table 3). The 2016–2017 pipeline is more oriented towards infrastructure, including support for energy, housing and urban development, irrigation, and transport.<sup>12</sup> While the pipeline is still tentative, there is a discernible shift from mostly social sectors to other areas of operations, particularly infrastructure.

<sup>9</sup> Cofinancing and total sovereign approval data exclude technical assistance. ADB. *Statement of the Asian Development Bank Operations*. Manila (2 years: 2015–2016).

<sup>10</sup> ADB. 2016. *Statement of the Asian Development Bank Operations*. Manila; Forthcoming. *Country Operations Business Plans, 2017–2019*. Manila; and feedback from the front offices of regional departments as of May 2016.

<sup>11</sup> The projection is based on country operational business plans for 2017–2019 for selected DMCs and feedback from the front offices of regional departments as of April 2016.

<sup>12</sup> ADB. 2014. Project Classification System. *Compendium of Staff Instructions*. Manila.

**Table 3: Demand for Future RBL, by Sector**  
(Numbers and \$ million)

Sector	2016–2017		2018–2019		Total (2016–2019)	
	No.	Amount (\$)	No.	Amount (\$)	No.	Amount (\$)
<b>Agriculture</b>	1	200	1	200	2	400
<b>Education</b>	3	620	4	1,150	7	1,770
<b>Energy</b>	4	2,100	1	600	5	2,700
<b>Finance</b>	1	400	0	0	1	400
<b>Health</b>	1	150	0	0	1	150
<b>Public Sector Management</b>	1	150	0	0	1	150
<b>Transport</b>	2	680	0	0	2	680
<b>Water</b>	2	676	3	1,100	5	1,776
<b>Total</b>	<b>15</b>	<b>4,976</b>	<b>9</b>	<b>3,050</b>	<b>24</b>	<b>8,026</b>

Note: For FY 2018–2019 pipeline, there are at least 3 more programs that could possibly use RBL if the budget allocation to RBL is increased. This table did not capture these tentative programs. Figures are tentative as of May 2016.

Source: ADB's Strategy and Policy Department. ADB. *Statement of the Asian Development Bank Operations*. Manila (2 years: 2014–2015); ADB. Forthcoming. *Country Operations Business Plans, 2017–2019*. Manila.

13. Regional departments indicated that the demand for RBL programs could increase further, if the current uncertainty about the applicable ceiling for the remaining 3 years of the pilot is removed. Survey results and country consultations support this conclusion. The large majority (85%) of both ADB and DMC survey respondents<sup>13</sup> who had been involved in RBL operations indicated that they are likely or somewhat likely to use the RBL instrument again in the next 5 years. As more countries become familiar with and use the RBL modality, demand is likely to grow. The field visits confirmed this finding: authorities and ADB staff in all countries visited indicated that the use of the instrument is likely to be continued or even expanded in the future<sup>14</sup> (Appendix 1). The most likely sectors are education and energy, followed by water, agriculture, and other infrastructure sectors. This is probably due to the fact that results-based financing has been used in these sectors (by the World Bank) with positive implementation status.<sup>15</sup>

14. **Overall, ADB may process a total of 24 RBL programs, worth over \$8.0 billion for the second half of the pilot period;** of this, around \$6.4 billion are considered as a “firm” commitment and around \$1.7 billion as “tentative” (Table 4). About \$5.1 billion (64% of the total \$8.0 billion) is for a group C country, \$2.8 billion (35%) is for a group B country and the remaining \$120 million (1%) is for a group A country (Table 5). The \$6.4 billion (firm commitment) is estimated to be roughly equivalent to 15% of the 3-year ADB resource envelope between 2016 and 2019.

<sup>13</sup> Para 15 of Appendix 3.

<sup>14</sup> The three countries visited were People's Republic of China (PRC), Indonesia, and Sri Lanka.

<sup>15</sup> The World Bank has so far processed four transport sector, three rural development, and three urban sector PforR while four energy PforR programs are under processing.

**Table 4: Demand for Future RBL Operations**  
(\$ million)

	2016	2017	2018	2019	2016–2019
<b>RBL Pipeline - Firm</b>	1,446	2,130	1,200	1,600	6,376
<b>RBL Pipeline - Tentative</b>	900	500	250	0	1,650
<b>RBL Pipeline - Total</b>	<b>2,346</b>	<b>2,630</b>	<b>1,450</b>	<b>1,600</b>	<b>8,026</b>

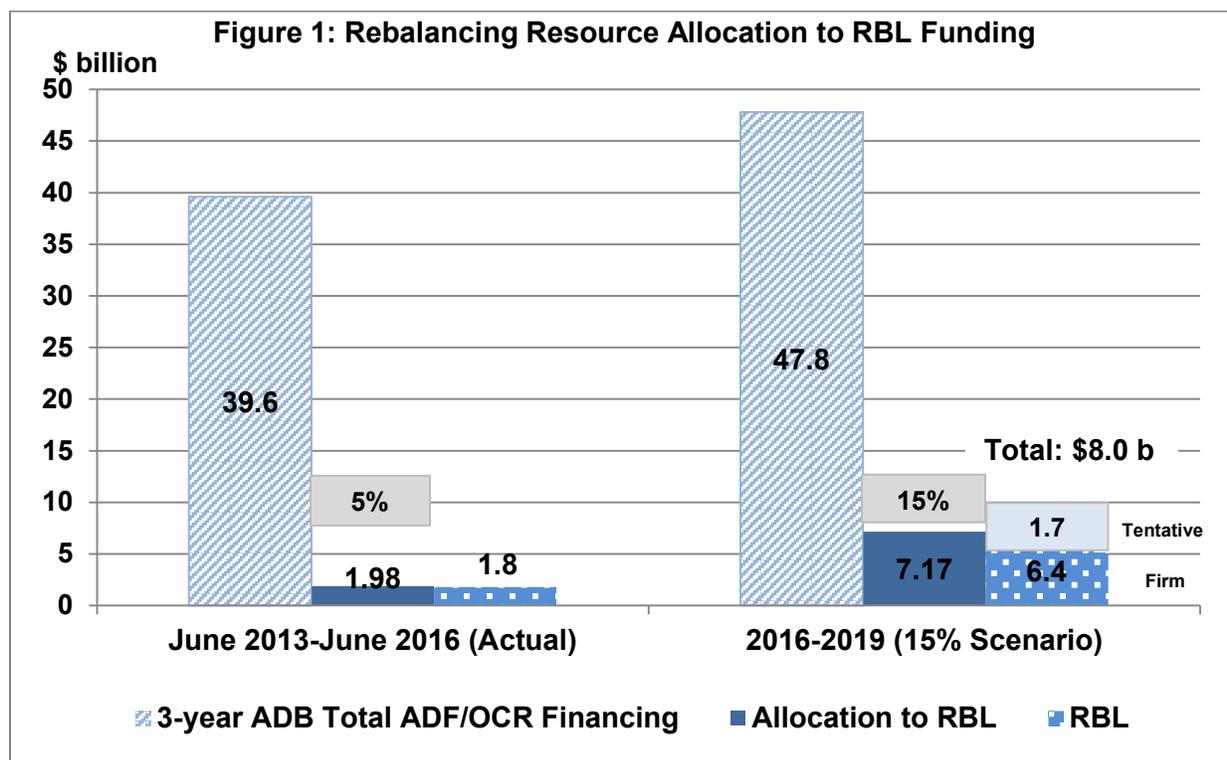
Sources: ADB's Strategy and Policy Department. ADB. *Statement of the Asian Development Bank Operations*. Manila (2 years: 2014–2015).

**Table 5: Demand for Future RBL, By Country Classification**  
(Numbers and \$ million)

Country Classification	2016–2017		2018–2019		Total (2016–2019)	
	No.	Amount (\$)	No.	Amount (\$)	No.	Amount (\$)
<b>A</b>	1	120	0		1	120 (1%)
<b>B</b>	8	2,406	2	400	10	2,806 (35%)
<b>C</b>	6	2,450	7	2,650	13	5,100 (64%)
<b>Total</b>	<b>15</b>	<b>4,976</b>	<b>9</b>	<b>3,050</b>	<b>24</b>	<b>8,026</b>

Note: For FY 2018–2019 pipeline, there are at least 3 more programs that could possibly use RBL if the RBL ceiling is increased. This table did not capture these tentative programs.

Source: ADB's Strategy and Policy Department. ADB. *Statement of the Asian Development Bank Operations*. Manila (2 years: 2014–2015); ADB. Forthcoming. *Country Operations Business Plans, 2017–2019*. Manila.



ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, RBL = results-based lending.

Notes: Figures are estimated based on relevant work program and budget frameworks, country operations business plans, and specific inputs by regional departments. For the FY2018–2019 pipeline, there are at least three more programs that could possibly use RBL if the RBL ceiling is increased (these are not captured in this figure).

Source: ADB's Strategy and Policy Department.

## V. ASSESSMENT OF RESULTS-BASED LENDING OPERATIONS

### A. Expected Benefits from RBL

#### 1. Meeting DMC Clients Needs

15. **Preparation of RBL Program.** The processing of RBL operations has largely followed standard ADB business processes for investment projects. However, RBL operations have adopted specific concept paper and Board document templates. Vice Presidents of the respective operations groups are the approving authorities of concept papers. Due diligence requirements specific to RBL are embodied in the technical and system assessments. The required assessments are proposed at the RBL concept paper stage and the conclusions of these RBL specific assessments, normally during fact-finding, are included in the report and recommendation of the President (RRP) and its linked documents for consideration by the Board of Directors. To ensure quality assurance, Management has adopted some additional review processes. For instance, all RBL programs approved between 2013 and 2016, even those considered as low risk, were examined at Management Review Meetings chaired by the concerned vice president. All of the RBL programs were also reviewed by an “RBL expert,” an ADB staff familiar with the main features of the instrument.

16. **Justification of Modality Choice.** RBL is a pilot modality, and ADB has been learning-by-doing for the first 3 years. The early challenges ADB often faced were because of the novelty of the RBL approach, the specific concerns that emerged during the thorough assessments, and the lack of examples to follow. Although ADB and the DMCs coordinated well in preparing the RBL program, the operations teams faced some issues unique to this pilot instrument. In some cases, ADB, in consultation with the DMCs, took additional measures to refine the RBL program in response to unforeseen circumstances.<sup>16</sup> In four cases, Management decided not to pursue RBL after close consultation with DMC clients.<sup>17</sup> During processing, Management focused particularly on the following aspects to judge if RBL was a suitable instrument:

- (i) **Nature of development challenges.** RBL is suitable when the development challenges require a results- and system-based approach. It is especially suited for operations involving a large or diverse range of activities in the social or infrastructure sectors. In these cases, transaction costs of directly monitoring numerous steps in each activity can be excessively high and reducing these transaction costs can become an important rationale for selecting the RBL modality.
- (ii) **Strong government ownership.** Government ownership of a program and its commitment to delivering results and improving program systems are critical to RBL. This commitment can be articulated through a government’s sector strategy, resource allocation, or willingness to improve overall systems by engaging with development partners.
- (iii) **Institutional capacity and scope for institutional development.** The capacity of RBL program institutions and the risks associated with an RBL program should be rigorously assessed. Program institutions and systems, strengthened as

<sup>16</sup> For instance, processing teams faced challenges as to how fiduciary system assessments could be carried out. They worked together to find solutions through a learning-by-doing approach. See Section V.C on “Managing Risks”.

<sup>17</sup> The four programs, initially proposed by SARD, SERD, and EARD as RBL were eventually prepared using a different financing modality. Major reasons for the change included (i) possible operational difficulties due to weak DMC client capacity, and (ii) preference for alternative modalities by the DMC.

needed through capacity development and implementation support, should provide reasonable assurance that a program can be effectively implemented, results can be achieved, fiduciary risks can be addressed, and environmental and social impacts can be managed.

- (iv) **Enhancing sustainability.** RBL can support and incentivize institutional improvements in critical program systems (e.g., operations and maintenance systems which will enhance the sustainability of RBL program benefits).
- (v) **Leveraging ADB financing and operational impacts.** An important factor to assess and take into account is the potential to use RBL to leverage the development impact of ADB financing and assistance. By being one of the financiers, ADB can positively influence the design and implementation of the whole RBL program, thereby improving its development effectiveness.

17. **Operational Efficiency and RBL.** ADB's shareholders and DMC clients have asked ADB on several occasions to improve operational efficiency without compromising on its high standards regarding safeguard and fiduciary risk management. Slow loan processing and administration translates into high transaction costs for client countries, high administrative costs for ADB, and lost developmental opportunities. Evidence shows that RBL provides an additional tool to respond to these requests. Processing of RBL operations has been relatively fast: the nine approved operations required on average 6.7 months from the beginning of the fact-finding mission to loan approval, compared to a bank-wide 3-year average of 7.0 months (2013–2015).<sup>18</sup> In terms of staff resources, however, RBL preparation is quite intensive. While program design is based on existing government programs and does not require the same level of detailed costing as an investment project, the emphasis of due diligence shifts to the assessment of country systems relevant for the program. Program teams tend to be fairly sizeable (10 members on average). In addition to safeguard, procurement, and public finance specialists from the originating regional department and staff from the Office of the General Counsel (OGC), teams often include representatives from the Operations Services and Financial Management Department (OSFMD), Sustainable Development and Climate Change Department (SDCC) and occasionally other departments such as the Controller's Department (CTL). DMC survey respondents indicated that ADB processing teams working on RBL operations were responsive during program processing to a very high degree (55%) or to a somewhat high degree (45%).

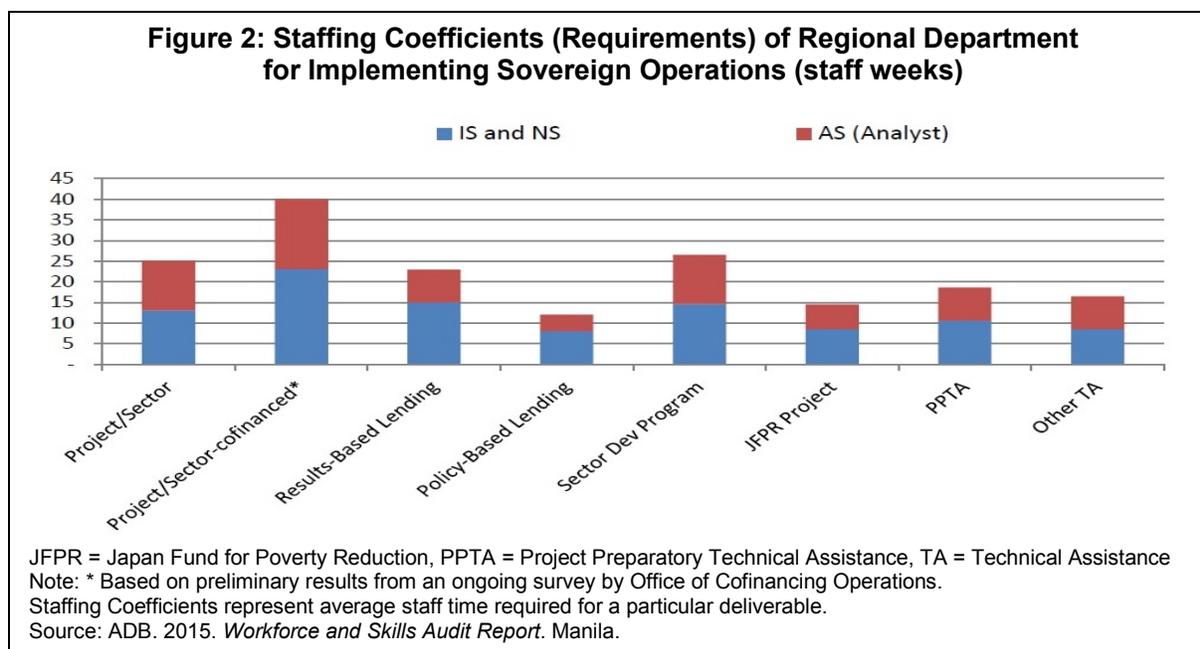
18. **Transaction Costs Savings during Implementation.** It took 6.4 months, nearly half of ADB's 3-year average of 13.9 months, from approval of the program to the first disbursement—excluding disbursements for prior results or advance financing.<sup>19</sup> This was achieved largely as a result of (i) using DMC's own systems, (ii) eliminating paper-based reviews of numerous transactions, (iii) excluding high-value procurement packages which resulted in simpler procurement decisions; and (iv) excluding category A activities as defined in the SPS, which helped reduce risks. The use of DMCs own systems, along with parallel institutional and capacity strengthening to address gaps in those systems, with only selective ADB ex-post review also contributed to faster implementation by avoiding duplicate approval procedures. RBL operations shift emphasis from the supervision of procurement and safeguard processes that characterize traditional projects to technical and policy discussions focused on assisting the implementing agencies lay out the detailed steps and address concerns related to achieving the agreed upon results. Most ADB (83%) and government counterparts (89%) surveyed were very or somewhat satisfied with RBL program implementation. During the field visits, the RBL

<sup>18</sup> ADB. *Development Effectiveness Review*. Manila (3 years: 2013–2015).

<sup>19</sup> ADB. *Development Effectiveness Review*. Manila (3 years: 2013–2015).

program teams interviewed from both the ADB and government sides also expressed the same satisfaction with RBL program implementation.

19. **Shift of staff time requirement.** Although RBL operations do not entail the day to day supervision of procurement, traditional withdrawal applications, and safeguard procedures, both DMC clients and ADB staff still have to work intensively to identify and select appropriate options to achieve the intended program results and mitigate implementation risks. Data prepared for “Recent Workload and Workforce Analysis and Skills Audit Support” report show that the international and national staff time needed to implement RBL (15 staff weeks) is slightly more than the time required for a traditional project (13 weeks)<sup>20</sup> (Figure 2).



20. **Shifting Focus of Program Supervision.** The Review highlights that implementation supervision of RBL programs requires effort comparable to project or sector operations, but the nature of program implementation supervision changes.<sup>21</sup> The emphasis shifts from contract and procurement supervision to technical discussions on how best to achieve the targets and implement the program action plan, which often require a broader set of skills and a team approach. Central government agencies (typically ministries of finance) are usually very attuned to the results approach, and quite vigilant in ensuring that RBL implementing ministries achieve the agreed results before releasing funds. ADB supervising officers must in turn be vigilant that adequate financing is available to allow the executing agency to carry out the needed activities. If an RBL program is not able to utilize all the funds because some DLIs have not been met, normal approaches apply, i.e., the project can be extended, or funds can be reallocated using the procedures and criteria for a change of scope. None of the projects under implementation has reached advance stages of implementation yet.

21. **Implementation status.** Program performance ratings, using a three-level traffic light, are available for eight approved RBL programs and confirm that all RBL operations are

<sup>20</sup> ADB. 2015. *Workforce and Skills Audit Report*. Manila.

<sup>21</sup> Focus group discussions with ADB staff and DMC officials in February 2016 shared the view.

performing *on track*, as of end May 2016.<sup>22</sup> The majority of intended DLI targets and associated results have been achieved, and verified by designated verification bodies. In addition to a *satisfactory* rating on safeguard requirements, the eight programs also comply with other program performance criteria including financial management, disbursement, contract awards, and technical criteria.<sup>23</sup> The favorable implementation status of the eight RBL programs is consistent with performance ratings available for the World Bank's PforR operations. An Implementation Status and Results Report prepared for 34 different PforR operations rated 93% of the ongoing PforR operations *on track* while one PforR program (the Oaxaca WSS Sector Modernization Program in Mexico) was rated *at risk*. The Government of Mexico requested the World Bank to suspend the operation until elections took place in Q3 2016.

### **Energy Sector Results-Based Lending Operations in Indonesia**

In November 2015, ADB approved the first results-based loan (RBL) to *Perusahaan Listrik Negara* (PLN), the state-owned national power company of Indonesia. The Electricity Grid Strengthening – Sumatra (EGSS) program is part of a series of planned investments in the Country Partnership Strategy that aim to strengthen and expand the country's electricity grid to significantly boost people's access to energy services, consistent with Goal 7 of the Sustainable Development Goals. As the first ever RBL in the energy sector by any development partner, it was a constant learning by doing exercise for both ADB and PLN. In particular PLN was concerned about the disbursement-linked indicator (DLI) targets which, if not met, may affect the annual budgeting process and lead to funding shortfalls. However, by setting aggressive sub-targets for each of the seven regional offices (*Wilayah*) focusing their operations on results, as of mid-year (30 June) 2016, PLN is well on track to achieve the targets for all but one DLI. PLN has also made significant progress with the program action plan (PAP) to strengthen its institutional capacity including but not limited to: (i) developing and rolling out a contract management and reporting system that will track the performance of transmission and distribution contracts making it easier for management to identify bottlenecks and any irregularities; and, (ii) setting up a dedicated internal verification team at its headquarters that would undertake periodic reviews of performance, and prepare the quarterly reports to the Ministry of Finance and ADB which would then be verified by an Independent Verification Agent (IVA) mobilized by ADB. RBL can stimulate cofinancing and donor harmonization with a focus on common results, and the IVA arrangement will be shared with the World Bank's Program-for-Results in Sumatra (\$500 million) which was approved in April 2016 complementing ADB's EGSS. The lessons learned so far from the EGSS program have provided extremely useful inputs to the design of the proposed second RBL to PLN (Sustainable Energy Access in Eastern Indonesia—Electricity Grid Development Program), which is being prepared for Board consideration in November 2016. For example the DLI targets are being made more ambitious, and waste management measures will be moved from the PAP to being a DLI to strengthen PLN's commitment and focus on this aspect of its operations.

Source: ADB Southeast Asia Department.

<sup>22</sup> A new RBL program for the Solomon Islands, approved in May 2016, will establish a program performance rating system upon loan effectiveness.

<sup>23</sup> Technical criteria seek to address specific problems, if applicable, identified in external supervision consultants and/or review mission reports. Such problems can refer to quality standards, key project conditions, and implementation arrangements. ADB. 2011. Project Performance Monitoring. *Project Administration Instructions*. PAI 5.08. Manila.

## **B. Contributing to Aid Effectiveness**

### **1. Supporting Government Programs**

22. **Promoting a strong sense of government ownership.** Anchoring RBL as part of a broader government program is one of the most important features of this modality. This feature has generated a multiplier effect: (i) promoting a greater sense of government ownership, and (ii) increasing ADB's leverage and development results. RBL provides an opportunity for ADB to finance a portion of a government-owned program, while being able to influence the whole program positively. Overall, DMCs appreciated having the responsibility for achieving the agreed upon results placed on government structures and not on different enclave project management units. Success no longer depends on a small group of implementers who use externally driven procedures. It now requires various agencies and/or levels of government to cooperate towards a common goal. For instance, one of the Sri Lanka RBL programs requires provincial, zonal, and district education departments to contribute to achieving enrollment and exam pass rates. Under the other Sri Lanka technical and vocation education and training (TVET) RBL program, more than 12 government agencies or statutory bodies must coordinate to train vocational teachers, engage with the private sector, boost enrollment and implement new private-public training modalities.

23. **Adding value to broader government programs.** During review consultations, both ADB and DMC clients highlighted the importance of ADB adding value to the broader government program. In addition to the specific contribution made by an RBL program to achieving sector results, ADB's value addition comes from (i) improving DMC's own systems applied to the program, with a potential demonstration effect; (ii) working with governments to strengthen results; (iii) making governments and executing ministries or agencies accountable to their own citizens for achieving clearly defined program results; (iv) shifting the focus from individual transactions to systems; and (v) creating a platform whereby a number of development partners can come together to support a government program in a coordinated manner, using the same country procedures. For example, the DLI targets for energy sales in Indonesia reinforced the national drive to achieve power generation targets (although this component was not part of the RBL program), because additional power generation supply was needed to meet sales targets. The same energy sector RBL also contributed to build a result oriented culture in the broader government program, by introducing a contract monitoring system to detect unusual trends in bidding and contract awards that can trigger more in-depth controls when required. The system will be generalized to all power distribution contracts in Indonesia, beyond the program area of Sumatra and has now been adopted by the World Bank energy sector PforR program. In other countries, RBL was found to have sharpened government planning and implementation processes.

### **2. Support Government Program with Program Boundary Setting**

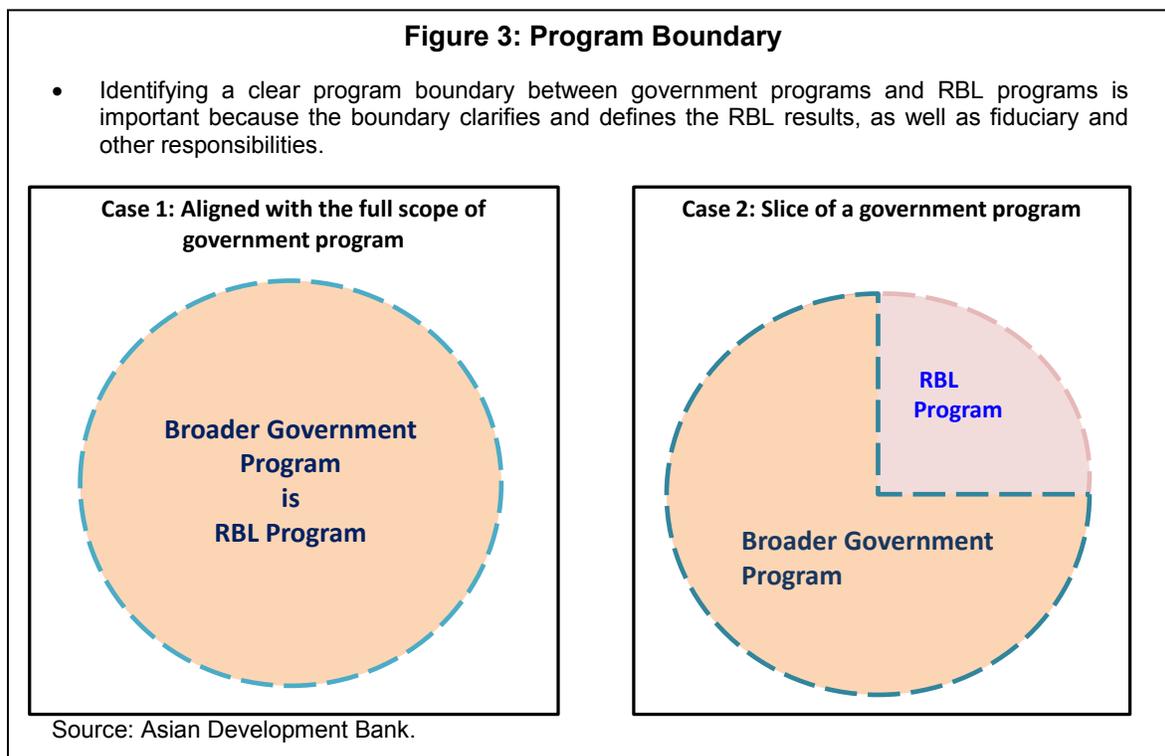
#### **Requirement**

24. A key requirement in preparing an RBL program is clearly defining the program's scope and boundary.<sup>24</sup> The program boundary defines its results framework, identifies DLI, and establishes the scope of various assessments required.<sup>25</sup> Defining the program boundary is an

<sup>24</sup> Program boundary, as used throughout this paper, refers to the demarcation between the RBL program scope and the broader government program scope.

<sup>25</sup> ADB. 2011. Staff Guidance for Piloting Results-Based Lending for Programs. *Compendium of Clarifications*. Manila.

iterative process, which should be done with due consideration of the DMC's benefits, risks, capacity, resources and needs, as well as ADB's strengths. The RBL program scope may be aligned with the full scope of a government program or it may cover a slice of the government program, such as a geographic or time slice and/or only certain components. In all cases, the RBL program must be anchored in government programs (Figure 3).



25. Defining the program boundary requires due consideration of risks related to (i) the selection of outcomes and outputs, (ii) the pace of change, and (iii) possible shifts in government priorities. The selection of the same outcomes for the RBL and government programs may pose some risks. First, RBL programs are usually more restricted in scope and funding than the government program. While government programs cover interventions from many sectors, RBL programs are generally more limited in what they can support. Second, the program boundary, and therefore the selection of RBL components, should consider the pace and nature of the change desired. Achieving some results may take longer than others. Third, the program boundary should be able to accommodate some shifts in government priorities during program implementation.<sup>26</sup> Figure 3 illustrates the program boundary concept.

### Assessment

26. **The Review found that the nine approved RBL programs duly followed the policy guidance, being anchored in government programs with well-defined program boundaries.** Table 6 shows that of the nine approved RBL programs, four represent time slices of the government's broader program (i.e., relating to a shorter period), while the rest represent slices focusing on certain components that are key to the achievement of the broader program.

<sup>26</sup> For instance, in Sri Lanka, the current RBL program focuses on increasing pass rates for both ordinary (grade 11) and advanced (grade 13) levels. Recently announced government policies, however, are aimed at extending public education attendance for grade 13, making the grade 11 target less relevant.

Three RBLs are part of subnational government programs, while the rest are national in geographic coverage.

**Table 6: Program Boundary and Financing of Approved RBL Programs**

Country	RBL Program	Program Boundary between Government and RBL Programs	Financing (\$ million)		
			Gov't Program	ADB Financing	% of Gov't Program
<b>Sri Lanka</b>	Education Sector Development Program	Key components of the government's Education Sector Development Program	4,901	200	4%
<b>Sri Lanka</b>	Skills Sector Enhancement Program	Time slice of the government's Skills Sector Development Program; nationwide coverage	961	100	10%
<b>India</b>	Supporting Kerala's Additional Skill Acquisition Program	Time slice of the Kerala state government's program, with reduced scope and coverage	200	100	50%
<b>Philippines</b>	Senior High School Support Program	Key components of the government's education program; nationwide coverage.	4,410	300	7%
<b>India</b>	Supporting National Urban Health Mission	Time slice of the National Urban Health Mission	3,751	300	8%
<b>Armenia</b>	School Seismic Safety Improvement Program, 2015–2020	Time slice of the government's School Renovation Program; same scope and geographic coverage	617	89	14%
<b>Indonesia</b>	Sumatra Grid Strengthening Program	Geographic slice of the state electricity corporation's broader program.	10,835	600	6%
<b>PRC</b>	Guizhou Vocational Educational Development Program	Specific components of the Guizhou provincial government's reform program	1,610	150	9%
<b>Solomon Islands</b>	Sustainable Transport Infrastructure Improvement Program	Specific components of the National Transport Plan	151	21	14%
<b>Total RBL programs</b>			<b>27,436</b>	<b>1,860</b>	<b>7%</b>

ADB = Asian Development Bank, Gov't = government, PRC = People's Republic of China, RBL = Results-Based Lending  
Source: Asian Development Bank.

27. **Program boundaries were selected to maximize their potential leverage or impact on the government programs.** For example, the Philippines RBL program supports the effective establishment and implementation of the senior high school system, with the potential to leverage improvements in the government's basic education system and employment opportunities. The Sri Lanka education RBL program has the potential to increase secondary education equity and quality in subjects relevant for a knowledge-based economy. Subnational RBL programs in large countries (The PRC and Indonesia) use approaches that are expected to leverage replication by the government and other development partners with their own funds elsewhere.

28. **Consultations with ADB staff and DMC clients indicate that current policies on exclusion, which affect decisions on the program boundary, could affect the leverage potential of RBL programs.** Defining the program boundary currently requires excluding category A activities under ADB's SPS and excluding high-value procurement contracts. In surveys, some ADB and DMC clients felt that such exclusions posed challenges to RBL. The exclusion of procurement packages of higher value could undermine a program's effectiveness.

Some ADB staff and DMC clients also pointed that excluding critical contracts may put the DMC client at a higher risk of not achieving results. Likewise, the exclusion of SPS category A components could limit the ability to utilize RBL for larger investment requirements that are sometimes an integral component of a sector program, such as large-scale urban sector projects and greenfield transmission projects.

29. **The Review recommends that category A activities under the SPS continue to be excluded from the overall RBL scope.** The issue may be reconsidered towards the end of the pilot, when more evidence is available based on a bigger, more diversified and more mature portfolio.<sup>27</sup>

30. **ADB should review the existing procurement thresholds applicable to RBL operations.** Under the RBL policy, high-value procurement contracts may not be contained as part of an RBL program. The specified procurement thresholds were harmonized with such thresholds applicable to the World Bank's PforR operations at the time (see footnote 22 of RBL Policy) to strengthen coordination during program implementation between ADB and the World Bank. The amounts were set at \$50 million for works, turnkey and supply, and installation contracts; \$30 million for goods; \$20 million for information technology systems and non-consulting services; and \$15 million for consulting services. The RBL policy noted that these amounts may be changed from time to time and the RBL thresholds would be adjusted accordingly. Based on their procurement policy review, the World Bank adopted in May 2015 new (and higher) procurement thresholds for PforR operations.<sup>28</sup> ADB is currently reviewing its own procurement policy, including the existing procurement thresholds applicable for ADB operations.

31. **As part of the ongoing procurement policy review, the approach and the thresholds applicable for RBL operations should be reviewed.**<sup>29</sup> Lack of unity in procurement thresholds between ADB and the World Bank may potentially cause operational inefficiencies in future RBL operations. For instance, ADB and the World Bank are working closely to develop a new energy sector program in Eastern part of Indonesia. Some of the potential DLI results, (e.g., increased access to electricity in rural area), may require expansion of transmission lines with relative high procurement activities. The above result will be achieved through financing a combination of lower level results and inputs that will be supported by various financiers, including ADB, and the World Bank. The application of different procurement thresholds is problematic from the DMC perspective, particularly where the two institutions support the same results areas.

32. **RBL programs currently do not provide counterparts with the assurance of ADB's long-term commitment.** In this regard, some DMC clients regretted the focus of RBL programs on a short time slice of a government program. Given the long-term time horizon of certain government programs and plans, a mechanism for longer-term engagement would provide a stronger assurance and allow more intense policy dialogue. During country consultations, some government officials expressed keen interest in a longer-term commitment by ADB to ongoing government programs, for example, through a multitranches financing facility. RBL staff guidance

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<sup>27</sup> Activities that are judged to be likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people are excluded from the World Bank PforR financing.

<sup>28</sup> The World Bank policy (BP 11.00) introduced revised procurement thresholds in April 2014. In April 2015, with the approval of the PforR 2-year review paper, the revised thresholds (as defined in BP 11.00) became effective. For the new PforR procurement thresholds that may be revised from time to time, see BP 11.00 section OPRC.

<sup>29</sup> In this context, Management may also consider amending the procurement exclusion requirement to allow limited inclusion of high value contracts in exceptional circumstances, similar to what the World Bank did in 2015.

already clarifies that ADB can combine RBL with other financing modalities but the combined approaches have not been tested for the first 3 years of the pilot period.<sup>30</sup>

### 3. Setting Sufficiently Ambitious Program Results

#### Requirement

33. **RBL programs use the achievements of agreed program results as a condition for disbursements. Thus, setting appropriate results is one of the most critical requirements of RBL program preparation.**<sup>31</sup> A clear definition of results and a robust results chain analysis<sup>32</sup> are important because disbursements are linked to the achievements of results. A central part of RBL program preparation is identifying program results within the program boundary that may then help identify proper sets of DLIs (Section 4). ADB defines the different levels of results as follows:

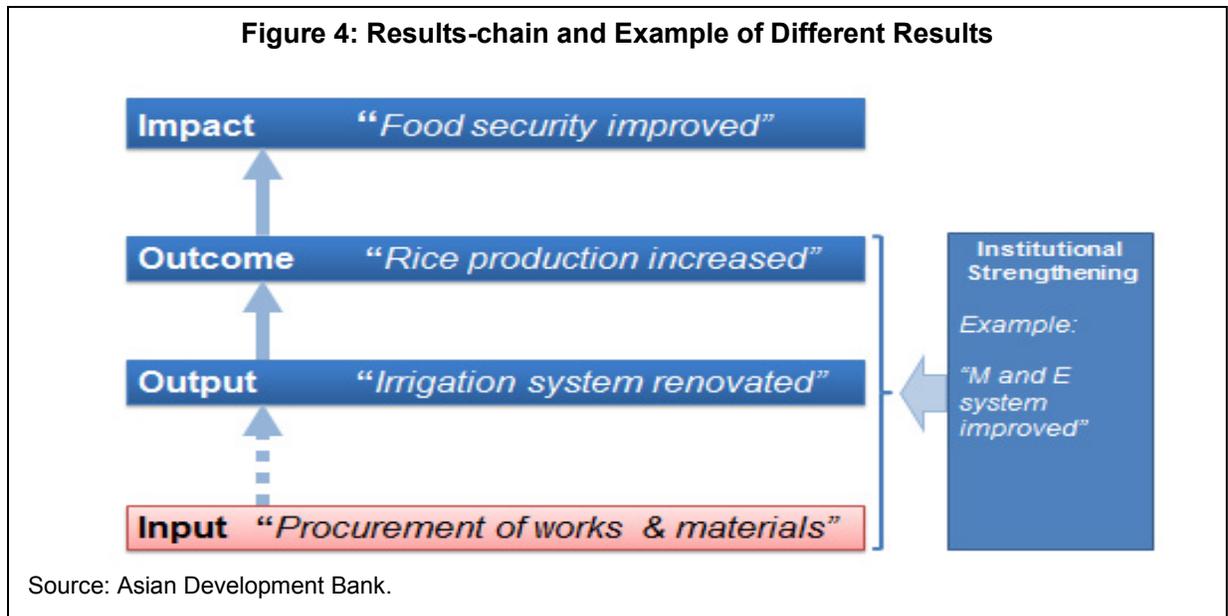
- (i) **Impact** is wide in scope, accrues over the medium to long-term following program completion, and is influenced by many factors outside the RBL program. The RBL program aims to contribute to the impact.
- (ii) **Outcome** is considered the RBL program's final result. Outcomes are directly linked to the benefits and welfare of the program beneficiaries. They are evident changes in peoples' lives and behaviors through the achievement of outputs. The RBL policy states that the achievement of desired outcomes is the main measure of success for RBL programs.
- (iii) **Outputs** are physical and/or tangible goods and/or services delivered by the program. Outputs are within the control of the program management. ADB guidance states that control, accountability, and attribution decrease moving up the results chain. Therefore, outputs are more under control of the RBL program than outcomes.
- (iv) **Inputs** are the main resources that the project uses to undertake the activities and produce the outputs. Outputs are generated by using and transforming inputs through project activities.<sup>33</sup> Examples of inputs for ADB programs would be "procurement of goods A" and "recruitment of training consultants X". Corresponding outputs would be "construction/installation of goods A completed" and "school principals and deputy principals trained".
- (v) **Institutional strengthening results** are results that enhance the functioning of a government program (e.g., measures to strengthen monitoring and evaluation systems, fiduciary or environmental and social safeguard systems).

<sup>30</sup> ADB. 2011. Staff Guidance for Piloting Results-Based Lending for Programs. *Compendium of Clarifications*. Manila (para 52).

<sup>31</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 87).

<sup>32</sup> The results chain of a program is a causal relationship extending from program inputs, activities, and outputs to the program outcome.

<sup>33</sup> ADB. 2015. Updated Design and Monitoring Framework Guidelines. March.



34. **The levels of inputs, outputs, and outcomes are not absolute but relative to one another within a specific program.** Depending on the program, there may be a range of outputs, and a range of outcomes. Thus, the most recent design and monitoring framework (DMF) guidelines<sup>34</sup> only distinguish between outcomes and outputs and no longer use the term "intermediate outcome". The results chain from outputs to outcomes is relatively long in some sectors or program and relatively short in others. As such, outcomes for some programs can be achieved soon after program outputs are delivered, but others may only be achieved over time.<sup>35</sup> The difference between infrastructure programs and social sector programs is illustrative. Strengthening electricity transmission and distribution systems or constructing schools will require less time and less steps to achieve benefits for the target population, such as more people having reliable power supply and more children in safe schools. By contrast, improving the quality and delivery of health or education services will take longer because many steps and behavior changes are involved (see also Section 4 on disbursement linked indicators).

### Assessment

35. **The Review finds that results formulation is generally clear and the DLIs of the nine approved RBL programs are sufficiently ambitious based on program context.** Key outcomes for most programs are measured through a clear focus on beneficiaries (Table 7).<sup>36</sup> For example, one of the India's urban health RBL outcomes is increased access to a quality urban health system. Achievements are measured based on completion of immunization and other service delivery. Additional outputs focusing on service quality and/or service coverage may also be considered a part of system and capacity improvement.

<sup>34</sup> ADB. 2015. Updated Design and Monitoring Framework Guidelines. Manila.

<sup>35</sup> See ADB. 2013. Staff Guidance for Piloting Results-Based Lending for Programs. *Compendium of Clarifications*. Manila (para 104) for details on 'long' and 'short' results chains.

<sup>36</sup> For summary purposes, targets and baselines are not included here.

**Table 7: Measuring Outcome Achievement Through a Beneficiary Focus**

Country	Key Outcome	Measurement
<b>Sri Lanka</b>	A market-responsive and inclusive TVET system	Increased employability of graduates from quality assured TVET programs.
<b>Sri Lanka</b>	A modernized secondary education school system developed	Increased pass rates and participation rates.
<b>India</b>	Increased employability of ASAP certificate holders	Increased employability rate of male and female trainees
<b>Philippines</b>	Effective SHS system established and implemented	Improved learning outcomes in mathematics and science
<b>India</b>	Increased access to equitable and quality urban health system	Increased institutional deliveries and complete immunization among children below 12 months of age in urban areas
<b>Armenia</b>	Improved coverage of seismically safe school buildings	Increased percentage of students in buildings meeting safety standards
<b>Indonesia</b>	Adequacy and reliability of power supply achieved in Sumatra.	Increased number of customers with electricity
<b>PRC</b>	An inclusive and responsive TVET system developed	Increased number of graduates from demonstration TVET Institutions
<b>Solomon Islands</b>	More efficient and sustainable multi-modal transport system <sup>a</sup>	Decreased in land and maritime transport travel time

ADB = Asian Development Bank, PRC = People's Republic of China; RBL = Results-Based Lending, TVET = technical and vocation education and training.

<sup>a</sup> This was presented as an output result but the Review team considers it as outcome result.

Source: Asian Development Bank.

36. **Factors outside the control of program management, but within the program boundary, need to be examined more closely.** RBL programs with large infrastructure components tend to have outcomes more within the control of program management than social sector programs, because social sector programs generally require interventions that increase demand. For example, outcomes such as increased school enrollment and better learning outcomes (e.g. improved test scores) require interventions that will increase the demand for services and the motivation to do well at school. In turn, this will require promoting awareness and behavior change. More attention is needed to these areas as part of overall RBL program scope. Some social sector RBL programs have recognized this and incorporated some demand-side elements. For example, India's health RBL program aims to generate community health awareness and increased demand for services by supporting community outreach programs led by accredited social health activists and local women's collectives. The Sri Lanka RBL program aims to increase demand for technical and vocation education and training programs through a stipend program, flexible training delivery mechanisms, expansion of recognition of prior learning, and assessments of the utilization by training facilities of social marketing and career counselling. Issues related to program communication should therefore be integrated into RBL operations.

37. Future RBL staff guidance and DMF guidelines could be more explicit about dealing with factors outside the program control over outcome achievement, focusing on the linked issues of setting clearer program boundaries (Section 4), a more rigorous results-chain analysis, and how to tackle the issues of demand and behavior change.

#### 4. Formulating Disbursement-linked Indicators

##### Requirement

38. The **RBL policy specifies that DLIs are of critical importance since their achievement is the basis for disbursing ADB financing.**<sup>37</sup> DLIs are a subset of results indicators carved out from the RBL program's results framework.<sup>38</sup> Like all results indicators, DLIs should be specific and well defined, measureable and monitorable, achievable, time-bound and transparent.<sup>39</sup> DLIs need to strike a balance between being ambitious and being realistic. They should not be so ambitious such that they cannot be achieved within the implementation period. At the same time, they should be significant enough to contribute meaningfully to the RBL program outcome (i.e. DLIs should carry weight, with disbursement linked to each DLI sufficiently large to incentivize efforts).

39. RBL programs primarily select a DLI from three categories: (i) outcome, (ii) outputs, or (iii) capacity development (or institution strengthening) results.<sup>40</sup> DLIs related to impacts are not used, because in most cases impacts can only be measured after program completion so they would not be useful triggers for disbursement.

##### Assessment

40. **For the first 3 years of RBL operations, processing teams focused on appropriately identifying DLIs, based on the guidance embodied in RBL Policy.** For the nine approved RBL programs, ADB adopted 61 DLIs, an average of seven per operation (Table 8).<sup>41</sup> Of these, 21% were outcome-related, 70% were output related, and 8% were related to systems or institutional strengthening.<sup>42</sup> Although the classification of the DLIs is slightly different from the World Bank PforR operations, the distribution is comparable. In general, ADB has been using more outcome level DLIs but less institutional strengthening achievements DLIs than the World Bank's PforR (Table 9).

<sup>37</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 87).

<sup>38</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 86).

<sup>39</sup> ADB. 2013. Staff Guidance for Piloting Results-Based Lending for Programs. *Compendium of Clarifications*. Manila (paras 116 and 120).

<sup>40</sup> RBL policy allows ADB and DMCs to use other types of DLIs, such as actions or process results. These types of DLIs are rarely used by the World Bank and ADB.

<sup>41</sup> The RBL Program with the highest number of DLI had nine; the one with the lowest had five.

<sup>42</sup> Systems and institution strengthening can either be part of the main RBL program output, outcome DLIs, or part of the RBL program's Program Action Plan to address gaps in country systems. In addition, gaps may be addressed by implementing a parallel capacity development technical assistance as in the case of RBL programs in Sri Lanka, India, Armenia, and in the People's Republic of China.

**Table 8: Type of Disbursement-linked Indicators**

RBL program	Outcome DLI	Output DLI	Institutional Strengthening DLI	Total
SRI: Education Sector Development	1	6	2	9
SRI: Skills Sector Enhancement	1	8	0	9
IND: National Urban Health	2	5	0	7
PHI: Senior High School Support	2	3	1	6
IND: Kerala's Additional Skill Acquisition	2	4	0	6
ARM: School Seismic Safety Improvement	1	3	1	5
INO: Electricity Grid Strengthening – Sumatra	3	3	0	6
PRC: Guizhou Vocational Education Development	1	4	1	6
SOL: Transport Infrastructure Program	0	7	0	7
<b>TOTAL</b>	<b>13</b>	<b>43</b>	<b>5</b>	<b>61</b>
<b>% of all DLIs</b>	<b>21%</b>	<b>70%</b>	<b>8%</b>	

ARM = Armenia; DLI = disbursement-linked indicator; IND = India; INO = Indonesia; PHI = Philippines; PRC = People's Republic of China; RBL = Results-Based lending; SRI = Sri Lanka;

Note: Percentages may not total 100% because of rounding. The classification of DLI types is slightly different among institutions, using a Results-Based financing. For instance, ADB does not use categories such as “action”, and “system output”. In some cases, DLIs in ADB address output results that can also implicitly leverage institutional improvement.

**Table 9: Indicative Comparisons of DLIs between RBL and PforR**

RBL and PforR	Outcome DLI	Output DLI	Institution Strengthening DLI
<b>ADB's RBL Operations</b>	21%	70%	8%
<b>WB's PforR Operations</b>	6%	66%	28%

Notes:

- Percentages may not total 100% because of rounding.
- PforR data are based on DLIs used for 35 PforR programs. In the above table, for the sake of comparative analysis, output for PforR is defined as the sum of output, system output, and action.

Source: A. Gelb, A. Diofasi, and H. Postel. 2014. *The Anatomy of Program for Results: The first 35 Operations. Working Paper*. No. 374. Washington, DC: Center for Global Development.

41. **While DLIs are effective and work well once prepared, DLI development has been difficult for the majority of users.** The majority of DMC (90%) and ADB (83%) users surveyed agreed that DLIs provide an effective incentives for governments to achieve desired improvements. However, 75% of DMC users and 66% of ADB users found the process of developing DLIs to be *somewhat difficult* or *very difficult*. Some 75% of DMC users and 70% of ADB users reported that more structured support for defining and designing of DLIs would be useful. DMC users had difficulties agreeing to indicators at the beginning of programs, with little or no prior experience of how they would turn out during implementation.

42. **The DLIs formulation process can provide a strong platform for coordination with all relevant development partners.** For instance, coordination with the World Bank on energy DLIs in Indonesia was productive. The World Bank will be bringing to its Board in 2016 its first energy sector PforR in Indonesia. The program was prepared over a 12-month period in frequent consultation with ADB. It uses some findings from ADB's assessments and some of the same DLIs used in ADBs RBL program. The World Bank will rely on the independent verification mechanism established by ADB for the external verification of its DLI. This illustrates how

coordinated use of the RBL instrument can help advance systems and strengthen program implementation. There are other similar efforts to explore the use of common results areas in Armenia, Bangladesh, Solomon Islands, Sri Lanka (SSEP), and Viet Nam.

**43. Country or government targets may not always be suitable to adopt as RBL and DLI targets and ADB needs to set broad guidelines clarifying how best to align them.** DMCs noted that it was common for government programs to respond to political aspirations and set aspirational targets. In one RBL program, some of the DLI targets did not adopt the government targets for this reason. Instead, the processing team emphasized that DLI targets had to be grounded in reality and had to reflect country conditions and limitations. Consultations with DMCs also confirmed that government plans tend to set overly ambitious targets, which may not necessarily be translated at face value into DLI indicators. This could make it appear as though the finally negotiated DLIs were not sufficiently ambitious, despite them being ambitious in comparison with past experiences.

## 5. Verifying Results

### Requirement

**44. The disbursement of RBL funds is conditioned upon verification that the DLIs have been achieved.**<sup>43</sup> Each DLI needs to be accompanied by a clear verification protocol that defines how achievements will be measured and verified. ADB and the DMC should agree upon a credible verification mechanism, depending on the nature of the DLI, the program, and the country context. Verification can be carried out by public, private, semiautonomous, or civil society entities, as appropriate, as long as the credibility and independence of the verification is ensured. The feedback of program beneficiaries should be considered during the result verification process, where appropriate. To support timely results verification, ADB and the DMC clients should work together to plan and prepare the verification mechanism as early as possible.

### Assessment

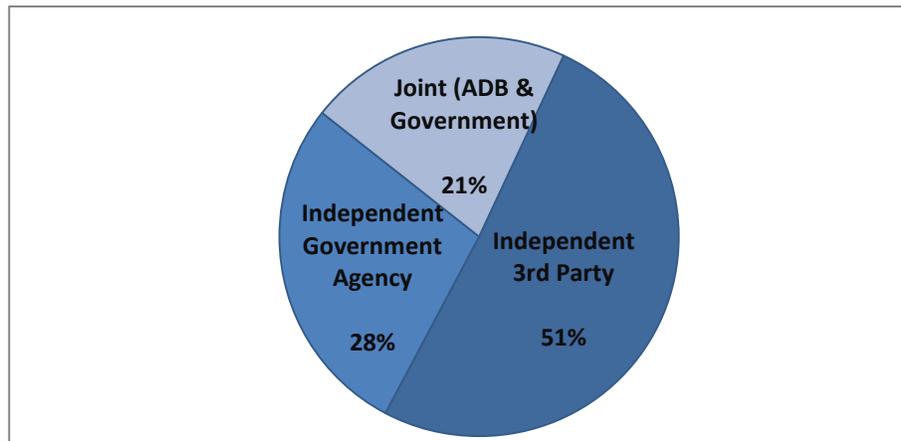
**45. All approved RBL programs have identified credible verification protocols for their respective DLIs.** Of the 61 DLIs, 51% were verified by an independent third-party, 28% by a government agency with the appropriate authority (e.g., an evaluation function of a government ministry) and 21% by a joint ADB–government team. The protocols defined a variety of data sources, ranging from administrative reports (28%) to completion studies (1.9%) (Figure 5). In surveys, 90% of DMC users and 67% of ADB users said the verification mechanisms functioned well. In general, verification methods sought to optimally use existing DMC’s systems and, where necessary, RBL directly contributed to strengthening the broader DMC’s monitoring and evaluation mechanism.<sup>44</sup> Operational efficiency gains were also achieved by sharing the means of verification. For instance, ADB and the World Bank will share the same independent verification mechanism established by ADB for the verification of its DLIs in Indonesia.<sup>45</sup>

<sup>43</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 88).

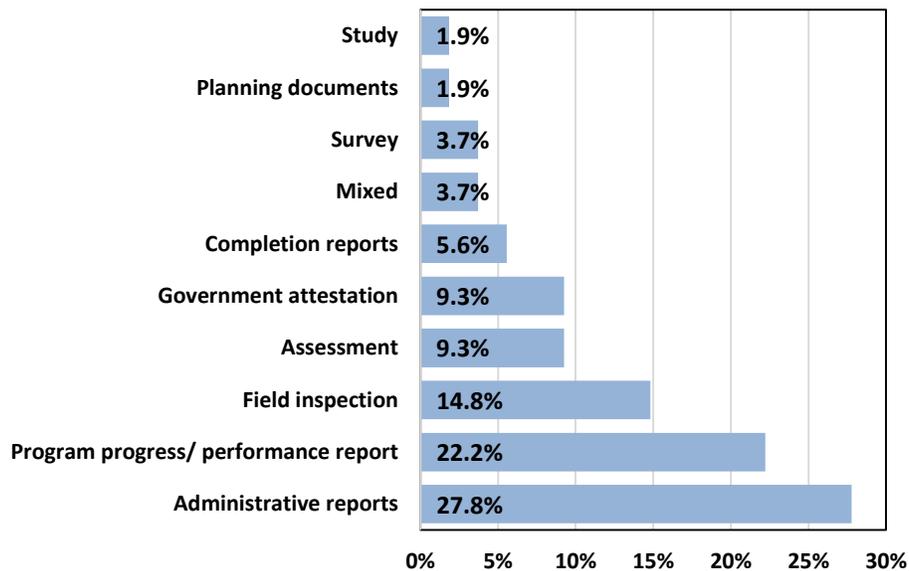
<sup>44</sup> For instance, RBL operation in PRC will closely link with the monitoring system of the government program.

<sup>45</sup> Please refer to Appendix 3.

**Figure 5: Verification Protocols for DLIs by Type**



**Type of Verification Data Source, %**



Source: Asian Development Bank.

46. **ADB staff and DMC clients have asked for guidance on how to prepare verification protocols.** In response to this request, ADB will provide additional guidance and capacity development program. ADB will continue to explore sharing verification protocols with the World Bank PforR teams where feasible.

### C. Managing Risks Adequately

#### 1. Assessing Program Systems

47. RBL teams are required to conduct a program system assessment that includes (i) a fiduciary systems assessment, (ii) environmental and social safeguards system assessments, and (iii) an integrated risk management assessment. Depending on the program, the teams may also have prepared other assessments, such as financial management assessments, and

gender assessments. The rationale behind this approach is twofold. First, the assessments are meant to give ADB sufficient comfort that using the DMC's own systems will not pose excessive risks. Second, the assessments are intended to provide specific suggestions to strengthen the capacity in borrower institutions. The Review finds that ADB has not always optimally used the results of these systems assessments as part of DLIs. However, program action plans largely reflected their findings (para 60). In some cases, the level of detail of some of the assessments seems to have exceeded the requirements of ADB's RBL and other policies. More specific staff guidance may facilitate RBL processing going forward.

48. **Fiduciary and safeguard systems assessments are resource intensive exercises but these requirements are generally well appreciated by ADB staff and DMC clients.** Overall, survey respondents found the assessments *very* or *somewhat useful* in the majority of cases. As shown in Table 10, the preparation of a results framework was considered the most useful tool, receiving positive ratings by 88% of ADB and 95% of DMC respondents, followed by the fiduciary, safeguards, and risk assessments. While the overall rating was positive, most respondents indicated that they were *somewhat satisfied* with the assessments, pointing out that there was room for improving the way assessments were conducted and/or utilized. For instance, DMC clients indicated that they would like to better understand how the outcomes of assessments could be translated into actions for system improvements.

**Table 10: Satisfaction Rating of Assessments in Survey Responses**

Rating	Results Framework		Fiduciary		Safeguards		Risk Assessment	
	ADB	DMC	ADB	DMC	ADB	DMC	ADB	DMC
<b>Very satisfied</b>	40%	50%	27%	15%	23%	20%	16%	0%
<b>Somewhat satisfied</b>	48%	45%	37%	80%	50%	55%	51%	55%
<b>Total high</b>	88%	95%	64%	95%	73%	75%	67%	55%

Source: Asian Development Bank's Strategy and Policy Department (user survey results).

## 2. Applying the Safeguard Policy

### Requirement

49. **ADB's Safeguard Policy Statement (SPS)<sup>46</sup> is an important policy requirement and is applicable to all ADB-financed operations, irrespective of the type of financing modality.<sup>47</sup>** RBL programs are designed to achieve the policy objectives and adhere to the policy principles of the SPS. However, they follow a distinct policy delivery process, requiring reliance on the program systems to address social and environmental issues. For all RBL programs, ADB examines the program's potential safeguard impacts and carries out a diagnostic assessment (covering both relevant laws and regulations and implementation capacity of relevant agencies) as a basis for identifying measures to improve program systems and build capacity, if needed (see para 48). This is documented in the Program Safeguard Systems Assessment (PSSA), which is disclosed on the ADB's website, including any identified weaknesses and the measures proposed to improve the safeguard systems of the program. ADB RBL programs exclude activities that are classified as category A in the SPS.

<sup>46</sup> Safeguard Policy Statement (2009).

<sup>47</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 111).

## Assessment

50. **All nine approved RBL programs have complied with this important policy requirement.** ADB duly examined the program’s potential safeguard impacts and carried out a diagnostic assessment of applicable and relevant laws, regulations, rules, and procedures for managing and mitigating the environmental and social impacts of the program. The PSSA concluded that the DMC’s own program systems can adequately manage and mitigate the environmental and social impacts of the overall program. In addition to the preparation of PSSA, ADB also effectively used the option of including safeguard strengthening measures in the Program Action Plan (PAP).<sup>48</sup> The PSSA was disclosed on time through dedicated sections of ADB website. During program processing, program teams also excluded all high impact safeguard activities from the RBL scope (Table 11).

**Table 11: RBL Compliance with the Safeguard Policy Statement**

Country	RBL Program	Environment	Involuntary Resettlement	Indigenous People
<b>Sri Lanka</b>	Education Sector Development Program	B	C	C
<b>Sri Lanka</b>	Skills Sector Enhancement Program	B	C	C
<b>India</b>	Kerala's Additional Skill Acquisition Program	B	C	C
<b>Philippines</b>	Senior High School Support Program	B	B	B
<b>India</b>	Supporting National Urban Health Mission	B	C	C
<b>Armenia</b>	Seismic Safety Improvement Program	B	C	C
<b>Indonesia</b>	Electricity Grid Strengthening Program	B	B	C
<b>PRC</b>	Guizhou Vocational Education Program	B	B	B
<b>Solomon</b>	Transport Infrastructure Improvement	B	B	C

PRC = People’s Republic of China, RBL = results-based lending.  
Source: Asian Development Bank.

51. **ADB staff and DMC clients requested for more specific capacity development programs on safeguards, since the preparation of the PSSA is considered unique.** In 2014 and 2015, regional departments and the Environment and Safeguards Division of SDCC (SDES) organized specific capacity development programs, in response to processing teams requests for guidance on SPS application to RBL operations. ADB will continue to deliver such specific training modules, which could also be made available to DMC counterparts. If the safeguard system is considered weak, ADB will encourage the use of more institutional strengthening DLI (see also section on DLIs). SDCC should work closely with relevant regional departments to ensure that the proper monitoring of required safeguard actions is carried out.

52. **Focus groups suggested allowing activities classified as Category A in the SPS to be included in the RBL program.** In particular, ADB staff working in the infrastructure sector suggested that RBL operations should allow category A activities, when such exclusion affects the overall scope and effectiveness of the program. However, ADB considers the exclusion of category A activities to be a critical policy requirement and will continue to follow this principle, at least until the end of the pilot period.

<sup>48</sup> For instance, Sri Lanka RBL (Secondary Education) has included safeguard specific actions in the PAP and the EA has been using this action plan during the implementation.

### 3. Fiduciary Assessments on DMC's Own System

#### Requirement

53. **ADB and DMC clients are required to assess the DMC's own fiduciary systems.**<sup>49</sup> This includes assessing financial management, procurement systems, and anticorruption measures.<sup>50</sup> The scope of the assessments will depend on the nature of the RBL program and its boundary. The assessment includes review of (i) applicable rules and procedures of the DMC, (ii) the capacity of the relevant agencies to follow its own fiduciary system, (iii) the agencies' practices and performance in relevant fiduciary areas, and (iv) required improvements. The outcome of the assessments and the ability of the DMC's fiduciary systems to mitigate the identified risks, if any, are summarized in a program fiduciary systems assessment document.

#### Assessment

54. **All nine RBL programs conducted fiduciary system assessments in accordance with RBL policy requirements.** Integrated system assessments were conducted on both country- and agency-specific systems in the areas of (i) financial management, (ii) internal controls, (iii) transparency, (v) procurement capacity and practice, (iv) audit requirements, and (v) the government's fund flow mechanisms. In six out of nine RBL programs, the assessment referred to the Transparency International Corruption Perception Index<sup>51</sup> and its data sources to gain more insight into the DMC's institutional setups, anticorruption standards and possible mitigation measures. In addition to the standard assessments, other assessments were conducted when processing teams deemed necessary. For instance, five of the nine RBLs prepared supplementary assessment documents in the areas of financial management and procurement. A fiduciary system assessment is a resource-intensive exercise but ADB staff and DMC clients generally appreciate the requirement. Overall, survey respondents (63% of ADB staff and 95% of DMC clients) found fiduciary system assessments *very or somewhat useful* (Table A3.2, Appendix 3).

55. **Fiduciary systems assessments should not be conducted in isolation.** The three key elements of the fiduciary systems, i.e., financial management, procurement, and anticorruption, are interrelated with other aspects of RBL operations. The required system improvements identified by the assessments form part of the PAP. As an important feature of RBL, ADB and DMC clients may also consider including the results of system improvements as DLIs.

56. **Due to the novelty of the systems assessment approach, ADB staff faced challenges in conducting fiduciary system assessments.** Some ADB staff sought greater clarity on who in ADB would be accountable for deciding that the DMC's own fiduciary system provides reasonable assurance that program financing would be used economically and for intended purposes. Processing teams, primarily with OSFMD's leadership, had to ensure the quality and comprehensiveness of the assessment, covering risks and mitigating measures, and include these in the PAP. OSFMD will continue to be the lead department for fiduciary system assessments. Despite these challenges, all processing teams worked together effectively and

<sup>49</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 160).

<sup>50</sup> ADB's Second Governance and Anticorruption Action Plan (GACAP II) introduced a risk-based approach to managing governance and corruption risks in 2006. RBL programs have benefited from such an approach to manage fiduciary risk.

<sup>51</sup> <https://www.transparency.org/cpi2015>

found solutions through a learning-by-doing approach. ADB also worked closely with the World Bank PforR teams to exchange best practices.

**57. Fiduciary system assessments involve a paradigm shift.** ADB staff are familiar with the traditional project administration approach that entails the preparation of a procurement plan, cost analysis, and disbursement projection. Any new approach, however, requires an element of interpretation and learning, and this has certainly been the case for fiduciary system assessments. Fiduciary system assessments in RBL operations have varied in robustness and in length—from a focused 10-page fiduciary system assessment document (for instance, Philippines and Armenia RBLs) to documents of over 100 pages, with additional supplementary fiduciary reviews. These additional reviews have led to understandable concerns about the excessiveness of some fiduciary system assessments. ADB encourages staff and DMC clients to make optimal use of existing assessment documents, rather than undertake lengthy fiduciary reviews from the beginning. In this context, the assessments prepared for RBLs in Armenia, Indonesia, Sri Lanka, India, and PRC made effective use of information drawn from existing documents. About two-thirds of ADB staff and the majority of DMC clients, 64% and 83% respectively, felt that a dedicated training program on fiduciary system assessments would be useful and should be delivered in the coming years. OSFMD is currently preparing additional guidance for staff on how to conduct fiduciary system assessments.

#### **4. Program Action Plan**

##### **Requirement**

**58. ADB and the DMC client are required to prepare a program action plan to be executed and monitored during RBL program implementation.**<sup>52</sup> The PAP supports effective and efficient implementation of the RBL program. It is a key tool for capacity development. As appropriate, the PAP may include actions to support the achievements of results including DLIs, strengthen the program's systems and institutions, increase agencies' capacity, and mitigate risks. All actions in PAP must have strong government ownership. In designing the PAP, the program team and DMC clients also need to consider the sustainability of these actions. Critical program actions should be sustained and scaled up during and even after program completion to support continued system improvements.

##### **Assessment**

**59. All RBL programs prepared a robust PAP as required in the RBL policy.** For the nine approved RBL operations, ADB has identified a total of 269 program actions or 29 actions per RBL on average (Table 12). These actions can be broadly categorized as (i) sector specific, (ii) safeguards, (iii) procurement and financial management, (iv) program monitoring, and (v) project administration unit support. The PAP documents were prepared based on various program system assessments (para 48) and have been integrated with the DMC's systems and procedures. ADB has highlighted the importance of limiting the number of PAP. As such, the PAP includes only a limited set of priority actions in the above five areas. The PAPs have enabled ADB teams to focus on additional measures not included in DLIs. For instance, fiduciary assessments prepared for the Indonesia power sector RBL highlighted three areas for improvement, i.e., reporting systems, procurement management capacity, and guidelines development which were included as an integral part of the PAP.

<sup>52</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila (para 123).

60. During the first half of the pilot period, some ADB staff asked more clarity on distinction between institutional strengthening DLIs and PAP items. ADB clarified that DLIs generally relate to results (e.g., shortened procurement time), while PAP tends to include “actions” leading to improved systems (e.g., streamlined procurement process). Realizing the full potential of PAPs is directly linked to enhancing the focus of RBL operations on forward-looking institutional strengthening and capacity building measures over the program implementation period. ADB should continue to develop high quality and implementable PAPs. ADB could expand the sections on PAP in future capacity development programs.

**Table 12: Program Action Plan and Type of Actions**

Country	RBL Program	Sector Specific	Safeguards	Procurement/ Financial Management	Program Monitoring	PAU Support	TOTAL
<b>Sri Lanka</b>	Education Sector Development Program	4	3	8	0	4*	19
<b>Sri Lanka</b>	Skills Sector Enhancement Program	10	6	15	2	11*	44
<b>India</b>	Kerala's Additional Skill Acquisition Program	7	5	8	3	6*	29
<b>Philippines</b>	Senior High School Support Program	13	3	5	6	4	31
<b>India</b>	Supporting National Urban Health Mission	7	5	13	4	5*	34
<b>Armenia</b>	Seismic Safety Improvement Program	11	5	6	7	9	33
<b>Indonesia</b>	Electricity Grid Strengthening Program	7	7	10	2	0	26
<b>PRC</b>	Guizhou Vocational Education Program	5	4	5	3	2	19
<b>Solomon</b>	Transport Infrastructure Improvement	12	3	9	4	6	34
<b>TOTAL</b>		76	41	79	31	17	269

PAU = project administration unit, PRC = People's Republic of China, RBL = Results-Based Lending.

\*These actions specifically support gender and social equity.

Source: Asian Development Bank.

## **D. Other Issues Relevant to RBL Operations**

### **1. Information and Communication about the Instrument**

61. **Since the RBL policy was approved in March 2013, ADB has delivered 14 workshops in which more than 300 ADB staff have participated, including 14 members of the Board of Directors.** The sessions typically run for one day or a half day and cover the main features of the modality, the challenges and lessons learned from experience, advice on preparation of DLIs and assessments, and other key features. The sessions usually end with panel discussions among RBL practitioners. The training and/or familiarization sessions have received positive feedback and the outreach appears to have been successful. Among ADB survey respondents, 97% who have not yet used RBL indicated that they were aware of the instrument, and 72% of these said they knew at least basic concepts. While general awareness raising programs should not be neglected, it is now time to progress to more detailed and

specific training sessions (e.g., on conducting systems assessments, identifying the results chain, and designing DLI and verification systems).

62. **Eleven briefing sessions were also conducted for DMC counterparts in seven countries.** Two types of briefings were conducted: five general briefings, separately or in connection with country programming exercises, and six focused briefings for countries where RBL operations were under preparation or were being seriously considered. Among government officials in countries or agencies that had not used RBL, 61% of survey respondents indicated that they were aware of the instrument. The majority of them (73%) responded that they were “somewhat familiar” with the modality, pointing out that there is still scope for awareness raising among ADB clients.<sup>53</sup>

63. **ADB keeps the general public informed of RBL and the progress in its utilization through a dedicated page on its website,** which includes links to policy documents, individual programs, videos, and resources such as questions and answers and contacts. During 2015 the page received 3,227 hits, 57% of which remained on the site after viewing one page.<sup>54</sup>

## 2. Other Results-Based Financing Instruments

64. **ADB has included other results-based financing instruments under the RBL policy umbrella and related staff guidance.**<sup>55</sup> For instance, the RBL policy refers to output-based financing (OBF) which is a modified version of the RBL instrument designed to enhance access to infrastructure and social services for specific target beneficiaries, normally poor households or disadvantaged groups, through the use of performance-based payments. OBF links the disbursement to the delivery of specific services or outputs, such as the connection of poor households to water supply systems and electric grids, or the provision of prenatal care and safe motherhood services to new mothers. OBF aims to promote inclusive services, otherwise not within the reach of the poorest households and beneficiaries.

65. ADB has so far approved only two operations using OBF. In both cases, regional departments processed the projects based on the existing ADB policies and procurement guidelines. Regional departments have requested the Strategy and Policy Department to prepare dedicated OBF guidelines. In particular, they feel that clear guidelines are needed on (i) how OBF can be processed in light of the 2013 ADB policy on RBF; (ii) what are the differences and similarities between OBF and RBL; and (iii) required business processes for OBF operations. Considerations will be given to how the existing and parallel RBL practices and guidelines could be applied to OBF directly or in a minimally modified manner, when updating the RBL staff guidelines. Dedicated staff guideline for OBF operations may be prepared, if deemed necessary.

## VI. RESULTS-BASED FINANCING IN OTHER DEVELOPMENT PARTNERS

66. Among the multilateral development bank (MDB) group, the World Bank has been the leading institution using RBF with the approval of over 36 PforR programs. The IADB introduced

<sup>53</sup> Half of DMC respondents who had not previously used RBL cited “not knowing enough about the instrument” as the reason why their government was unlikely to use RBL in the next 5 years.

<sup>54</sup> The highest number of views was for the general page (68%), followed by general and frequently asked questions (24%), and information on specific projects (4%). In addition, three videos on RBL were viewed 994 times. Source: Google Analytics. <http://www.adb.org/site/public-sector-financing/results-based-lending-programs>

<sup>55</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila; and ADB. 2013. Staff Guidance for Piloting Results-Based Lending for Programs. *Compendium of Clarifications*. Manila.

Performance-driven Loans (PDL) in 2003 on a 6-year pilot basis. IADB is currently updating its policy to reflect experience drawn from PforR and RBL operations. Both AfDB and EBRD have also worked with ADB to learn from ADB's experience on RBL operations. Those two institutions may prepare relevant policies to pilot test RBF. Other emerging financing institutions, most notably Asian Infrastructure Investment Bank and the New Development Bank, were also consulted by the Review team. Both banks have indicated their interest in a results-based financing approach and have agreed to explore mutual cooperation with ADB (Appendix 4). Other bilateral development partners consulted were KfW, AFD, and Japan International Cooperation Agency. KfW and AFD are currently exploring possible cofinancing operations with ADB for future RBL operations in the East Asia and Central and West Asia regions.

#### **A. Performance Driven Loan—Inter-American Development Bank**

67. The PDL was introduced on a pilot basis in 2003 as a way of reflecting client's increased focus on results. The pilot program was intended to last for 6 years (2003–2009) to allow sufficient time for some PDL loans to complete their execution. During the PDL's pilot phase, IADB faced a few major challenges.<sup>56</sup> The first challenge was the policy's requirement to establish a direct relationship between expenditures and outcomes. This was in many cases unrealistic, particularly in sectors where IADB, government and other partners, were supporting the same national development program. In the health sector, for example, output costs such as training of health professionals could be determined, but the final outcome of reducing under-five child mortality rates was achieved through financing a combination of many lower level results (and often inputs) that were supported by various financiers. Since the borrower was accountable for selecting the means of achieving results, the task of costing lost relevance. The second challenge was the requirement to verify expenditures that was added during the course of the pilot period. This constituted a double burden for DMC clients, as loan proceeds were supposed to be disbursed only against the achievements of agreed results. The additional requirement to verify expenditure made the PDL transaction costs higher than those of traditional investment loans. It also weakened the emphasis on results and reverted to an expenditure control practice.

68. The last PDL was approved in November 2009 and in effect the pilot program has been allowed to lapse, pending further evaluation. IADB is currently updating its policy to try to reintroduce the instrument, drawing on the experience of PforR and RBL operations. ADB and IADB have been working closely to exchange views and experiences on using RBF instruments. In March 2016, ADB and IADB organized a joint seminar on RBL/PDL operations and some 50 participants, including ADB Management, staff, and Board members, joined the session. A joint ADB and IADB mission was also arranged to visit one of the ADB RBL programs.

#### **B. Program for Results—World Bank**

69. The World Bank introduced the PforR instrument in January 2012. It was designed to respond to changing development needs, meet demands from clients, and increase development effectiveness. The World Bank has so far approved 36 PforR operations, totaling \$7.1 billion.<sup>57</sup> 25 more PforR proposals (worth around \$9 billion) are under preparation. Although the major clusters of PforR operations are still in social and urban sectors, more energy and other infrastructure sector PforR will be considered for approval between 2016 and 2019. ADB and the World Bank have mutual interest in sharing results and various assessment documents when supporting the same government program using respective RBF instruments.

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<sup>56</sup> <http://publications.iadb.org/bitstream/handle/11319/5865/IDB-9%3a%20Lending%20Instruments.pdf?sequence=1>

<sup>57</sup> As of March 2016.

Against this backdrop, ADB and the World Bank shared various program documents between 2013 and 2015.

70. In 2015, the World Bank conducted its 2-year review on PforR operations. The PforR review findings are similar to the findings highlighted in this paper with a few variations. The main findings of the PforR review included: (i) overall high satisfaction with the PforR features,<sup>58</sup> (ii) general consistent application of the PforR policy requirements in ongoing PforR operations, (iii) some concerns with the procurement exclusion requirement, that in some cases may affect the integrity of overall program scope, (iv) strong demand for PforR by World Bank clients, and (v) constraint of the 5% ceiling applicable to PforR operations to accommodate growing demand. Based on the general positive findings, compliance with the relevant World Bank policy, and strong demand for the PforR operations, the World Bank raised the PforR ceiling from 5% to 15% of the 3-year average of total IBRD/IDA commitments. The World Bank also approved the inclusion of high value procurement contracts on an exceptional basis when such procurement contract is considered essential to the overall integrity of the program (Appendix 5).

## VII. SUMMARY OF FINDINGS

71. The Review assessed the early experience with the design and implementation of RBL operations to identify emerging lessons and recommend possible changes to strengthen the instrument. More specifically, the Review tried to assess to what extent RBL operations have been able to (i) support government-owned development programs; (ii) enhance accountability for achieving development results by linking disbursements to the achievement of DLIs; (iii) strengthen DMCs' own systems on the basis of the outcome of various system assessments; and (iv) develop institutional capacity through an effective use of DLI and other tools. This section sums up the main findings of the Review.

72. **RBL programs helped support government-owned development programs.** Situating the RBL program as an integral part of the broader government program has had several positive outcomes. First, RBL has helped build up accountability and DMC ownership by placing the responsibility for achieving the agreed results on government structures and not on new project management unit. Success no longer depends on a small group of implementers who often use externally driven procedures. It now requires various agencies and/or levels of government to cooperate towards a common goal. Second, RBL supports the retention of skills and experience within the DMC systems by relying on existing government program and its staff. In the case of other financing instrument, parallel implementation units staffed largely by consultants are often dissolved after project completion and do not leave behind practical knowledge and capacity. Third, RBL creates a platform that favors the coordination and aggregation of development financing by aligning resources behind government-owned programs.

73. **RBL programs have enhanced the accountability for achieving results.** Achieving results with the proper identification of DLIs is the centerpiece of RBL. Although survey respondents found it difficult to formulate DLIs, all nine of the RBL programs effectively developed appropriate DLIs with a robust results-chain analysis and program boundary setting. RBL can lend realism to aspirational government programs through more careful analysis of the results chain. It is common for government programs to respond to political aspirations and set equally aspirational targets. Through the due diligence performed in the preparation of an RBL operation, ADB and DMC clients defined specific targets that may have fallen short of the official

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<sup>58</sup> Key PforR features are similar to the RBL features described in para 3 of this paper.

ones but were grounded in reality and developed a more thorough understanding of country conditions and limitations. DMC client feedback has been largely positive, with appreciation for the optimal use of government programs and focus being placed on development results, with program implementation centered on technical issues and policy dialogue rather than transactional issues. Governments have shown a strong sense of ownership for the DLIs, much more so than for traditional results monitoring tools (e.g., the DMF).

74. **The strengthening of DMCs' own systems based on technical and other system assessments could also lead to other gains.** Institutional strengthening and the achievement of results go together in RBL. Institutional strengthening serves as a means to achieve results and as a vehicle to mitigate risk. As a starting point, ADB examines an existing government program. Such government programs are often still broad-brushed and missing many detailed steps on how to achieve the desired results. By re-examining the results, defining the results chain, and setting up intermediate indicators, RBL can help sharpen the planning and implementation process, and contribute to its success. For the first half of the pilot period, RBL effectively conducted program system assessments. Such assessments were used to address risks and help improve system weaknesses. It may be useful to strengthen the links between systems assessments and institutional strengthening. The adoption of more institutional strengthening DLIs could act as an additional trigger in this respect.

75. **The RBL instrument shows strong potential to become an important financing instrument.** Since the introduction of the pilot 3 years ago, ADB has approved nine RBL programs and has nearly reached the 5% ceiling imposed by the RBL policy for the first half of the pilot period. Initially, education was the predominant sector. More recently, infrastructure sectors, in particular energy and urban development, have also processed new RBL programs, and several more infrastructure RBLs are in the processing pipeline. The application of RBL to these non-traditional sectors generally follows the trend of the World Bank's PforR.

76. **Early experience has been positive.** The policy requirements have been followed and implementation is on track. RBL has made ADB's operations faster. Evidence shows that program processing and disbursement are faster than those of other financing modalities. At the same time, it is important to highlight that RBL is not a quick disbursement tool. ADB and DMC clients still need to work closely to achieve the results but the nature of engagement changes from a focus on day to day transactional issues to a broader and programmatic role. Feedback from those who have had direct experience with the instrument (both DMC officials and ADB staff) has been positive, with the majority indicating that they would use the instrument again in the near future. While no major change in the design of the instrument appears necessary at this stage, some possible improvements have been identified.

## VIII. OPTIONS FOR CONSIDERATION

77. Building on the findings of the Review, **ADB should further refine the pilot modality.** Early challenges ADB faced were the novelty of the RBL approach, the balance between ensuring sound and robust assessments yet taking heed of the government time and resources required, and the lack of operational examples to follow. Continued capacity development programs and effective information sharing (within the ADB team and with the Board) will help resolve these challenges. Based on this review, the following refinements are suggested.

- (i) **Greater use of institutional strengthening DLIs.** DLIs and clear setting of the program boundary are fundamental determinants of the architecture of any RBL operations. The Review notes that ADB has been effectively using a good mix of

outcome- and output-level results as DLIs. To capitalize on the potential of RBL to strengthen systems and institutions, ADB should encourage greater use of institutional strengthening DLIs in future RBL operations (see paras 40, 47, and 51).

- (ii) **Enhanced harmonization with the World Bank and other development partners.** Through the adaptation of common results-areas with other developing partners, RBL can provide a strong platform for enhanced donor coordination. With PforR and RBL instruments, the World Bank and ADB have been developing common results-areas in a few countries. Both institutions have agreed to share DLIs and results-framework for future RBL operations. ADB should continue to closely collaborate with other development partners by sharing common results areas and assessment documents, and making use of suitable assessments prepared by other sources (see paras 42 and 45).
- (iii) **Additional information sharing, guidance and training.** There is a clear need for additional information sharing, exchange of good practices, and additional guidance and training for ADB staff, members of the Board and government officials. Effective communication and information sharing with the Board is critical to demonstrate that ADB duly follows the guidance embodied in the approved RBL policy paper and associated staff guidance. The RRP template should be revised, with additional information on (a) the justification of DLIs, results-chain, and the verification mechanism, (b) the description of program boundary, and (c) brief descriptions on how the intended results are to be achieved. The proposed new template should also consolidate some of the duplicable information to avoid redundancy across the document. For example, results, their verification, and remedial measures to upgrade program systems are to some extent discussed in five different sections: the DMF, the results framework, the DLIs, the verification protocols, and the risk management table. This should be complemented with necessary update and introductions of staff guidelines, more specific and targeted capacity development activities, and enhanced communication across ADB and DMC clients (see paras 36–37, 43, 46–47, and 61–65).
- (iv) **Review of procurement contract thresholds applicable to RBL operations.** Under the RBL policy, high-value procurement contracts may not be contained as part of an RBL program. The specified procurement thresholds were harmonized with such thresholds applicable to the World Bank's PforR financing at the time to strengthen coordination during program implementation between ADB and the World Bank. The policy noted that these amounts may be changed from time to time and the RBL threshold would be adjusted accordingly. The above amounts are no longer applicable to PforR operations. Since May 2015, the World Bank has adopted new procurement thresholds to PforR operations. Those thresholds vary based on the level of risks. ADB has initiated a review of its existing procurement policy and procedures applicable for ADB operations. As part of this work, the thresholds applicable for high value contracts under RBL and approaches for their inclusion should be reviewed, without undermining

ADB's oversight on the quality of projects outputs when the government is not fully capable of ensuring it (see paras 30 and 31).<sup>59</sup>

78. **The RBL ceiling is a major constraint to meeting the strong demand for RBL.** For the first half of the pilot period, ADB limited the resource allocation for RBL programs to 5% of the total OCR and ADF resource allocations. Setting the ceiling at 5% of the 3-year total resource allocation, without specifying the exact annual limit, was appropriate and has provided the needed flexibility for ADB to build the RBL pipeline gradually over the 3 years. The RBL policy paper did not stipulate a specific ceiling for the remaining 3 years of the pilot but noted that Management may propose to the Board to lift the 5% cap if justified by a review of RBL implementation (para 163 of the RBL policy). As noted in Section IV, the demand for RBL for the second half of the pilot period is expected to be high. In these circumstances and in light of the positive implementation experience to date, the resource allocation ceiling for RBL operations should be reviewed and possibly increased to 15% of the total OCR and ADF resource allocations for the second half of the pilot period. This suggestion is similar to how the financing commitment for the World Bank's PforR operations has evolved since 2011.<sup>60</sup>

79. While most refinements proposed would not require changes to the RBL policy, the proposal to raise the RBL ceiling would require Board approval. Management could prepare a separate board paper in 2016 recommending that the Board approve the lifting of the RBL ceiling to 15% of ADF and OCR approvals for the remaining 3 years of the pilot, based on the general positive findings of this review, compliance with the RBL policy, and expected strong demand from ADB DMCs.

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<sup>59</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:22820087~menuPK:4564185~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html>

<sup>60</sup> The World Bank initially set a limit for PforR equivalent to 5% of total IBRD/IDA commitments for the first 2 years. During the 2-year review of PforR operations, the World Bank raised the ceiling to 15% in April 2015. This ceiling is still applicable to date.

## **RESULTS-BASED LENDING STAFF CONSULTATIONS SUMMARY**

### **I. Consultation Approach and Methodology**

1. ADB Staff consultations were held between January and March 2016. A total of 6 focus groups were arranged, lasting two hours each and moderated by an external facilitator. Focus groups were centered around specific themes and issues related to:

- Infrastructure programs
- Social sector programs
- Social and environmental safeguards
- Fiduciary and procurement assessments and risks
- Initial experience with Results-based Lending (RBL) programs implementation
- Legal issues

### **II. Summary of the Discussions**

2. Participants held frank and open discussions. Key suggestions include:

#### **RBL Program Design**

- Preliminary screening can be helpful to identify operations that are good candidates for use of RBL modality, before much investment has been made in either detailed project design or system assessments. Late conversions from one to another modality are likely to be more problematic and increase risk.
- It is important to resist the temptation to apply a project or sector approach to RBL. The emphasis must shift upstream from project-specific details to systems. Safeguard assessments, economic evaluation, program design require a different mindset. It is a learning process for member country officials and ADB staff alike.
- It may be useful to give staff some guidance on how comprehensive the reference government program should be. The flexible interpretation of this feature has resulted in widely different concepts, from very structured programs to compilation of broad strategic or planning documents to define a program
- ADB RBL programs have the ability to leverage and influence far larger government programs. The optimal size and balance between ADB financing and the overall government program should be carefully considered.
- In addition to the specific contribution made by an RBL program to achieving sector results, value addition by RBL comes from (i) improving country systems applied to the program, with potential demonstration effect; (ii) working with governments on strengthening a result orientation; (iii) making governments and executing ministries or agencies accountable to their own citizens for achieving clearly defined program results; (iv) shifting the focus from individual transactions to systems; (v) reducing preparation time and transaction costs; and (vi) creating a platform whereby a number of development partners can come together to support a government program in a coordinated manner, using the same country procedures.

### **RBL Program Assessments**

- Assessments of program systems must look at both the legal/regulatory framework and their implementation in practice. In many cases, the legal framework is compatible with ADB requirements, but difficulties emerge in applying these frameworks. ADB's contribution and program action plans can help by focusing on implementation of country legal frameworks through systems associated with a RBL program.
- Fiduciary assessments should include a review of fund flow mechanisms according to government systems, to ensure that funding is allocated to the units and levels responsible for implementing RBL programs in a timely manner. Timely fund allocation by Government is necessary to implement RBL activities and procure the needed inputs to achieve program results.
- National procurement systems are often not too far from ADB requirements, but (i) they typically include some national preference or requirement and/or (ii) exclude the participation of foreign bidders. If needed, required actions can be elevated to disbursement linked indicators (DLIs).
- Weaknesses typically found in procurement systems assessments include limited advertising, control of qualifications, and weak complaint handling mechanisms. It is important for assessments to be program-specific.
- Country systems as a whole may be inadequate, but at the sector or executing agency level there may be enough capacity to allow application of a RBL approach even in countries with relatively weaker systems.
- The thorough assessments required by RBL are useful to strengthen country capacity, but resource intensive. There is scope to take fuller advantage of them by financing repeat operations or successive tranches of a same program, which would only require updates and would allow ADB to support more comprehensively the upgrading of program systems.

### **Disbursement Linked Indicators and Verification Mechanisms**

- Good RBL program design relies on clearly identifying a results chain, and an underlying “theory of change” i.e. determining that the achievement of certain outputs will produce the desired outcomes.
- In a number of cases (Indonesia power sector, Sri Lanka skills development) the approach has been harmonized with the World Bank by choosing the same or complementary DLIs and making use of each other's assessments as a starting point.
- While striving to set sufficiently ambitious targets, RBL programs need to differentiate between officially stated aspirational objectives, which may be politically motivated, and realistically achievable goals.
- The choice of DLI must be realistic and consistent with the RBL program duration. It should combine output indicators and key program actions with some outcome indicators, if possible. Realistically, most outcomes and impacts will be achieved and become measurable only after conclusion of the program.
- Outcome indicators may be easier to achieve within the duration of ADB financing in infrastructure programs than in social sector ones. However, infrastructure programs' DLIs are not as likely to have a “human face” as they do in social sector RBL. In infrastructure programs, the achievement of physical outputs—though not as appealing—may be as relevant as number of additional program beneficiaries.

- RBL preparation time is shortened because ADB does not need to identify and cost specific activities and inputs. As a result, there are no unit or standard costs to use as a base to decide the amount of financing associated with the achievement of a particular DLI. It is therefore useful to have a general feel for unit costs, to be able to relate specific output DLIs with disbursement amounts. This analysis could be included in the assessment of the expenditure framework.
- Under RBL, ADB will not monitor single transactions (resettlement plans, procurement, environmental mitigation plans during construction). Monitoring systems that allow macro level oversight and troubleshooting (for example of procurement or compensation) may be most appropriate to spot inconsistent application of policies.<sup>1</sup>

### **Safeguards**

- ADB's Safeguard Policy Statement (SPS) includes both principles and procedural elements, which can make it complicated to ensure compliance with SPS without becoming prescriptive about how program systems should be applied. Dimensions include "meaningful" consultation, plan preparation, disclosure, monitoring, and a grievance redress system.
- The exclusion of environmental Category A projects from RBL is justified by the fact that negative impacts may go undetected or may not have advocates that raise concerns, whereas social and especially resettlement impacts are more likely to cause protest and be reported.
- In infrastructure sectors, the exclusion of Category A components suggests that programs that promote rehabilitation of existing infrastructure or development of small scale infrastructure may be the best candidates for RBL. As an alternative, ADB may intervene once larger infrastructure has already been completed by the government under its broader program.
- In cases where activities with higher potential social or environmental impact are excluded from ADB's RBL program in order NOT to trigger higher (A or B) safeguard classifications use of the RBL modality is possible, but may create reputational risk for ADB by association with the broader government program.

### **Program Documentation and Legal Agreements**

- At present, reference to RBL has been removed from the revised Operations Manual section and staff guidelines on additional financing. A clarification should be issued on the permissibility of additional financing for RBL, and/or the guidelines supplemented.
- There is some redundancy in the current documentation: results, their verification, and remedial measures to upgrade program systems are to some extent discussed in five different sections: the design and monitoring framework, the results framework, the disbursement linked indicators, the verification protocols, and the risk management table. There may be some scope for consolidating the presentation and improving clarity in the process.
- In some cases, criticism of an RBL program may be the result of unclear communication or partial understanding. Given the page limits on report and recommendation of the

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<sup>1</sup> For example, the Indonesia RBL included as a prior action the development of an online procurement monitoring system that allows the analysis of trends and the spotting of unusual situations.

President (RRP), the linked sector assessments are an important complement that must be read to obtain a comprehensive picture of the program.

- Some loan agreements were formulated in such a way that if there is backsliding on one DLI, ADB will not disburse for other DLIs, even if they are achieved. This is not a requirement of the policy, and is excessively restrictive. Loan agreement templates should be adjusted accordingly.
- Some countries have requested a program agreement between ADB and the implementing agency(ies) for symmetry with project agreements when the implementer of a sovereign operation is not a central government entity, but a local government. This is not required by the RBL policy.
- Introduction of additional procedural requirements for the ADB-funded part of the government program (for example performance agreements between the Ministry of Finance or the central ministry and decentralized implementation units) is usually not appreciated by the government and difficult to fit into normal country procedures.

### **Early Implementation Experience**

- Implementation supervision of RBL programs receives the same level of attention (two review missions per year) as projects or sector operations.
- The nature of project implementation supervision changes. There is less of a role for project analysts because no procurement review is carried out. Monitoring of safeguards and program action plan implementation become more important, and require a team approach because a diverse set of skills is required.
- The emphasis of consulting services associated with RBL is more on monitoring systems and on addressing capacity and systems gaps, as opposed to detailed project design and implementation.
- The role of counterpart units in Government is also different, with emphasis on coordination, analysis of the compatibility between implementation plans and project objectives; and reporting on results.
- Often the Government “projectizes” to some extent ADB support by adopting one or more of the following approaches: (i) establishing a specific unit to interface with ADB in addition to the Government structure for the project; and (ii) tracking the use of ADB funds.
- Central Government representatives (Ministry of Finance) are usually quite vigilant in ensuring that RBL implementing ministries do not receive funds unless DLI have been met. They are the first ones to be critical if they feel the program is not sufficiently ambitious.
- If the program is not able to utilize all the funds because some DLI have not been met, normal approaches apply, i.e. the project can be extended, or funds can be reallocated using the procedures and criteria for a change of scope. If the RBL expected impact changes, it is necessary to obtain Board approval. None of the projects under implementation has yet reached this stage.

## OVERVIEW OF EXPERIENCE WITH RESULTS-BASED LENDING OPERATIONS TO DATE

### I. SRI LANKA

#### A. Program

Sri Lanka was the first country to utilize the results based lending (RBL) modality. Two RBL operations have been approved: the 2013 *Education Sector Development Program* (ESDP) and the 2014 *Skills Sector Enhancement Program* (SSEP).<sup>1</sup>

The **ESDP** was designed to modernize Sri Lanka's secondary school system, to enhance youth employment and meet the country's urgent need for a skilled workforce. The program will help integrate school assessments with external exams to improve pass rates, introduce a technology stream to enable graduates to move more easily into vocational courses, and upgrade the quality of teaching, training institutions, and learning facilities. Disbursements are triggered by results on improved student learning, equitable and efficient school systems, strengthened school leadership and improved capacity for program planning and implementation. Total Program cost is estimated at \$4.9 billion. ADB finances a \$200 million slice equally through ordinary capital resources (OCR) and Asian Development Fund (ADF) resources, equivalent to 4% of the program cost and 28% of the capital budget. The loans cover a 5-year period, from 2013 to 2017. As of 29 February 2016 the loan had disbursed \$113 million against 14 out of 33 targets. The program is cofinanced in parallel by the World Bank for \$100 million.

The **SSEP** supports the government's Skills Sector Development Program to improve quality, relevance and access to technical and vocation education and training (TVET) system, focusing on four priority sectors: construction, tourism, information technology, and manufacturing. Disbursements are linked to improved quality of TVET provision, enhanced private sector participation in TVET planning and provision, increased enrolment of students in TVET, and strengthened subsector management. Total Program cost for 2014–2020 is \$961 million. ADB supports a 3-year time slice (2014–2016) with \$100 million equally through ADF and OCR resources. As of 29 February 2016 the loan had disbursed \$57 million against 16 out of 28 targets. The program is cofinanced in parallel by World Bank (\$101 million), the Export-Import Bank of Korea (\$26 million) and the Government of Germany (\$15.4 million grant).

#### B. Feedback from Consultations

A review team visited Sri Lanka in March 2016 and met with central government representatives, line ministries and agencies, ADB staff and other development partners to discuss the RBL experience. Both Ministries involved in current RBL operations expressed their satisfaction with the modality, are interested in being informed of its evolution and any new features, and are likely to request using it in future operations. The External Resources Department of the Ministry of Finance and Planning also welcomed the use of RBL, found it was performing well, and saw the potential for expanding its use in sectors where the capacity of the relevant Ministries and agencies is reasonably strong. Consultations with SLRM Management and staff responsible for country programming suggest that any additional financing for the education or skills development sectors is likely to adopt RBL. Other potential sectors are

<sup>1</sup> ADB. 2013. *Proposed Results-Based Loans. Democratic Republic of Sri Lanka: Education Sector Development Program*. Manila; and ADB. 2014. *Proposed Results-Based Loans. Democratic Republic of Sri Lanka: Skills Sector Enhancement Program*. Manila.

infrastructure (particularly rehabilitation in the road sector and water supply and sanitation), where the RBL modality presents an opportunity to include among the disbursement linked indicators (DLI) measures to increase sustainability through better attention to operations and maintenance needs.

Staff in World Bank Sri Lanka indicated that at the moment they do not have Program for Results (PforR) operations—the equivalent of RBL—in Sri Lanka. The two World Bank projects associated with education and skills development are investment projects structured around a Results-Based Financing (RBF) modality. Approximately 96% of the combined funds under the two projects are disbursed against DLI. World Bank and ADB shared sector assessments during the preparation of these operations, and in some cases set the same DLI as triggers for disbursement. Missions are usually conducted jointly or open to participation of the other institution, and documents are shared. There is interest for continuing this cooperation in the future.

## II. INDONESIA

### A. Program

ADB's first power sector RBL operation, *Perusahaan Listrik Negara Electricity Grid Strengthening – Sumatra Program*, was approved for Indonesia in December 2015 to carry out major power transmission and distribution system upgrades in Sumatra.<sup>2</sup> The program will contribute to increasing Sumatra's electrification rate and the reliability of power supply. Disbursements are triggered by expansions in the PLN customer base and electricity supply, improved stability of supply, and expansion of the transmission and distribution networks. Total program cost is estimated at \$10.8 billion. ADB finances a \$575 million slice of the program through OCR resources. The loans cover a 5-year period, from 2015 to 2019. As of 29 February 2016 the loan had disbursed \$120 million against prior results. The loan is cofinanced by a \$25 million ASEAN Infrastructure Fund B-loan, with ADB as the lender of record. The World Bank is processing a PforR for \$500 million with coordinated DLI to support the same program. As of March 2016, ADB was also processing a RBL operation for the irrigation sector, for presentation to the Board in 2016.

### B. Feedback from Consultations

The review team visited Indonesia in March 2016 and met with central government representatives, the State Electricity Corporation (PNL), ADB staff and other development financing institutions to discuss the experience with RBL in the country. The planning agency (BAPPENAS), Ministry of Finance, and Ministry of State Owned Enterprises all agreed on the benefits of the RBL approach and indicated interest in being informed of its evolution and new features. They singled out infrastructure (and more specifically energy, urban, water and sanitation) as well as education and tourism as potential sectors of interest. When considering RBL operations, the government key areas of concern are (i) the current procurement package ceiling and exclusion of category A components, (ii) the soundness of verification mechanisms, to make sure that the program objectives are met; and (iii) the linkage between the physical outputs delivered and their developmental impact. Over the period 2016–2018, five RBL operations totaling \$2.7 billion are planned (three for energy, one for education, and one for

<sup>2</sup> ADB. 2015. *Proposed Results-Based Loan Perusahaan Listrik Negara Electricity Grid Strengthening – Sumatra Program (Guaranteed by the Republic of Indonesia)*. Manila.

irrigation). Removal or significant relaxation of the ceiling on RBL operations (currently 5% of ADB lending) would be necessary to meet the considerable demands of Indonesia alone.

The World Bank approved its first PforR in Indonesia on energy sector in April 2016. This \$500 million program was prepared over a 12-month period in close consultation with ADB, and utilizes some of the findings of ADB's assessments and some of the same DLI as the ADB loan. The World Bank will rely on the independent verification mechanism established by ADB for the external verification of its DLI. On the other hand, based on its assessments, the World Bank has included in its Program Action Plan some additional measures to make the prequalification process more competitive. These are examples of how coordinated use of the RBL instrument can help advance sector systems and strengthen program implementation.

Agence Française de Développement (AFD) is present in Indonesia with a program ranging from \$100 to \$250 million a year. It expressed considerable interest in cofinancing (probably with ADB) RBL operations in Indonesia, with particular attention to climate change mitigation, education and social protection.

### **III. PEOPLE'S REPUBLIC OF CHINA**

#### **A. Program**

ADB's first RBL operation in the People's Republic of China (PRC), *Guizhou Vocational Education Development Program*, was approved in December 2015 to improve the quality of TVET in the province, and to make it more relevant to employers' needs. The program will support the Guizhou Modern System Establishment Plan 2013–2020 by improving facilities, developing competency based curricula, training teachers and managers at demonstration TVET institutions, and establishing a provincial management and monitoring system. Total program cost is estimated at \$1.6 billion. ADB finances a \$150 million slice of the program through OCR resources and provides a \$600,000 capacity development technical assistance grant to enhance education quality, establish the monitoring system, and strengthen auditing and safeguards capacity. The loan covers a four year period, from 2016 to 2019, and includes provisions for up to \$30 million of financing for prior results and up to \$15 million for advance financing. Counterpart funds for \$1.34 billion are provided by the Government, complemented by \$120 million in student tuition fees.

#### **B. Feedback from the Consultations**

The review team visited the PRC in March 2016. During the visit, the mission met with representatives of the (i) central government (Ministry of Finance and National Development and Reform Commission—NDRC); (ii) Guangxi Province and the Guizhou Education Department and Technical and Vocational Education and Training Program; and (iii) ADB, World Bank and Asia Infrastructure Investment Bank staff, to discuss the experience with RBL in the country.

NDRC indicated that PRC welcomes more use of RBL in the future. A number of sectors were suggested, including energy, urban development, air pollution control, and care for the elderly. The Government expressed interest in exposing potential borrowers (provinces or executing agencies) to more information on ADB modalities, and particularly those that utilize country systems. Staff in the PRC resident mission also saw the value of RBL operations in areas where they can contribute to the implementation of reforms and the strengthening of new agencies and mandates, and of provincial and local governments. While not the predominant instrument for

future operations in PRC, RBL holds potential for expansion based on these criteria and on the opportunity to leverage substantial Government funding and programs.

The World Bank approved its first PforR in the energy sector in March 2016 to support the government air pollution control program. This \$500 million program was prepared in close consultation with ADB's team currently processing a new loan on the same sector. The World Bank is also preparing another PforR program in the Human Development area. The proposal to use the PforR approach was turned down by the NDRC a few years ago, but since then there has been a change of mind, and World Bank is allocating an additional \$1 billion to its country program to test the PforR modality in four sectors: water, air pollution, energy and health. Some of the challenges met by the processing missions include: (i) obtaining sufficient information on Government procedures to prepare robust preliminary assessments; (ii) devising flow of fund mechanisms that guarantee the additional World Bank resources to the Government budget allocation; and (iii) adding technical assistance resources to the program to support the necessary capacity development. World Bank staff expressed interest in sharing experiences and documentation on RBL and PforR for mutual learning. The potential for processing coordinated operations using related DLI is more limited, because in general the Government encourages ADB and World Bank to engage in different sectors and/or provinces.

The mission also met briefly with the Asian Infrastructure Investment Bank (AIIB). At the moment AIIB is in the process of developing its policies, recruiting staff (about 30 are on board and 20 more are being recruited), and processing its first operations. The focus is on investment projects, some of them cofinanced. At this point in time, the development of more complex modalities, such as RBL, is considered premature.

#### IV. OTHER COUNTRIES

##### A. India

During the first half of the pilot period, ADB approved two RBL programs in India. The RBL on supporting Additional Skill Acquisition Program (ASAP) in Kelara was approved in October 2014 and the second RBL on National Urban Health Mission (NUHM) was approved in April 2015.

The Government of India requested ADB's assistance for strengthening and scaling up the government-led ASAP in the state of Kelara, India. A \$100 million RBL program supporting the ASAP was approved in October 2014. The RBL program aims to enhance the employability of the state's youth and create opportunities for productive employment. Total financing needs for the broader government program is estimated at \$200 million of which \$100 million has been financed by ADB with \$1 million CDTA funded by Japan Fund for Poverty Reduction. The program will be implemented for 3 years starting from 2015. As of February 2016, the loan has disbursed \$40 million of which \$20 million was disbursed with financing for prior results. A total of 28 program targets are identified with 6 DLIs. All of the targets are achieved and the program is rated on track.

The **NUHM** supports the government program to improve the health status of urban poor by facilitating equitable access to quality and essential health services. Total estimated budget for the broader government program was approximately \$1.9 billion, of which ADB finances \$300 million (15%) through OCR resources. The program covers a 3-year period, from FY2015–16 to FY2017–18 and includes provisions for up to \$40 million of financing for prior results. As of February 2016, the loan has disbursed \$40 million for prior results. A total of 31 program targets are identified with 7 DLIs.

## **B. Philippines**

The Senior High School Support Program (**SHSSP**) in the Philippines is the 4<sup>th</sup> RBL program approved by ADB in November 2014. The SHSSP will holistically support the development of senior high school education program by improving access and quality of higher education in the country. For the broader government program, the Philippines Department of Education requires a total of \$4.41 billion of which ADB has been financing \$300 million through OCR resources (6.8%). The program boundary was strategically selected to maximize its potential leverage or impact on the government program and this was appreciated by the Government. The program supports the effective establishment and implementation of the senior high school system, with the potential to leverage improvements in the government's basic education system and employment opportunities. The program covers 5 years, from 2015 through 2020 and includes provisions for up to \$15 million of financing for prior results. As of February 2016, the loan has disbursed a total of \$105 million of which \$15 million was disbursed with financing for prior results. A total of 26 program targets are identified with 6 DLIs. All of the targets are achieved and the program is rated on track.

## **C. Armenia**

The first RBL program supporting the urban sector was approved in September 2015. The Seismic Safety Improvement Program (SSIP) has been supporting the implementation of the government-led School Strengthening and Renovation Program by (i) improving school seismic safety during earthquakes, and (ii) enabling better use of school buildings as shelters for emergency response after earthquakes. The total financing need of the broader government program is estimated at 617 million of which ADB has been financing \$88.5 million through ADB's Special Funds resources. The processing team used several innovative approaches to prepare this program. A seismic safety expert in SDCC was involved with the preparation of program design and formulation of DLIs. The program covers 5 years, from 2015 through 2020 and includes provisions for up to \$15 million of financing for prior results. As of February 2016, the loan has disbursed a total of \$22.1 million of which \$4.4 million was disbursed with financing for prior results. A total of 24 program targets are identified with 5 DLIs. All of the targets are achieved and the program is rated on track.

## **D. Solomon Islands**

ADB approved the first RBL program in the transport sector in May 2016. The \$21 million program will support the rehabilitation and ongoing maintenance of transport infrastructure for all users, giving a boost to safety and allowing the climate-proofing of roads, bridges and wharves. As part of the broader government program, the Solomon Islands Government has a target to fully restore and maintain its transport infrastructure by 2030 and RBL will support a slice of the above government program between 2016 and 2020. The RBL modality was justified because (i) it provides a strong incentive for accountability to development goals, and lowering transaction costs, leading to more efficient public spending in the sector; (ii) country systems are largely reliable to deliver a well-defined and monitored program; and (iii) the results-based approach creates a strong platform to harmonize development partner coordination. The loan is expected to become effective by August 2016.

## ONLINE SURVEY METHODOLOGY AND RESULTS

### I. BACKGROUND

1. To complete the information collected through desk reviews, field visits and focus groups, online surveys were administered targeting both Asian Development Bank (ADB) staff and developing member countries (DMC) representatives. A short survey was administered to both ADB staff and DMC representatives who had not used the results based lending (RBL) instrument, to gauge their familiarity with this modality and the likely potential for future expansion in its use. A longer survey was sent to staff and clients who had been involved in RBL operations since 2013, to gain more in-depth understanding of their perceptions and lessons learned during the pilot phase.

2. Questionnaires were designed to allow multiple choice answers, and drew heavily from the survey administered by the World Bank on Program for Results (PforR), to allow a comparison in overall trends. Estimated completion time was 10 minutes for the short questionnaire and 20–25 minutes for the long form. DMC respondents belonged to either the central ministries or agencies that engage with ADB in operations planning (Ministry of Finance and/or Planning and/or Central Bank, depending on the country) or to line ministries and agencies that have in recent years implemented ADB-funded operations (RBL operations in the case of DMC users). ADB non-users surveyed were country and sector directors in operations departments, program economists and team leaders of projects processed in 2015. ADB users were members of the teams that processed the nine RBL operations approved by ADB between 2013 and 2016. Details about the surveys size and response rates are shown in Table A3.1.

**Table A3.1: Salient Characteristics of the Online Survey**

Survey type	Questions	Surveys sent	Responses	Countries responding	Response rate
<b>ADB non-users</b>	9	77	18	n.a.	23%
<b>DMC non-users</b>	13	81	18	14	22%
<b>ADB users</b>	34	92	54	n.a.	59%
<b>DMC users</b>	38	47	22	6	47%
<b>All surveys</b>	n.a.	297	112	20	38%

ADB = Asian Development Bank; DMC = developing member countries.  
Source: Strategy and Policy Department.

3. The response rates, ranging between 22% and 59%, are in line with expectations. The overall response rate, at 38% (136 people), compares favorably with the norm of around 25% for online surveys, and is similar to the overall 35% response rate received by the World Bank for an analogous survey conducted 3 years after the launch of their PforR instrument.<sup>1</sup> As one would expect, the response rates were higher among ADB and DMC respondents who are already familiar with the RBL modality.

PforR and RBL: Survey Results Comparisons. Client feedback to the ADB survey on RBL and the World Bank survey conducted a year earlier on PforR shows considerable similarities (Table A3.2), including: (i) overall high satisfaction rate with the instrument; (ii) similar rankings of the top benefits and challenges; and (iii) difficulties during disbursement linked indicators (DLI)

<sup>1</sup> World Bank response rates were on average 7 percentage points higher (30% vs 23% in ADB) for non-users and 18 percentage points lower (37% vs. 55% in ADB) for users.

formulation, which however resulted in efficient incentives and effective verification mechanisms.

**Table A3.2: External Long Survey: Results Comparisons between ADB and WB**

Key Questions	% agree or favorable	
	ADB clients	WB clients
Q 1. Overall, I am satisfied with Results-based financing (RBF – RBL and PforR)	95%	100%
Q 2. My understanding of RBL is high	73%	100%
Q 3. Rank the most significant <u>features</u> of using RBF:		
- to focus on results rather than activity or transactions	1 <sup>st</sup>	1 <sup>st</sup>
- to anchor RBL as part of government program (to enhance gov't ownership)	2 <sup>nd</sup>	3 <sup>rd</sup>
- to use DMC's own system on procurement and safeguards	3 <sup>rd</sup>	2 <sup>nd</sup>
Q 4. Rank the most significant <u>challenges</u> of using RBF:		
- the instrument's novelty	1 <sup>st</sup>	1 <sup>st</sup>
- exclusions of activities due to possible high safeguard impacts	4 <sup>th</sup>	3 <sup>rd</sup>
- exclusions of high value procurement packages	4 <sup>th</sup>	2 <sup>nd</sup>
- delays in processing of the operations	2 <sup>nd</sup>	4 <sup>th</sup>
Q 5. DLIs formulation was somewhat or very difficult	75%	87%
Q 6. DLIs are efficient incentives to the government to achieve development goals	95%	96%
Q 7. Verification of the DLIs results functions effectively	90%	87%
Q 8. Usefulness of <u>fiduciary systems assessment</u> is high	78%	85%
Q 9. Usefulness of <u>safeguard assessment</u> is high	75%	90%

Source: Asian Development Bank. The World Bank data, PforR 2-year Review, page 63 to page 73. Data was extracted from relevant survey questions (long-external surveys) and adjusted for the purpose of comparing the data. The percentages include combined positive ratings e.g., highly satisfactory and somewhat satisfactory.

## II. ANALYSIS OF NON-USER SURVEYS

### A. Awareness and Familiarity with Results-Based Lending

4. The modality is fairly well known just 3 years after its introduction, suggesting that the internal communication campaign, training activities, and external outreach carried out during the pilot phase have been successful. The vast majority (97%) of ADB staff and a significant share (61%) of DMC officials who had not previously used RBL indicated that they were aware of the instrument. ADB staff indicated a stronger familiarity, with 41% responding that they had very informative exposure and knew how the instrument works, and another 48% indicating they had brief discussions and knew the basic concept. By contrast, only 9% of DMC officials were very familiar with the RBL modality, and 73% were somewhat familiar.

### B. Likelihood of Using the Modality in the Future

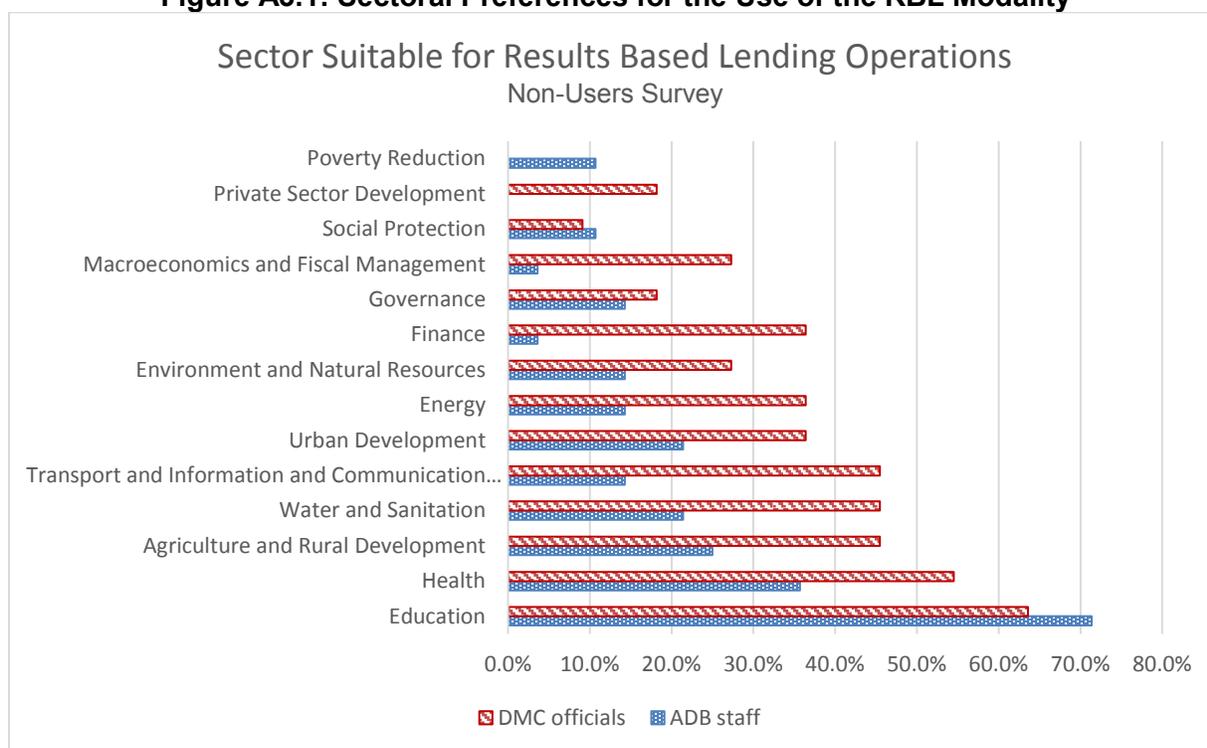
5. The majority (68% of ADB non-users and 82% of Government officials) of respondents indicated that they were “likely” or “somewhat likely” to use the RBL instrument in the next 5 years. Uncannily, the percentages were exactly the same as in the World Bank’s non-user surveys for PforR. Nearly half (46%) of both ADB and DMC respondents indicated that they were “very likely” to use RBL.

6. Among the respondents who thought they would unlikely use RBL, the main reasons cited were that other instruments are more suitable (38% of ADB staff and 50% of DMC

respondents), and that “some features of the RBL instrument would need to be modified to make it usable for the country” (50% of ADB staff). When elaborating on this last answer, ADB staff suggested that either country capacity is weak or the requirement to document the use of RBL funds for procurement originating in ADB member countries is too onerous. The fragmentation of responsibilities between agencies or local governments implementing the program, line ministries overseeing it, and central ministries in charge of public debt management made tracking of fund flows for this purpose a complex task.

7. The choice of sectors during the pilot period has an influence on expectations for future RBL operations. When asked to identify the sectors most suitable for RBL operations, all respondents gave the highest priority to education and health, in this order (Figure A3.1). A full 71% of ADB staff and 64% of DMC respondents gave education the first ranking, followed by health (36% of ADB and 55% of DMC respectively). Similar rankings (though generally with lower percentages) were given by respondents to the World Bank survey. Infrastructure as a whole actually received a higher ranking, if we combine transport and information and communication technology; energy; water and sanitation; and urban development.<sup>2</sup> Taken collectively, therefore, the infrastructure subsectors show significant future potential. This finding is consistent with the opinions expressed during ADB internal focus groups and meetings with government officials during field visits.

**Figure A3.1: Sectoral Preferences for the Use of the RBL Modality**



Source: Strategy and Policy Department.

8. When asked what could be done to make RBL more client-oriented in the future, 75% of ADB respondents indicated that more training for clients was needed. More liberal application of procurement thresholds and the development of more advance financing features to address

<sup>2</sup> Respondents were asked to choose 5 priority sectors among 14 possibilities. When combined, the four infrastructure sectors mentioned in the text accounted for 71% of ADB staff and 64% of DMC preferences.

cash flow problems were mentioned by 63% of respondents, and more liberal application of safeguard policies by 50%.<sup>3</sup>

### **C. Conclusions**

9. The survey of ADB staff and government officials who had not been directly involved in RBL operations in the past shows that the key features of the modality have been well publicized, especially among ADB staff, and that the potential for increased future use is significant. The potential can be further increased by investing in institutional strengthening at the country level and by simplifying the reporting requirement on the use of funds to procure goods or services from ADB member countries. Human development sectors (education and health) are ranked as especially likely candidates for RBL operations, probably also because of past experience. When considered together, infrastructure subsectors (transport, energy, water supply and sanitation and urban development) also show significant potential for employing this modality.

## **II. ANALYSIS OF USER SURVEYS**

### **A. Familiarity with Results-Based Lending**

10. Staff and government officials who had participated in the planning, preparation or implementation of RBL operations considered themselves to be well informed about the modality. About 70% of ADB staff and 86% of government officials surveyed replied that they knew RBL well, and another 26% and 14% respectively considered themselves “somewhat knowledgeable”. These two groups accounted for 99% of respondents, the same percentage as in the World Bank survey. A significant amount of “learning-by-doing” seems to have taken place during the pilot phase.

11. Compared to RBL, other results-based financing instruments such as output-based financing and conditional cash transfers were less known. Only 16% of ADB staff and 20% of government officials were familiar with them, while another 56% of ADB staff and 40% of DMC respondents was somewhat familiar, possibly because less communication and training have been organized around these instruments.

### **B. Strengths, Challenges and Justifications of the RBL Modality**

12. The three key reasons for choosing RBL over other modalities were (i) focus on results (85% of ADB and 86% of government respondents); (ii) use of government systems (72% of ADB and 64% of DMC officials) and (iii) support to improvements under government programs (59% of ADB and 73% of government respondents). Novelty of the instrument and prospects for rapid implementation did not feature prominently among the replies.

13. Focus on results instead of procedures and transactions (94% of ADB and 86% of government respondents) and use of government program systems (73% and 68%) were also considered to be among the main strengths of RBL, in the eyes of both ADB staff and DMC officials. They were followed by the program’s focus on institutional strengthening (48% of ADB and 59% of government respondents) and the ability to include capacity building measures and focus on incentives (25% and 24%).

<sup>3</sup> Respondents could choose up to three among six features, that also included “reduce processing time (25% of ADB non-user responses) and “add more incentives to include “subtheme” DLI (e.g. gender), also 25%.

14. The RBL instrument's novelty and the inevitable learning curve associated with it was the greatest challenge, identified by about half of both ADB and government respondents. Other key challenges included (i) resource and time intensiveness of the required preliminary assessments, felt especially by ADB respondents (39%), and to a lesser extent (14%) by government officials; (ii) the exclusion of program activities due to their potential adverse impact on the environment and/or affected people (23% of both respondent groups); and (iii) the exclusion of high value contracts (19% of ADB staff and 14% of Government representatives).

### C. Potential for Future Utilization

15. Two-thirds of ADB staff and half of the DMC officials who responded indicated they were very likely to use the RBL instrument again in the next 5 years. When we add the respondents who indicated that they were "somewhat likely" to do so, the percentages increase to 75% and 86%, shares that are fairly close to the responses received by the World Bank (77% of Bank staff and 80% of DMC clients). As shown in Table A3.3, exposure to RBL seems to have increased somewhat the confidence in, and likelihood of using, the modality.

**Table A3.3: Likelihood of Using the RBL Modality Again Within 5 Years**

Survey Group	Very Likely	Somewhat likely	Very or somewhat likely
<b>ADB Non-Users</b>	46%	21%	67%
<b>ADB Users</b>	65%	20%	85%
<b>DMC Non-Users</b>	46%	36%	82%
<b>DMC Users</b>	50%	36%	86%

Source: Strategy and Policy Department.

16. The main reason for not using RBL in the future was the perception by ADB staff (46%) or DMC clients (25%) of the risks of involving ADB in specific activities. The risk of affecting the integrity of the program due to the need to exclude activities with high environmental impact (Category A) came second (40% of ADB staff and 20% of government officials), followed by the exclusion of high-value contracts from RBL program design (33% of staff and 25% of DMC respondents). More than half of government respondents also indicated that the current limitation on available ADB funds was a broader constraint to the use of RBL (and of any other modality).

17. DMC officials were asked if they agreed that ADB lend to state owned enterprises (SOE), and whether RBL would be an effective modality to provide support to them. None of the non-users and a minority (20%) of the users agreed to a very high degree that ADB resources should be used for this purpose, probably out of concern for the possible misallocation of resources. Including the respondents who were in "somewhat high" agreement with such lending, the share increased to 55% of the users. When asked if RBL could effectively support SOEs, however, respondents were more optimistic, with 30% expressing a high degree of confidence, and another 45% a somewhat high degree, for a total of 75% positive responses.

#### **D. Results Framework, Disbursement Linked Indicators and Verification Mechanisms**

18. The usefulness of results frameworks for program formulation was rated very highly, with 89% of ADB staff and 95% of government counterparts responding that they had helped strengthen the result focus of RBL programs to a somewhat (39% and 45%) or very high (44% and 45%) degree.

19. The next step, formulation of disbursement-linked indicators (DLIs), proved the most challenging, with 54% of ADB respondents and 65% of DMC officials confirming that it had been somewhat difficult, and another 12% and 10% respectively finding it very difficult. In spite of the challenge in formulating them, 83% of ADB staff and 90% of DMC counterparts agreed to a very high or somewhat high degree that DLI provided effective incentives to the Government to achieve desired improvements under the program.

20. While two-thirds of ADB staff and 90% of government counterparts believed to a very or somewhat high degree that the verification mechanisms for achieving DLI functioned effectively, the bulk of the replies (54% for ADB staff and 80% of DMC respondents) fell in the “somewhat high” category, indicating that the definition of verification mechanisms is still a work in progress, and will continue to require attention, exchange of experiences, and possible training.

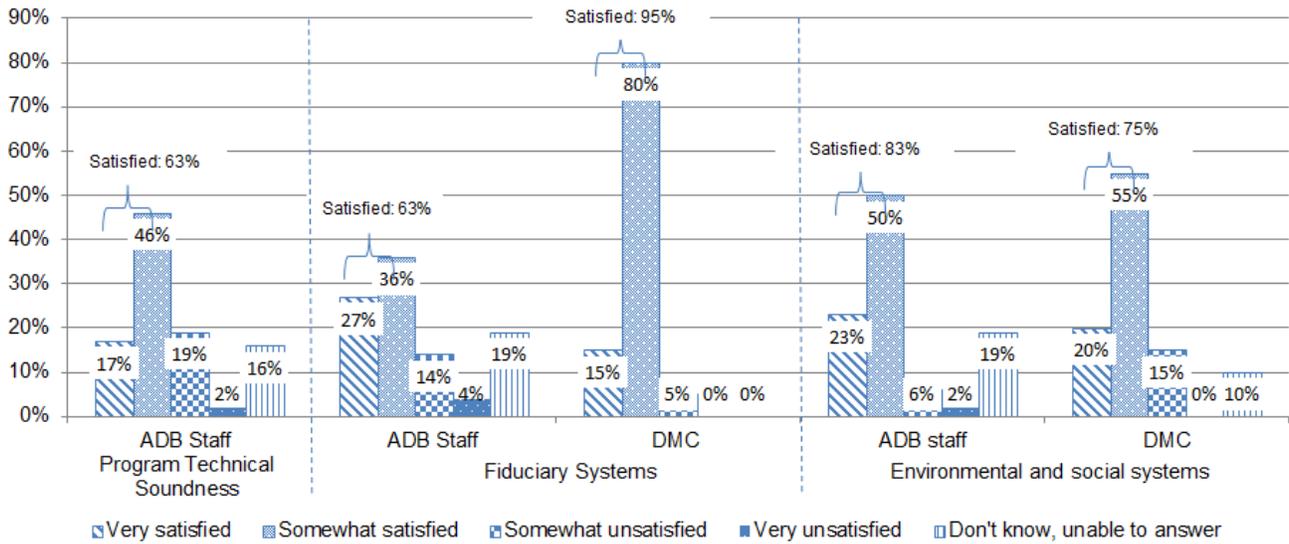
21. Even with some difference in percentage points, replies to the World Bank survey on the PforR pilot period gave qualitatively the same picture: results frameworks were highly rated (by 75% of Bank staff and 96% of government respondents); DLI were found somewhat difficult to formulate (by 58% of Bank staff and 83% of DMC counterparts), but highly effective in providing incentives to the Government to achieve the desired improvements (by 77% of Bank staff and 61% of Government counterparts). The majority of respondents (44% of Bank staff and 70% of DMC officials) believed “to a somewhat high degree” that verification mechanisms can function effectively.

#### **E. Quality of Assessments**

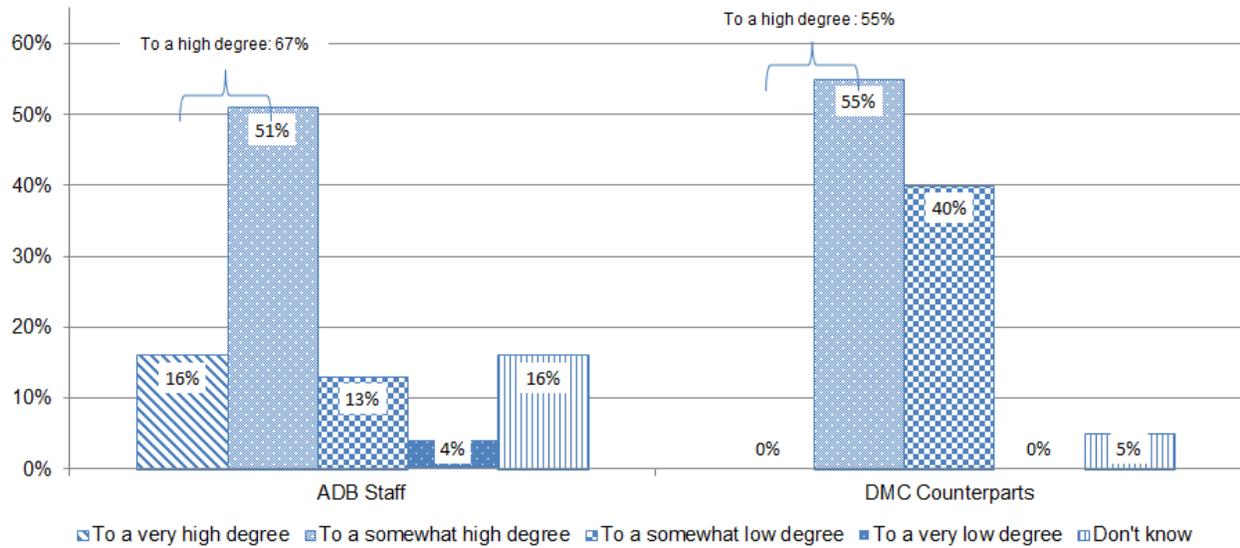
22. Survey respondents were asked to rate the quality and usefulness of a number of assessments that accompany preparation of a RBL operation. The positive feedback on the results framework has already been shared in para 18. Responses concerning other assessments are presented in Figure A3.2.

**Figure A3.2: Assessing the Assessments**

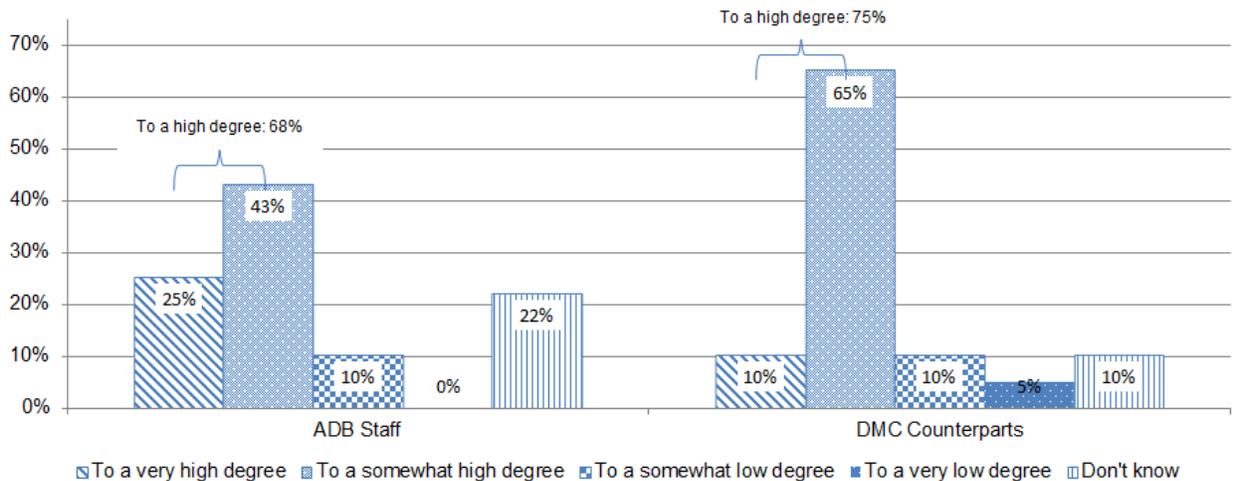
*How satisfied are you with the quality and usefulness of the assessments?*



*Did risk assessment identify major risks and mitigating measures?*



*Were the consultations effective in informing the environmental and social assessment findings and conclusions?*



Source: Strategy and Policy Department.

23. Table A3.3 shows that in general the program technical soundness, fiduciary systems, and environmental and social safeguard systems assessments were considered of good quality, with between 63% and 85% of respondents indicating they were very or somewhat satisfied with their quality and usefulness. As in the case of DLI verification systems discussed in para 20, the majority of the responses cluster around the “somewhat satisfied” response, indicating that there is still room for improvement in this area.

24. Some open-ended comments offered by ADB staff respondents point out that time constraints sometimes limit the scope of the assessments, and that some of them do not significantly influence the design of projects. On the opposite front, some staff find the assessments too detailed and suggest that they should focus more on principles and processes and less on transactional details. DMC officials mention the need for the ADB team to understand country systems, and public financial management systems in particular, during preparation of the RBL program, to ensure among other things that funds flow to the sector and agency responsible for achieving the agreed results.

25. More than two-thirds of respondents confirmed that consultation outcomes were incorporated into the preparation of social and environmental assessments. On the other hand, the majority of both ADB staff (64%) and DMC counterparts (95%) were not fully convinced that the risk assessments had identified the major risks that could prevent the achievement of program results.

26. A comparison with the PforR survey responses displays similar overall trends, but shows a higher degree of satisfaction of World Bank clients with most assessments, demonstrated by a 15–23 percentage points margin in the “very satisfied” or “to a very high degree” response category. On a technical note, the number of respondents that answered “don’t know” to questions discussed in this section is higher than in other sections, due to the technical nature of the assessments, and to the fact that they are prepared by a smaller subset of the RBL processing team. DMC counterparts, on the other hand, tend to be more involved in all aspects of program design, and found it easier to express an opinion.

## **F. Capacity Building and Institutional Development**

27. The focus on institutional strengthening was identified by 48% of ADB staff and 59% of DMC respondents as a great strength of the RBL instrument. When asked to what extent the RBL instrument helped to identify priority capacity building needs under the program, 83% of ADB respondents and 75% of DMC counterparts indicated this had happened to a very high or somewhat high degree. This analytical effort does not appear to translate completely into practice: 75% of DMC respondents indicated that securing financing for program capacity building need had posed a very or somewhat serious challenge.

## **G. Anticorruption Provisions**

28. Respondents were asked about their experience with adhering to the requirements of ADB’ Anticorruption Guidelines to RBL. Approximately 30% of both ADB and DMC respondents found it very or somewhat easy, while another 29% of ADB staff and government counterparts indicated that it was somewhat difficult. A large share of respondents in both categories was unable to answer, presumably because RBL operations have only recently started implementation, and there is relatively limited experience in this area until now with this modality.

## **H. Initial Experience with Implementation**

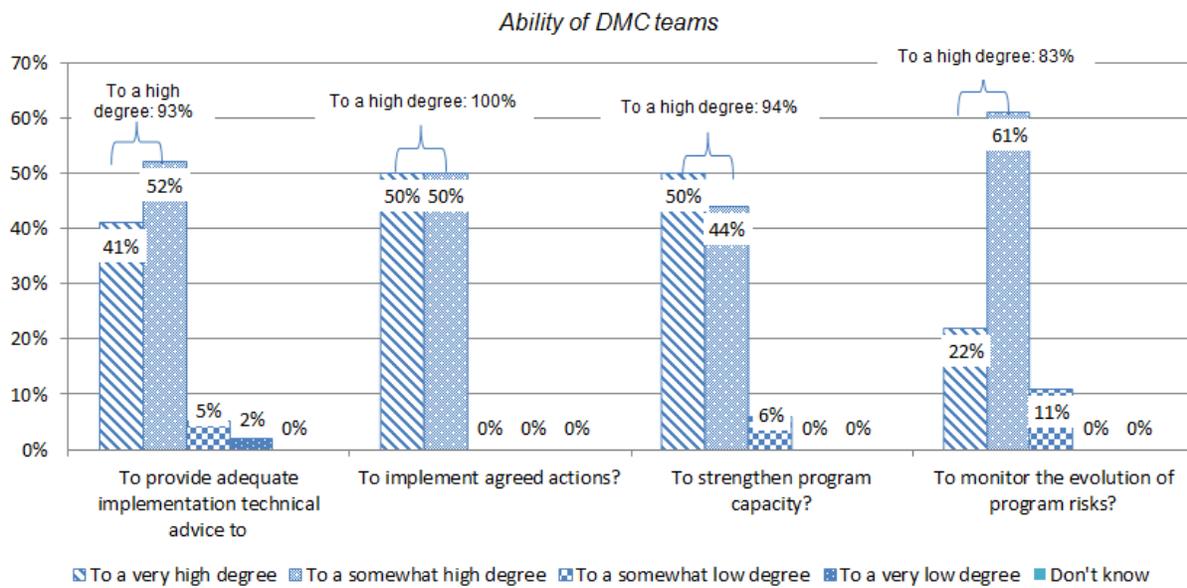
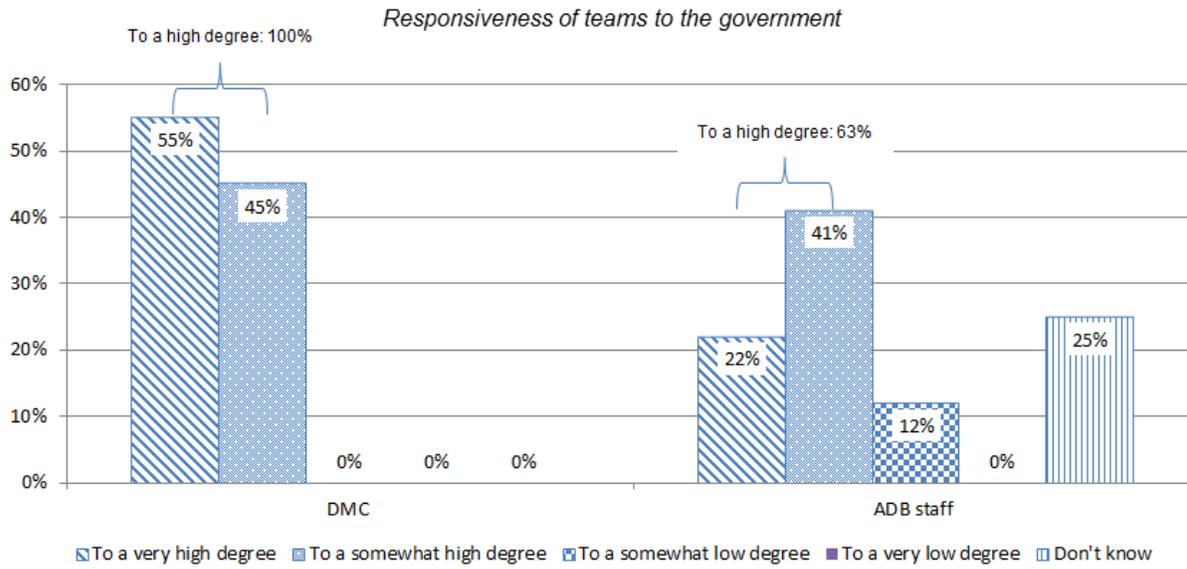
29. Confirming that RBL implementation is only at the initial stage, more than half of ADB respondents indicated that they did not know or were unable to judge whether they were satisfied with program implementation. Of those who replied, the majority (58%) was somewhat satisfied and another 25% was very satisfied. DMC officials were quite buoyant, with 67% somewhat satisfied and 22% very satisfied.

30. DMC respondents were quite confident in ADB task teams' ability to provide adequate implementation technical advice to the Government. They rated ADB teams' advice on implementing agreed upon actions very highly (50%) or somewhat highly (50%), and gave only slightly lower ratings to the teams' advice on strengthening program capacity (50% "very high" or 44% "somewhat high" scores) and on monitoring the evolution of program risks (22% "very high" or 61% "somewhat high" scores).

## **I. Performance of the ADB teams**

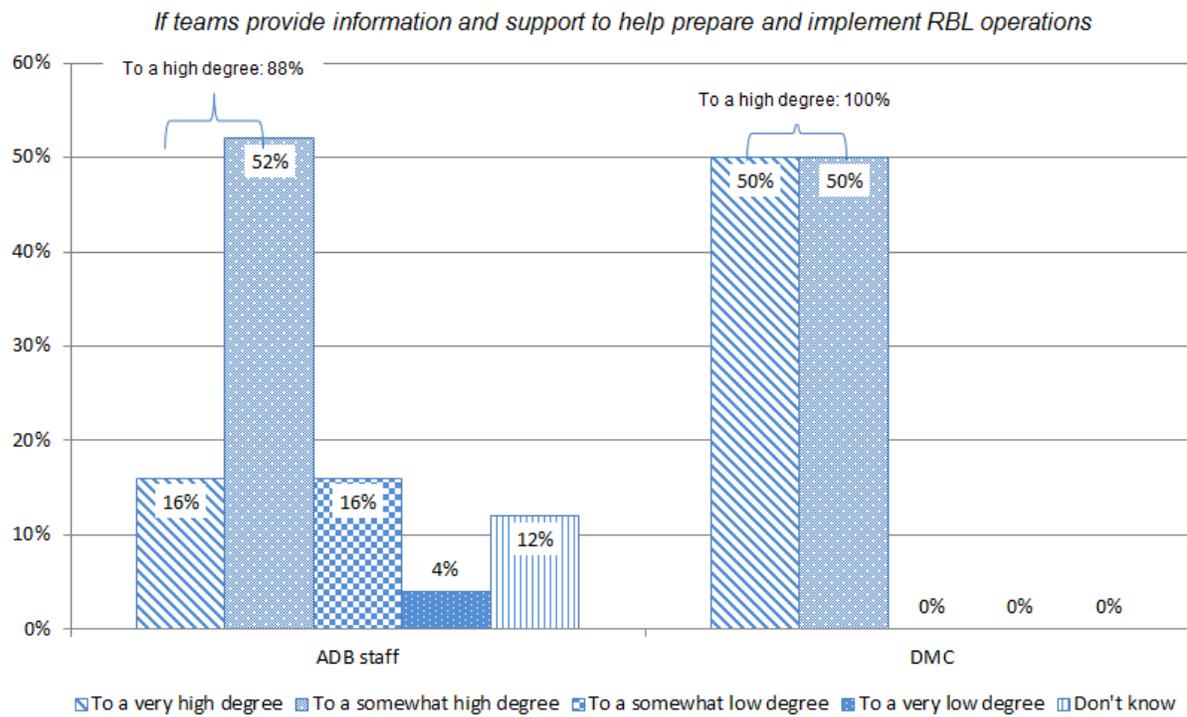
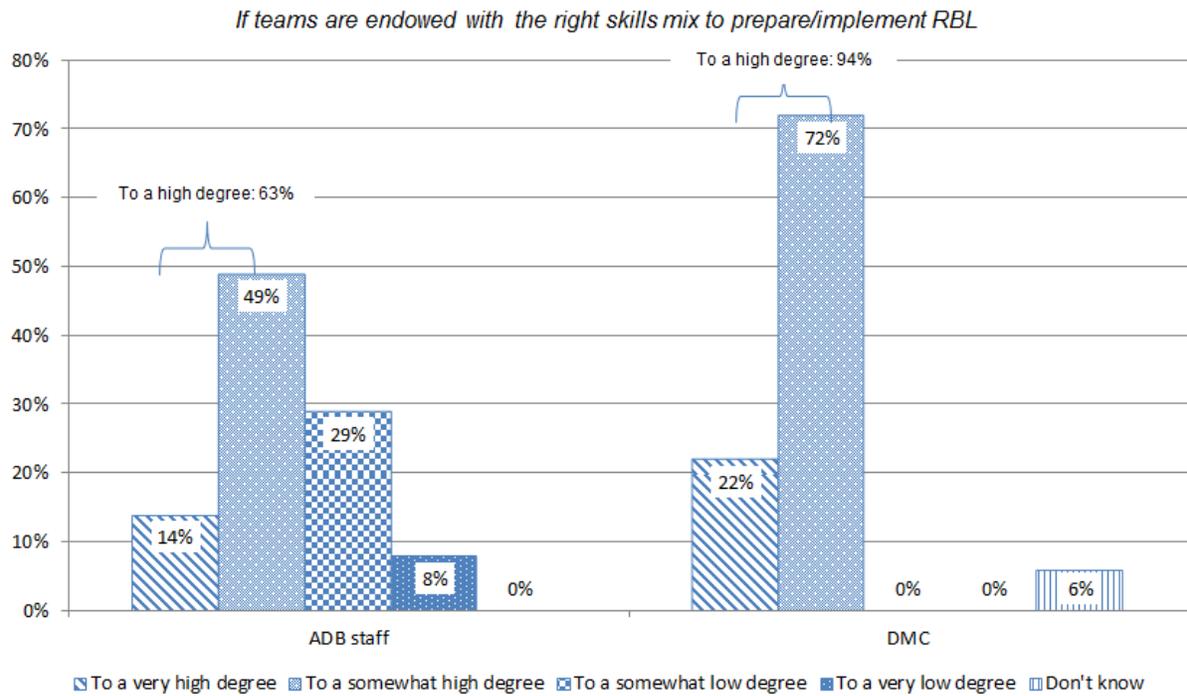
31. DMC respondents indicated that the teams working on RBL operations were responsive to the Government to a very high degree (55%) or to a somewhat high degree (45%). ADB teams were humbler than the government in assessing their own performance during implementation, giving themselves a "very high" rating in 22% of the cases and a "somewhat high" rating in 41%. Figure A5.3 compares the ratings on ADB team performance given by staff and by their government counterparts.

**Figure A3.3A: Assessment of ADB Teams Engaged in RBL Operations**



ADB = Asian Development Bank, DMC = developing member country, RBL = Results-based lending.  
 Source: Strategy and Policy Department.

**Figure A3.3B: Assessment of ADB Teams Engaged in RBL Operations**



ADB = Asian Development Bank, DMC = developing member country, RBL = Results-based lending.  
 Source: Strategy and Policy Department.

## J. ADB Internal Guidance and Support

32. Table A3.4 shows that slightly over two thirds of ADB staff were very or somewhat satisfied with the information and support provided by ADB to help them prepare and implement RBL operations. Staff indicated that additional and more structured support would be helpful in the design and definition of DLI and results frameworks (70%); fiduciary assessments of procurement and financial management systems (62%); risk assessments (54%); environmental and social systems assessments (48%) and technical analysis of sectors and programs (46%). The fact that information on the general purpose and features of RBL ranked last indicates that the general information stage is over, and staff require more specialized training and skills development. Interaction with peers who have been involved in the design and implementation of RBL operations was described as one particularly useful modality of knowledge sharing. Staff also mentioned that a culture shift, away from controlling inputs and reviewing transactions and towards focusing on results and strengthening systems is necessary in ADB.

33. When asked how effective ADB's Management has been in promoting the RBL instrument, 20% of ADB staff responded "very effective" and 44% "somewhat effective". In commenting on these ratings, staff expressed concern that RBL may be viewed as a modality which is simple to design and fast to disburse, when in fact "doing a good RBL is perhaps more difficult than a standard investment loan or MFF." Staff suggested that it is important to clarify misconceptions about DLI, which "cannot be related to high level outcomes which either are out of executing agency control take longer to achieve", whereas "DLI are triggers to keep the program on track—key actions".

34. When asked if ADB Board guidance was consistent with the guidance embodied in the RBL policy, 8% of staff found it consistent, 34% found it neutral, and 26% found it inconsistent, with a high percentage (32%) responding "don't know". In open-ended comments, ADB staff emphasized that "everybody is learning, including the Board", and that further dissemination of information to Board members would help align expectations with what is feasible to request and achieve, and reduce a perceived negative attitude towards the RBL modality.

## K. Overall Assessment

35. The final survey question asked "Considering your experience, how satisfied are you, overall, with the RBL program?" As Table A3.3 shows, 78–90% of respondents indicated that they were satisfied, and of these 30–45% were very satisfied. The level of satisfaction was comparable with that expressed a year earlier by World Bank staff and clients involved in the processing and implementation of PforR. In open-ended comments, staff underlined the great potential of the instrument, particularly in ADB's relationship with middle income countries and to promote sustainability of ADB-supported initiatives. Staff also cautioned against diluting the quality of the program, which may happen if excessive emphasis is placed on early disbursement, and pointed out that it is very early to draw definite conclusions, given the limited experience with RBL implementation so far.

**Table A3.4: Overall Satisfaction with Results-Based Operations**

Survey Groups	Very satisfied	Somewhat satisfied	Somewhat unsatisfied	Very unsatisfied	Don't know, unable to answer
<b>ADB staff</b>	30%	48%	12%	-	10%
<b>ADB DMC counterparts</b>	45%	55%	-	-	-
<b>World Bank staff</b>	33%	45%	17%	2%	3%
<b>World Bank DMC counterparts</b>	38%	62%	-	-	-

Source: Strategy and Policy Department; World Bank. 2015. *Program for Results. Two Year Review*. Washington, DC.

## L. Conclusions

36. The survey of ADB staff and DMC counterparts who have been involved in the processing and implementation of these operations shows a high degree of satisfaction with the instrument and its potential to focus attention on results and support institutional and capacity development in executing agencies, while playing down transaction and process control. On any given question, two thirds of the ratings typically fall into the high or somewhat high categories. Familiarity with the modality among both ADB staff and government counterparts and potential for future utilization are high.

37. In spite of the difficulties encountered in formulating appropriate DLIs, respondents indicated that results framework are very useful for designing RBL operations, and DLI are effective in providing incentives to the government to achieve agreed results. Improvements in the definition of the verification mechanisms, the technical, fiduciary, social and environmental systems assessments and risk assessments would be desirable, and will require more in-depth and focused training and knowledge exchange with experienced team leaders, while the emphasis on publicizing the general features of the RBL modalities can be correspondingly reduced, given the high level of broad familiarity with the instrument. Further dissemination of information on RBL features to Board members was considered useful to bridge the expectations gap

38. While capacity building and institutional strengthening needs were usually well identified during RBL program design, insufficient attention to the inclusion of related DLI and to identifying financing to implement related activities may blunt the effectiveness of RBL for this purpose. Implementation experience is still limited, but it appears that ADB teams have been providing effective support and advice to implement agreed actions, strengthen program capacity and monitor the evolution of program risks. More broadly, DMC counterparts positively evaluated the skills, responsiveness and advice of ADB teams processing and implementing ADB operations, even more generously than ADB teams ranked themselves.

## USE OF RESULTS-BASED FINANCING BY MDBs AND IFIs

KEY FACTS		MDBs				IFIs	
		ADB	World Bank	IADB	AfDB	AiIB	New Development Bank
<b>RBF Policy</b>		RBL Policy (Mar 2013)	PforR Policy (Feb 2012)	Performance Driven Loan (Feb 2002)	RBL Policy (under preparation)	N/A	“Performance-based Lending” Policy under preparation
<b>Pilot Duration</b>		2013–2019	2012–2018	2003–2008	2017–2023		N/A
<b>Status</b>		Pilot Phase	Pilot Phase	PDL no longer used since 2009. Currently updating the policy for likely approval in 2016/2017 (para 67–68)	AfDB is currently drafting an RBL policy for likely approval in 2016/2017		The Bank has drafted the policy document for likely approval in 2016/2017
<b>Limit on RBF Use</b>		Set a limit for RBL to 5% of ADF/OCR financing between June 2013 and June 2016 (3 years)	Set a limit for PforR to 5% of total IBRD/IDA commitments for the first 2 years. After the 2-year review, a new ceiling of 15% was approved.	No limit was set between 2003 and 2008.	N/A		N/A
<b>Approved Operation</b>		<ul style="list-style-type: none"> <li>• 8 Programs</li> <li>• \$1.1 billion</li> </ul>	<ul style="list-style-type: none"> <li>• 33 Programs</li> <li>• \$3.1 billion</li> </ul>	<ul style="list-style-type: none"> <li>• 15 Programs</li> <li>• \$1.9 billion</li> </ul>	N/A		N/A
<b>Sector Distribution Approved</b>		<ul style="list-style-type: none"> <li>• Social Sector (37%)</li> <li>• Energy (38%)</li> <li>• Urban (25%)</li> </ul>	<ul style="list-style-type: none"> <li>• Social Sector (25%)</li> <li>• Urban (21%)</li> <li>• Water (17%)</li> <li>• Governance (13%)</li> <li>• Transport (10%)</li> <li>• Multi sector (14%)</li> </ul>	<ul style="list-style-type: none"> <li>• Social Sector (29%)</li> <li>• Urban (21%)</li> <li>• Transport (17%)</li> <li>• Governance (13%)</li> <li>• Agriculture (6%)</li> <li>• Multi sector (14%)</li> </ul>	AfDB has been working on a demand analysis that indicates two sectors (i) social sector, and (ii) energy sectors are keen to use RBL		N/A
<b>Review</b>	<b>Main Objectives</b>	<ul style="list-style-type: none"> <li>• Assess if perceived benefits are achieved</li> </ul>	<ul style="list-style-type: none"> <li>• Stock-taking</li> <li>• Review early experience</li> </ul>	N/A	N/A		N/A
	<b>Review Highlights</b>	To be completed in 2016	<ul style="list-style-type: none"> <li>• 5% ceiling increased by 15% (See above)</li> <li>• Procurement thresholds revised</li> </ul>	No MTR was arranged	N/A		N/A
	<b># of Approved RBF when MTR completed</b>	9 (expected)	22	N/A	N/A	N/A	
	<b># of Completed RBL when MTR completed</b>	0	0	N/A	N/A	N/A	

ADB = Asian Development Bank, ADF = Asian Development Fund, AfDB = African Development Bank, AiIB = Asian Infrastructure and Investment Bank, IFI = international financing institution, MDB = multilateral development bank, MTR = mid-term review, OCR = ordinary capital resources, PDL = performance driven loan, PforR = Program for Results, RBF = results-based financing, RBL = results-based lending

Source: Strategy and Policy Department estimate as of January 2016.

## **WORLD BANK PROGRAM FOR RESULTS: 2-YEAR REVIEW**

### **Key Findings and Recommendations**

**Background.** In early 2012, the World Bank introduced a similar modality, the Program for Results (PforR). As per the policy paper, Management was to carry out an initial review of the instrument after 2 years to: (a) assess the early experience with the design and implementation of PforR operations and the challenges faced by borrowers, development partners, and Bank staff; and (b) identify emerging early lessons and recommend any proposed changes to the PforR framework that would strengthen the instrument.

**Methodology.** The review involved a broad literature and desk review, internal and external surveys of those who had used the PforR instrument and those who had not, structured interviews, and stakeholder consultations. These methodologies are similar to the RBL midterm review (this review) administered by ADB. The review was under the oversight of both an internal advisory group and an independent external panel of experts.

**Review Findings and Recommendations.** Overall, early experience with the PforR instrument was positive. Key findings and recommendations are summarized below.

- **Development and Implementation of Operations.** Similar to ADB, the World Bank had initially imposed a 5% financing cap on PforR operations. While remaining below the 5% financing cap, the instrument was successfully rolled out across a broad range of countries and sectors. As of 31 December 2014 (the cut-off date of the PforR 2-year review), the Board had approved 22 PforR operations, providing \$3.5 billion of Bank financing to support a total of \$8.5 billion in government programs. Policy requirements were met and implementation for all but one of the approved operations was broadly on track, with performance ratings of *satisfactory* or *moderately satisfactory* for all but one operation and risk ratings stable through early implementation.
- **Overall Feedback.** For both government officials and Bank staff who had experience in using the PforR instrument, feedback was generally positive. All the government officials and 78% of Bank staff who responded to the survey of PforR users reported that they were somewhat satisfied or very satisfied with the instrument. In addition, the majority of both groups of respondents indicated that it is somewhat likely or very likely that they would use the instrument again in the next 2–5 years. Both groups said that the instrument's greatest strengths were its focus on results, use of government systems, and focus on program institutional strengthening. They identified as its challenges its novelty and issues related to its newness, the heaviness of the assessments, and challenges in the articulation and application of some aspects of the Anticorruption Guidelines (ACG). Survey findings also showed interest among those who had yet to use the instrument.
- **Experience with specific features of the Instrument.** The review carefully looked at each of the specific features of the PforR instrument with a view to determine whether the instrument's policy requirements had been met, assess experience to date, and identify needed changes and improvements. Both government officials and Bank staff that had used the PforR instrument indicated satisfaction with most of the specific features of the instrument. The clear objectives of PforR, the focus on results and improved collaboration between the Bank and governments were consistently highlighted as positive features. The review also confirmed that the policy requirements

of the instrument were being met. However, this had come at a cost, in some cases. The application of the ACGs had frequently required extensive discussions between the Bank and borrowers during the preparation and negotiations of PforR operations and led in some cases to a reduction in the scope of the PforR Program or a decision not to use the instrument. Concerns were raised about the potential impact of procurement exclusions on the overall integrity of some PforR Programs as well as about the perceived inflexibility of the instrument's audit requirements. These factors and the broader concerns about the high risks of involving the Bank in specific activities had also resulted in only 6 of the 22 approved operations defining the PforR Program as the same as the government program—with potential consequences for the leverage and impact of the instrument. Moreover, the process of formulating disbursement linked indicators was reported as challenging, requiring additional training and guidance.

- **PforR Ceiling.** While the number of approved PforR operations had not yet reached the 5% cap at the time of the 2-year review, projected growth in demand indicated that the cap would be a constraint to future processing of PforR operations. Easing the constraint on PforR commitments was deemed critical to respond to clients' demand and to provide the needed support and investments for the instrument to reach its full and desired potential. Hence, Management proposed (and the Board agreed) to raise the PforR cap to 15% of the 3-year average of total IBRD/IDA commitments.
- **Limited Exceptions to the Procurement Exclusion.** Management also proposed (and the Board agreed) to amend the procurement exclusion policy to allow for the inclusion of high value contracts in exceptional cases, when such activities are deemed to be of critical importance to the integrity of the Program and the monetary value of the contracts is deemed to be modest in relation to the overall size of the Program. Such exceptions are subject to the approval of the Managing Director and Chief Operating Officer.