

**EIGHTH REPLENISHMENT OF THE
ASIAN DEVELOPMENT FUND (ADF IX)**

**ADF IX DONORS' REPORT:
DEVELOPMENT EFFECTIVENESS FOR POVERTY REDUCTION**

**Asian Development Bank
June 2004**

ABBREVIATIONS

ADF	–	Asian Development Fund
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DAC/OECD	–	Development Assistance Committee of the Organization for Economic Cooperation and Development
DEC	–	Development Effectiveness Committee
DMC	–	developing member country
EACA	–	expanded advance commitment authority
GAD	–	gender and development
GDA	–	global development agenda
IMF	–	International Monetary Fund
MDBs	–	multilateral development banks
MDGs	–	Millennium Development Goals
MfDR	–	managing for development results
NPRS	–	nationally-owned poverty reduction strategy
OED	–	Operations Evaluation Department
PBA	–	Performance-Based Allocation
PI	–	poverty intervention
PPA	–	Poverty Partnership Agreement
PPR	–	Project Performance Report
PRS	–	Poverty Reduction Strategy
PRSP	–	Poverty Reduction Strategy paper
RM	–	resident mission
RMU	–	Results Management Unit
UNDP	–	United Nations Development Programme

NOTE

In this report, "\$" refers to US Dollars

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EXECUTIVE SUMMARY

The Asian Development Fund (ADF) is a central instrument of the international community for reducing poverty in the Asia and Pacific region. ADF represents an effective partnership between the international community, the Asian Development Bank, and ADF client countries. Established in 1973, ADF is the only multilateral development bank concessional fund dedicated exclusively to the economic and social development of the region. Resources of the Fund come mainly from contributions of donor members (Donors) of the Asian Development Bank. ADF has been replenished seven times. Over the eight-month period October 2003 to May 2004 Donors met on four occasions to plan a further replenishment of the Fund (i.e. ADF IX). The ADF IX replenishment covers the period 1 January 2005 to 31 December 2008.

A. Reducing Poverty in Asia and the Pacific – Achieving the Millennium Development Goals

Reducing poverty remains the overarching goal of ADF. Despite progress in reducing poverty in Asia and Pacific over the last decade, almost two-thirds of the world's poor live in the region. The mixed record on non-income poverty is reflected in the millions of children who continue to live in hunger, slow progress in reducing maternal and child mortality, and deteriorating education systems in many countries. Even though the Asia and Pacific Region is on track to meet the Millennium Development Goal (MDG) target of reducing by half the proportion of people living on less than a dollar a day, it is unlikely to meet the goals for reducing non-income poverty. Asian Development Fund (ADF) IX operations and assistance to reduce poverty in the region will require, among other things, a continued and sharpened focus on sustainable economic growth, inclusive social development, and good governance, supported by an emphasis on the cross-cutting issues and thematic priorities of private sector development, regional cooperation, and the mainstreaming of environment and gender. Effective implementation in ADF IX will require a consistent focus on results and development effectiveness. In this context, the strategic emphasis by ADB will shift to improved implementation of operations and policies.

Addressing the global development agenda in ADF IX. Donors agreed that the goals, strategies, and policies of ADF IX should support the priorities of the global development agenda applied to the needs and conditions of the region. This agenda incorporates agreements that have emerged in multilateral dialogues, including the Millennium Summit and Declaration and the Monterrey Consensus, highlighting the need for sound development policy and financing; the Johannesburg Summit focusing attention on sustainable development; the Rome Declaration reflecting the international financial institutions' commitment to harmonize operations; and the Doha Trade round giving priority to improving trade rules that benefit all countries.

Enhancing ADB's Poverty Reduction Strategy. Donors assessed ADB's progress in reducing poverty under the framework of the ADB-wide Poverty Reduction Strategy. Donors reaffirmed that the three pillars of the Strategy—sustainable economic growth (including trade and private sector development), inclusive social development, and good governance—continue to provide a sound framework to guide ADF IX-assisted programs and projects. Implementation of the Strategy's thematic and cross-cutting concerns must be strengthened, including adding a new focus on capacity building. Donors endorsed the key recommendations of the Review of the Strategy. ADB will strengthen overall PRS implementation; improve methods for measuring poverty impacts; introduce more flexible project and program modalities; emphasize results in

all ADB operations; strengthen alignment with national poverty reduction strategies, and collaborate more effectively with its development partners.

B. Using Development Results to Improve Development Effectiveness and Impact

Moving from results to development effectiveness. Donors stressed the importance of improving the development effectiveness and impact of ADF IX operations through careful attention to results at project, sector, country, and regional levels. ADB's newly established Results Management Unit (RMU) has primary responsibility for the design and monitoring of the results system in ADB. Donors recommended that ADB nurture a strong "results culture" across the organization involving staff at all levels under the leadership of senior Management, including the ADB President, and with the full support of all stakeholders. The RMU will also develop and implement indicators that define progress on strategic outcomes. Monitoring at three broad levels is important: country, institutional, and program and project levels. Benefits of managing for development results will include, among others, stronger project quality at entry, better prioritization based on results, greater accountability, more effective resource use, and enhanced credibility for ADB in the Donor community and in ADF client countries.

Managing for development results. ADB will develop results-based country strategies that are aligned with nationally owned poverty reduction strategies. ADB will use indicators developed in cooperation with other development partners. Country strategies will identify clear objectives, describe a credible plan for achieving those objectives, and specify time-bound indicators. ADB will continue to establish a more results-oriented monitoring and evaluation system grounded in the principle of country ownership that will support more effective management of the Poverty Reduction Strategy. In partnership with ADF clients, country strategy indicators will focus on a subset of results reflecting nationally-owned poverty reduction strategies. ADB's results framework will: (i) measure impact and provide indicators for private sector development and private sector operations, gender, good governance, and environmental stewardship; (ii) examine aggregate achievement of objectives; (iii) monitor alignment between ADB operations and the PRS at project, sector, and country levels; and (iv) support stronger institutional capacity to implement the Strategy. ADB will reorient staff incentives to reward achievement of measurable development outcomes rather than lending targets.

Harmonization to achieve development effectiveness. Donors agreed that harmonization and improved division of labor across institutions reduce transaction costs for client countries and increase development effectiveness. Donors recommended that ADB deepen its collaboration with the Bretton Woods Institutions, specialized agencies of the United Nations, and bilateral development agencies. Such collaboration should span country level planning, implementation, analytical work, co-financing, sector wide approaches (SWAPs), policies – including those on performance-based allocation - and measuring and monitoring accomplishments in relation to the MDGs and other poverty-related indicators. Donors recognized that ADB has taken the lead in donor coordination in some developing member countries (DMCs) where it has strengths and where Governments have requested such involvement. ADB will intensify further cooperative agreements with its development partners. At the country level, and working through better resourced Resident Missions with appropriate delegation of authority, ADB will strengthen donor cooperation within the framework of national poverty reduction strategies.

C. Recognizing and Rewarding Performance – Using Resources Effectively

Strengthening the Performance-Based Allocation Policy. By rewarding strong performance, ADB's policy on Performance-Based Allocation (PBA) aims to put ADF resources where they will be most effectively used. Donors agreed that the PBA system would also be used to allocate grants, other than technical assistance grants, in ADF IX. In the interest of greater transparency, ADB will bring disclosure on country performance ratings into alignment as early as possible with the International Development Association (IDA) and prepare a roadmap for full disclosure. Donors underlined the importance of clear institutional accountabilities for ADF resource allocation and agreed to Management's proposal to situate the PBA exercise in an organizational focal point outside of operations departments. Given that triggers have proven costly to implement, they will be discontinued. Consistent with the ADF IX emphasis on development effectiveness, an increased formula weight will be given to performance. Donors supported Management's proposal to give governance a central role in the allocation system by increasing its effective weight in country performance scores to over 50 percent. Donors requested ADB to actively participate in an interagency review of performance-based allocation systems.

D. Recognizing Weakly-Performing Countries – Staying Engaged

Weakly-performing countries are a development priority. Donors noted that weakly performing countries are usually less able to respond to significant development and poverty reduction challenges. Such situations can deteriorate rapidly, with political, economic, social, and security consequences for both the country concerned and neighboring countries. Typically, the key conditions under which aid conditionality can be effective are likely to be missing. Consistent with the PBA and the low income countries under stress (LICUS) approach of the World Bank, Donors recommended that ADB quickly operationalize a special approach for weakly performing countries. Principles underlying the approach stress the need for continuing engagement; an emphasis on quality rather than quantity of assistance; the need for innovative and highly focused approaches to dialogue, strategies and operations; and leveraging demand for positive change and a reliance on deep partnerships with donors, other development agencies and civil society. Engagement will involve a judicious mix of loans, grants, and technical assistance resources and will be determined on a case-by-case basis within the framework of country strategies. The nature and success of that engagement also depends upon the underlying commitment to reform by the country concerned and its willingness to cooperate with the international community. ADB will provide necessary incentives to staff to ensure a strong institutional focus on weakly performing countries.

E. Development Effectiveness Through Grants

Grants in ADF IX. Donors agreed to establish a grants program in ADF IX that will: (i) take into account the debt burden of development finance in the poorest countries; (ii) assist poor countries in transition from post-conflict situations to peace and stability; (iii) combat HIV/AIDS and other infectious diseases; and (iv) support priority technical assistance. In that regard, Donors endorsed an ADF IX grant allocation framework in which grants would represent up to 21% of total ADF IX operations, including an allocation of 3% as priority technical assistance. The ADF IX grant allocation framework applies to ADF IX only and does not commit future replenishments. Recognizing the importance of greater and improved coherence and harmonization on debt sustainability analysis and its use across the multilateral system, ADB will continue close and systematic cooperation with the World Bank and the IMF on the evolving debt sustainability framework. ADB will follow closely developments in the ongoing negotiations

of the IDA 14 and African Development Fund (AfDF) 10 replenishments and will assess their relevance to ADF accordingly. To this end, Donors will examine the grant allocation framework and its application towards the end of the second year of ADF IX, and will consider proposals for adjustment at that time. ADF IX grant financing, other than for technical assistance, will be determined under the PBA framework. Grant-funded operations will be in line with national poverty reduction strategies. The framework in the main report identifies indicative country allocations that should not be considered entitlements. Donors noted the importance of retaining some flexibility within the ADF IX framework on the application of grants in ADF IX through the work of the ADB's Board of Directors. Donors agreed to a compensation framework for the forgone interest of resources used for grants, on the basis of the "Belgium Option." Donors also committed to maintain the financial strength of ADF.

F. ADB's Commitment to Reform – A Stronger Development Partner

Implementing ADB's reform agenda. Donors discussed various aspects of ADB operations and the management of ADF resources. Donors noted the exceptional commitments to reforms made by the President and the steps taken by the Management team to lead and accelerate implementation.

Deliverables Completed

- A new accountability mechanism went into effect in December 2003, providing a stronger framework for investigating possible violations of ADB's operational policies and procedures.
- An independent Operations Evaluation Department was established on 1 January 2004 and is now fully operational.
- A Results Management Unit (RMU) was created in February 2004.
- The review of the Poverty Reduction Strategy was completed, with discussion by ADB's Board of Directors, on 2 July 2004.

Deliverables in Process

- Corporate governance will be strengthened through the articulation of a transparent and integrated Management accountability framework that will clearly define the scope of Vice Presidents' responsibilities.
- The review of the Performance Based Allocation policy is advanced and will be completed in time to determine allocations at the start of ADF IX. This will result in a strengthened performance-allocation link, a central role for governance, and increased transparency and disclosure.
- The RMU is now developing processes and procedures for delivering on the institution-wide results agenda.
- The formulation of the Human Resources Strategy is moving forward and extensive consultations with staff have now been undertaken. This strategy commits to reforming staff incentives to encourage attainment of development outcomes, improving alignment between staff training programs and operations, focusing on performance management and accountability, supporting managing for development results across the organization, and encouraging an appropriate gender balance.
- Pilot, results-based Country Strategy and Programs are in process and will be completed by 2004. ADB is making tangible progress towards integrating the MDGs, as well as goals for governance and private sector development,

into operations. There should be early involvement by the Board of Directors in this process.

- Concerted steps for early implementation are being formulated to reduce the burden posed by year-end bunching of project approvals.
- Management has initiated a systematic process for reviewing efficient and effective resource use within the ADF loan portfolio, including the potential for reprogramming undisbursed loan commitments.
- The RMU is working closely with other international financial institutions on harmonization of results indicators.

Deliverables Planned in 2004

- An independent review of the reorganization will commence shortly and is targeted for completion by year-end 2004.
- A unified public communications policy will be submitted to the Board of Directors.
- A review of the implementation of the governance and anticorruption policies will be submitted to the Board of Directors.
- A review of the implementation of the private sector development strategy will be submitted to the Board of Directors.

Donors agreed that this reform agenda consolidates important issues and provides a sound and timely basis for real progress towards greater organizational effectiveness and improved development impact in the region.

G. From Commitment to Advocacy and Action – Deepening Accountability

Communicating and advocating ADF IX priorities. In order to translate this ambitious ADF IX agenda into reality, ADB must communicate the associated goals and responsibilities throughout the organization, including Resident Missions. To this end, ADB will implement a strategic communications and advocacy plan. ADB staff will need to be fully informed on Management's commitments to the comprehensive reform agenda, and other understandings and recommendations of ADF Donors. A comprehensive set of workshops and seminars will be held to explain and promote ADF IX priorities, and define unit responsibilities and accountability under the Framework. The communications and advocacy plan will specify the activities required to disseminate fully the reform agenda to all ADB stakeholders, including in developing member countries.

ADF IX Midterm Review. The Midterm Review (MTR), provisionally scheduled for the fourth quarter of 2006, represents a central mechanism for consolidating ADB's accountability to Donors in ADF IX. In order to monitor progress and keep Donors fully informed on a timely basis about all aspects of ADF IX operations, the MTR will draw upon and complement the work of the Operations Evaluation Department and the results-based tools developed by the Results Management Unit. While the precise content of the MTR will be finalized depending upon emerging operational issues and Donor priorities, Donors have requested discussion papers to be prepared for the MTR that report on: (i) the financial position of ADF, and the mobilization and use of ADF IX resources, including efforts to increase mobilization of undisbursed loan commitments; (ii) status of grants in ADF IX, including the grants framework; (iii) review of Performance-Based Allocation; (iv) status of Managing for Development Results, including harmonization; (v) ADB's experience with weakly-performing developing member countries; (vi) implementation of the new human resource strategy; and (vii) planning for ADF X. Information

papers will be prepared covering: (i) further review of PRS implementation in ADF borrowing countries; (ii) selected evaluations of ADF operations; and (iii) ADB cooperation with development partners in ADF IX.

H. A Partnership for Financing ADF IX

ADF IX program and financing framework. Donors endorsed an ADF IX program of \$7.0 billion, plus additional amounts for financing forgone interest of grants. The ADF IX program is derived from ADB's strategic operational planning process. The ADF IX program takes into account the increased need for concessional assistance in the region for: (i) accelerating progress towards the MDGs in the poorest countries, (ii) meeting the special needs and circumstances of smaller, less developed countries; (iii) assisting countries in their transition from conflict; (iv) assisting countries with significant debt challenges; (v) strengthening regional cooperation; and (vi) supporting priority technical assistance across the region. Donors recommended continuation of eligibility as applied to ADF VIII for allocating resources in the planned ADF IX period (2005-2008). This ADF IX program should enable robust implementation of ADB's strengthened Poverty Reduction Strategy. ADB committed to maximize the mobilization of internal resources, while maintaining its financial integrity. Of the total of \$7 billion, at least \$3.7 billion will be provided from internal resources, with the remainder provided by new contributions pledged by donors on a burden-shared basis of \$3.2 billion, plus some additional, voluntary contributions. New contributions pledged by donors were made mainly on accepted burden sharing principles. Donors agreed to work towards achieving a 50/50 share of regional and non-regional contributions. Contributions to ADF IX included a first-time contribution from the People's Republic of China and renewed support to ADF from Malaysia. Donors' contributions represent a significant effort to assist accelerated poverty reduction in the Asia-Pacific region.

I. POVERTY REDUCTION IN ASIA AND THE PACIFIC

A. Poverty in Asia and the Pacific

1. **Reducing poverty in the Region remains the overarching objective of the Asian Development Fund.** Although progress in reducing poverty in the region has been made, almost two-thirds of the world's poor live in Asia and the Pacific and nearly a quarter of people in the region (22%) live below the poverty line.¹ This situation reflects the cumulative impact of the many factors that contribute to poverty (e.g., weak governance, gender discrimination, infectious diseases, hunger and malnutrition, low savings rates, weak human and institutional resources, natural disasters). In addition, the Asia Financial Crisis, the events of 11 September 2001 and their aftermath, and the SARS epidemic have exacerbated poverty in the region. ADB, working with its development partners, has been vitally involved in the fight against this poverty. While these efforts have helped alleviate income poverty to some extent, the situation with regard to non-income poverty and social progress remains serious.

2. **The human impact.** The mixed record on non-income dimensions of poverty is reflected in the millions of children who continue to live in hunger, slow progress in reducing maternal and child mortality, and deteriorating and ineffective education systems in many poor countries. While access to safe water has improved, Asia fares poorly in eliminating hunger. The proportion of underweight children fell only slightly (from 35% to 31%) during the 1990s, while slow progress in reducing maternal deaths and other indicators suggests that gender discrimination remains. Donors agreed that addressing these problems will require adequate resources and a consistent focus on development effectiveness and results.

3. **The Millennium Development Goals (MDGs).** While the Asia and Pacific Region is on track to meet the Millennium Development Goal (MDG) target of reducing by half the proportion of people living on less than a dollar a day, several countries are unlikely to meet the goals for reducing income and non-income poverty.² Further progress towards meeting the MDGs is threatened by a lack of social, economic, and institutional development and domestic budgetary constraints in many countries. Should the Region fail to achieve the MDGs, they will not be met at the global level.

B. Challenges in Fighting Poverty in Asia

4. **Building blocks for reducing poverty.** There are encouraging trends in the region: decreasing population dependency rates in many countries, improved policy performance, a trend toward more open economies, and technological advances that are affordable and available to even the poorest countries. However, major development challenges remain. Winning the battle against poverty requires continued political commitment, good governance, effective use of new technologies, regional cooperation, increased civil society participation, private sector development, and environmental protection. Further progress will also require deeper engagement of poor countries in the region with the global economy.

5. **Sustainable economic growth.** Supporting economic growth is crucial for meeting the MDGs. Creating jobs and raising real wages for unskilled and semi-skilled workers generates revenue that can and should be used to address social needs. In many cases, public sector

¹ For policy purposes, most countries use their own definitions of poverty and poverty line. The widely-used international standard of one dollar-a-day adjusted for purchasing power parity is used here to discuss poverty in Asia and the Pacific.

² Appendix 1 summarizes country-level progress toward illustrative MDG targets for all ADB borrowers.

infrastructure projects generate such economic opportunities. However, the ability of the private sector to address gaps in physical and social infrastructure remains a challenge and, despite improvements in policy and institutional performance, continued efforts are needed to nurture the private sector and competitive markets. Developed countries can help by improving access to markets and technology. Support for trade and development programs can be instrumental in helping developing member countries (DMCs) reap the full benefits of the opening of markets, while regional cooperation provides essential support as DMCs seek competitiveness in global markets. Where remoteness and small market size limit opportunities, as in the Pacific, subregional cooperation is needed to improve economic development.

6. ***Inclusive social development.*** In order for poor countries to sustain economic growth and reduce poverty, a program of inclusive social development must be implemented. ADB supports the efforts of ADF borrowing countries by helping them plan for human capital enrichment and developing the infrastructure needed to effectively deliver basic social services to the poor. Consistent with the MDGs, ADF IX will be managed with the assumption that each person should have the right to access basic education, primary health care, and other essential services. Such access creates opportunities for poor people to improve the quality of their lives and participate more fully in society. In ADF IX, a proactive approach will be adopted that helps reverse social and economic discrimination and promotes initiatives (e.g., health, education, natural resource management) that meet the needs of previously excluded groups.

7. ***Good Governance.*** Recognizing that weak governance, and especially the lack of effective public institutions and polices, remains a major constraint to economic development in the region, ADB seeks to mainstream good governance into all operations. ADB works with Governments to (i) strengthen financial and budgetary systems, (ii) enhance public sector management, (iii) build capacity in central ministries, (iv) support corporate regulatory frameworks, (v) implement adequate fiscal policies, and (vi) manage debt in a sound manner. ADB helps Governments build capacity, including service delivery, transparent regulation and adjudication of disputes, upholding basic rights, training government officials in good governance principles, developing indicators of good governance, providing public safety, and promoting equity. ADB stresses the importance of legal reform and the rule of law, both to increase transparency and to fight corruption. ADB recognizes the importance of participatory processes, including involving civil society and the poor in promoting and sustaining good governance (e.g., service delivery of health and education, water and natural resources management). With regard to labor regulations, ADB's is implementing Core Labor Standards within the context of the Social Protection Strategy, which commits ADB to developing interventions in the areas of labor markets, social insurance, social assistance, schemes to protect communities, and child protection.

8. ***Private Sector Development.*** As the engine of growth and job creation, the private sector plays a key role in reducing poverty. Recognizing this, ADB undertakes private sector assessments to support the development of the private sector as part of each Country Strategy and Program (CSP). The private sector can, with proper public regulation, also help deliver basic services to poor people, thus freeing up scarce public sector resources. ADB encourages private sector involvement in building and sustaining both physical and social infrastructure. ADB works closely with ADF borrowing countries, within the context of their nationally-owned poverty reduction strategies (NPRSs), to foster institutions that promote private sector growth and competition, enhance productivity, and establish and maintain fair practices and standards. In the context of the CSP, ADB's private sector development programs seek to create the enabling environment for high levels of private sector investment in DMCs, including through supportive private sector operations. Recognizing the key role of small businesses in job

creation, ADB will increase its support of small and medium enterprises (SMEs), including where appropriate through microfinance and microenterprise initiatives.

9. **Environment.** The environment and natural resources in the Asia and Pacific region are under intense pressure. Recognizing this, ADB adopted an Environment Policy addressing: (i) environmental interventions, (ii) mainstreaming environmental issues in economic growth projects, (iii) maintaining global and regional life support systems, (iv) working in partnerships, and (v) integrating environmental considerations into ADB operations. ADB is helping combat environmental degradation through advisory, regional, and project interventions. ADB requires that the results of environmental assessments be widely disseminated both internally and externally. Country consultation meetings involving Government agencies, NGOs, academia, private sector, civil society and other development agencies provide feedback to improve all elements of ADB's environment work.

10. **Gender and Development (GAD).** ADB's mission of poverty reduction, and the fact that two-thirds of the poor in the region are female, lends urgency to the goal of gender mainstreaming. ADB takes GAD objectives and issues into consideration in its economic and sector work, loans, technical assistance, and other activities. ADB prepares country briefing papers on women, supports governments in efforts to improve the economic and social status of women, and collaborates with development partners and civil society to improve the status of women. ADB also recognizes that all projects affect both men and women and that GAD issues are not confined to social sector projects. Physical infrastructure projects also need to be gender inclusive (i.e., designed to involve and benefit both women and men). In this context, ADB supports many gender-inclusive projects across various sectors. ADB's gender analyses feed directly into country strategies and project designs and support project-related policy dialogues to more effectively integrate gender considerations into operations. While ADB's GAD Policy provides an effective mechanism for accelerating the mainstreaming of gender in ADB operations – and much progress has been made – ADB recognizes that GAD concerns must continue to be aggressively addressed in all operations.

11. **Conflict.** The maintenance of security and peace has emerged as a serious challenge for the region. Conflicts have devastating consequences, jeopardizing hard-earned economic and social achievements and diverting scarce resources away from pressing needs. Countries affected by security threats and conflict experience investor flight, inhibited movement of goods, people and capital, and increased (and often excessive) transaction costs. Conflict significantly impacts the poor in that it (i) puts their lives in danger, (ii) undermines or destroys economic opportunities, (iii) damages infrastructure that provides basic needs (i.e., water, electricity), and (iv) disrupts governments' abilities to deliver basic services to those most in need. The acute need for basic human assistance in countries recovering from conflict suggests that grant aid could have a beneficial effect in many cases.

12. **Regional public goods and threats to security.** The region faces a number of major challenges that span national borders and require collective action. Communicable and infectious diseases, including SARS, HIV/AIDS, and others, have slowed economic progress and harmed quality of life. The region is seeing increased human trafficking, with women and children in particular being victimized. Pressures on resources and Asia's fragile environment continue to build, with major ecological concerns spanning national borders. These and related threats require sustained regional and subregional cooperation.

C. ADB's Strategic Thrust

13. ***Global issues in the regional context.*** The goals, strategies, and operations of ADB and ADF reflect the shared consensus of the global development agenda, with the MDGs themselves focusing attention on the challenges ahead. The International Conference on Financing for Development³ highlighted the need for sound development financing and achieving measurable results at national, regional, and global levels. The United Nations World Summit on Sustainable Development ("Johannesburg Summit") focused on sustainable development in a world characterized by ever-increasing demands for food, water, shelter, sanitation, energy, health services and economic security. The Rome Declaration on Harmonization (February 2003) signaled the multilateral development banks' (MDBs) commitment to harmonize their operations.⁴ The Doha Trade round gives priority to improving trade rules that benefit all countries, but especially poor people in developing and transition countries; in this context, fair and open markets play a key role in fostering growth and reducing poverty. At a broad level, ADB's strategic thrust is framed within the context of this global consensus, while taking into account the unique circumstances faced by poor countries in Asia and the Pacific.

14. ***Continued relevance of the Poverty Reduction Strategy (PRS).*** Donors reaffirmed that the three pillars of the PRS (sustainable economic growth, inclusive social development, good governance) continue to provide a sound framework for ADF IX. Donors also agreed that the PRS's thematic issues (regional cooperation, private sector development, gender, and environmental sustainability) are viable and should be strengthened during ADF IX. Governance, environment, and gender are also cross-cutting issues taken into account in all dimensions of ADB operations. Donors agreed that a continued focus on the principles of the PRS will accelerate progress toward the MDGs. Donors stressed the vital importance of designing and implementing the PRS within the context of nationally-owned poverty reduction strategies (NPRSs).

15. ***Development effectiveness and results as linking theme.*** Donors stressed the paramount importance of a results-focused agenda as an organizing principle for all ADF IX operations. Consistent with the activities of other MDBs, the emphasis in ADF IX will be on project, sector, country, and subregional level results. Donors agreed that operationalizing Managing for Development Results (MfDR) in ADB will require the full support of all stakeholders. The recently established Results Management Unit (RMU) will develop indicators to measure results at each of the relevant levels (i.e., project, sector, country, subregional, institutional) and play a key role in institutionalizing MfDR at ADB. However, the realization of MfDR requires full responsibility and accountability at all levels, with the Vice Presidents in particular taking an active and involved position in support of MfDR, including the revised incentive structure rewarding staff for achieving development objectives rather than lending targets.

II. THE ASIAN DEVELOPMENT FUND AND THE ADF IX NEGOTIATIONS

A. The Role of the Asian Development Fund

16. ***ADF and poverty reduction.*** Since its establishment, ADF has financed a substantial proportion of ADB operations and has been instrumental in ADB's ability to help DMCs meet

³ Held in March 2002 and often referred to as the "Monterrey Consensus."

⁴ *High Level Forum on Harmonization: Rome Declaration on Harmonization*. 25 February 2003.

their development objectives. ADF's resources come mainly from contributions by Donors, a group that includes all developed members and several middle and high-income DMCs. Activities supported by ADF reduce poverty and improve the quality of life in countries with low per capita GDP and limited debt repayment capacity.

17. ***Progress in recent replenishments.*** In ADF VII, donors endorsed a long-term vision for ADF to accelerate poverty reduction in poorer DMCs. Donors endorsed a sounder ADF financial management and planning system that uses resources more effectively. In ADF VIII, Donors more closely aligned ADF's strategic goals and operational policies with the changing global development agenda. ADF VIII also saw deeper ADB engagement in development partnerships, a reorganization, updated business processes, and continued decentralization by further strengthening Resident Missions in borrowing countries. These initiatives supported stronger country focus and country leadership and ownership of the national development process. During the ADF VII-ADF VIII period as a whole (1997–2004), ADB implemented progressive corporate policies, strategies, and business practices.

B. The ADF IX Negotiations

18. ***Context for the ADF IX negotiations.*** The achievements in previous replenishments provide the platform upon which ADF IX will continue to rationalize operations, with an enhanced emphasis on results. Country focus will continue as the primary approach, with more weight placed on regional and subregional cooperation. The link between allocation and performance will be further strengthened and the Performance-Based Allocation (PBA) system reviewed and improved.

19. ***Transparent, inclusive, and efficient negotiation process.*** As part of their commitment to transparency and inclusiveness, Donors disseminated ADF IX documents to the international community, civil society, and the broader public. Members of the Board of Directors representing all ADB shareholders and representatives from ADF-borrowing DMCs were invited to attend the negotiations. Donors also engaged with civil society, including NGOs, during the negotiations. A list of meetings and corresponding reports is contained in Appendix 2.

III. DEVELOPMENT EFFECTIVENESS THROUGH RESULTS

20. Donors agreed that the two key issues of results management and internal efficiency lie at the core of the ADF IX replenishment. Donors stressed that country ownership is essential for poverty reduction; recognizing this, ADB will align its CSPs/CSPUs with NPRSs. Besides country ownership, Donors identified four important principles that will be integrated into ADB operations: (i) a results-based framework; (ii) improved performance monitoring, measurement, and management (supported by an independent Operations Evaluation Department); (iii) harmonized efforts and stronger partnerships to improve collaboration in operations planning, financing and evaluation; and (iv) better internal governance and management systems. In the negotiations, Donors, in consultation with Management, discussed ways in which these principles could be operationalized in ADB and ADF IX (see following discussion).

A. Country Ownership

21. ***Country ownership as basic principle.*** Pointing out the importance of development impact and cost-effectiveness, Donors urged ADB to more closely align country-level operations with NPRSs and to implement ADB operations taking into account Government priorities and

preferences. Governments, the private sector, and civil society should have significant input into country strategies, while also having a voice in project design and implementation. ADB and its partners should support the strategy development process through technical assistance, economic research, and facilitation of participatory processes.

22. **Results-based CSPs/CSPUs.** Donors noted that, within the context of NPRSs, ADB should emphasize results in its country strategy development process, including collaborating with development partners to develop consistent indicators. This is to be achieved through the development of results-based CSPs/CSPUs, aligned with NPRSs, that clearly identify objectives, describe a credible plan for achieving those objectives, and specify timebound indicators for monitoring implementation. Such CSPs/CSPUs serve country-defined and owned poverty reduction strategies. Relevant indicators in results-based CSPs/CSPUs will represent a subset of results as defined in national poverty reduction plans, with mutually agreeable indicators compatible with those of other development partners to the extent possible.

B. Managing for Results

23. **Benefits of Managing for Results.** Donors noted that MfDR supports development effectiveness and performance-based allocation policy. Donors also noted that the World Bank, UNDP, the other MDBs, and many bilateral agencies are making progress towards viable results-based management systems. Donors recognized ADB's commitment to MfDR, as shown in ongoing initiatives and active involvement in the MDB Results Working Group, the Development Assistance Committee of the Organization for Economic Cooperation and Development (DAC-OECD) Task Team on Harmonization and Alignment, and the joint MDB working group.⁵ Since the Monterrey Consensus, ADB has improved its results focus, including using technology and management information systems more effectively and strengthening staff knowledge of development results management. Donors discussed the benefits of a results-based approach, which include: (i) stronger quality at entry for ADB's loan products; (ii) better prioritization of programs based on results; (iii) empirical evidence of development effectiveness through measurable results; and (iv) greater credibility in the donor community.

24. **ADB's approach to MfDR.** Donors discussed ADB's proposed MfDR framework, based on the principles of focus, measurement, accountability, and incentives.

Focus: Donors requested that ADB be clear about the ramifications of its overarching goal of poverty reduction and how, within that broad mandate, selective and focused programs can be developed and sustained. Donors encouraged ADB to improve its results-focus, including developing and disseminating operational definitions of results and incorporating a results-oriented approach into its CSPs and CSPUs. Results indicators should be harmonized with those of other MDBs to ensure comparability across institutions.

Measurement: Donors requested ADB to continue improving systems for monitoring, measuring, and managing ADF operations. Supported by strong internal monitoring systems and an independent Operations Evaluation Department, measurable results are central to managing ADF IX. Donors also stressed the importance of measurable outcomes and clear baseline data. All projects should include logical frameworks with quantified output and outcome indicators and a clear timetable for their achievement.

⁵ ADB's President participated in the "Second International Roundtable on Managing for Results" (February 2004) and senior staff now work closely with the DAC-OECD Task Team on Aid Effectiveness.

Frameworks should have interim targets and be designed to ensure that the results of grants and loans projects can be clearly measured.

Accountability: Donors noted that, in a transparent and effective organization, all parties are clear about roles, responsibilities, and accountabilities.

Merit-based culture: Donors, highlighting the principle of accountability, stressed the need for ADB to reward staff for behaviors that contribute to organizational and poverty reduction goals. Donors noted that the current incentive structure is weighted towards new lending; they suggested that ADB reorient incentives towards implementation and development outcomes.

25. ADB is developing indicators that (i) provide simple and reliable tools for measuring achievement, and (ii) reflect outcomes that are logically connected to the intervention being assessed. The new Results Management Unit (RMU) will develop and operationalize indicators that test progress on strategic outcomes rather than individual activities. Three broad categories are being considered.

Country Indicators. These indicators are based on the economic variables presented in the semi-annual *Asian Development Outlook* and the social and economic indicators in the annual *Key Indicators* publication. These indicators, which include MDGs, will be used at all levels, including in the development of results-based CSPs.

ADB Operational Performance Indicators. These indicators, many of which are already used in ADB's Project Performance Management System, are currently implemented using logframe analysis and with specific reference to project-level variables. The RMU is developing and validating approaches for applying performance indicators to CSPs and knowledge products and services. This includes customizing CSP indicators to the country context, with particular reference to ensuring that selected indicators are congruent with and supportive of NPRs. The Regional Departments are playing an active role in developing performance indicators relevant for all levels of ADB operations.

Institutional Performance Indicators. MfDR at ADB will incorporate measures of effectiveness, efficiency, client satisfaction, and staff satisfaction. The RMU is developing these indicators drawing on global best practices (e.g., UNDP's balanced scorecard approach). The RMU will collaborate closely with ADB's Budget, Personnel and Management Systems Department (BPMSD) and Central Operations Services Office (COSO) in developing institutional performance indicators. Donors encouraged ADB to harmonize its indicators with those of other MDBs.

C. Improving Harmonization and Building Partnerships

26. **Harmonization and country ownership.** Donors agreed that collaboration with the Bretton Woods institutions, specialized agencies of the United Nations, multilateral development institutions, and major bilateral development organizations is vital for achieving development effectiveness. Such collaboration should span areas such as country level planning, implementation, analytical work, co-financing, and measuring and monitoring accomplishments in relation to the MDGs and other poverty-related indicators. Donors recognized that arrangements for inter-MDB collaboration exist, and that those arrangements are supported by the cooperation and joint statements of Bank Presidents. Donors encouraged ADB to intensify

further cooperative agreements with its development partners and to make donor collaboration more coherent and systematic. In particular, donors noted the importance of more closely aligning the processes and procedures of development partners at country level. In this context, donors also highlighted the potential role of harmonized Sector Wide Approaches (SWAPs) in bringing the development activities of various partners into closer alignment.

27. ***ADB's commitment to harmonization and alignment.*** Donors recognized that ADB has taken the lead in donor coordination in some DMCs where it has strengths and where Governments have requested such involvement. ADB also participates in technical groups supporting donor collaboration (e.g., analytic work, financial management, procurement, environmental assessment).⁶ Donors cited the importance of adopting or employing good practices identified by such groups as the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC), including participation in SWAPs. Donors welcomed ADB's commitment to continue to empower Resident Missions as part of improving harmonization and alignment at the country level, while considering its cost implications.

28. ***Global and regional public goods.*** ADB works closely with its development partners to provide global public goods spanning borders, generations, and population groups. Examples include developing treatments for infectious and communicable diseases, environmental protection, vulnerable group protection, and trade integration. The need for such goods is acute in the poorer ADF countries. ADB collaborates closely with its partners to develop programs based on each institution concentrating on its own comparative strengths.

D. Better Internal Governance and Management Systems

29. ***Human resources issues.*** Donors requested that ADB give priority to strengthening its human resources function. Donors noted that ADB is planning early remedial action, including: (i) revising staff incentives to promote greater attention to project quality rather than lending targets; (ii) improving alignment between staff training programs and operations; (iii) addressing gender issues as related to human resources; and (iv) implementing a human resources strategy focused on improving performance management and providing for greater accountability. Donors noted increased transparency in management appointments, including the use of outside expertise, and urged further consultation between Management and the Board of Directors.

30. ***New accountability mechanism.*** Donors agreed that the new accountability mechanism, consisting of two separate but complementary functions (consultation and compliance review), provides a sound method for investigating stakeholder concerns, including possible violations of ADB's operational policies and procedures. Donors stressed the importance of responding equitably to stakeholder concerns on direct, adverse, or material harm that may have resulted from ADF projects. Donors noted that the Compliance Review Panel has become effective, with activities including (but not limited to): (i) investigating alleged violations by ADB of its operational policies and procedures in ADB-assisted projects that directly, materially and adversely affect local people; (ii) determining eligibility of requests and making recommendations to the Board; (iii) investigating and making recommendations to ensure project compliance in cases where the Board authorizes a compliance review; and (iv) monitoring implementation of remedial actions approved by the Board. Donors agreed that it

⁶ The procurement group, for example, produced a master standard bidding document, while the environmental assessment group produced a good practice framework for environmental assessments.

was appropriate for the Compliance Review Panel to report directly to the Board of Directors and the Board Compliance Review Committee. In this context, Donors stressed the importance of ADB maintaining a rigorous and transparent process for responding to allegations of corruption in ADB-funded projects.

31. **Unified public communications policy.** Donors noted that ADB's Disclosure Policy has worked well to date. Innovations such as the electronic dissemination of documents and global network of Depository Libraries have increased transparency. However, they also noted that some parts of the Disclosure Policy are outdated and others need clarification. In response to Donor concerns, ADB is developing a unified communications (disclosure and information) policy that draws on public and stakeholder comment through a series of external consultations. This policy will increase transparency and improve organizational outreach to shareholders and the international community. Donors recommended that management institute a presumption of publication for ADB documents.

32. **Empowering Resident Missions (RMs).** RMs play a key role at country, sector, and thematic levels. ADB will continue to increase delegation of responsibilities, including in conducting analytic work, to RMs. Such delegation further strengthens the capacity of RMs to use their close contacts with Governments and other development partners to strengthen project implementation, coordination, and collaboration. RMs actively support ADB's commitment to results, and will play an increasingly important role in implementing MfDR at the DMC level. The expanding role of RMs has important resource implications for ADB. Given the large number and complexity of the functions assigned to RMs, a broader staff skills mix has emerged (contributing to associated competency and skills gaps). Local (RM) staff need more intensive training in English and ADB policies and procedures.⁷ Donors encouraged ADB to continue empowering RMs to improve development effectiveness, reinforce country focus, and improve the depth and quality of partnerships.

E. Measurement, Monitoring, and Independent Evaluation

33. **Independent evaluation.** Donors stressed that independent evaluation systems are essential for development effectiveness. Key criteria for assessing the independence of evaluation include: (i) behavioral autonomy, (ii) avoidance of conflicts of interest, (iii) insulation from external influence, and (iv) organizational independence.⁸ Donors noted that a more objective evaluation system provides a better basis for feeding the results of evaluations back into operations to improve development effectiveness.

34. **Further improvement.** Donors discussed areas of concern identified by ADB, including (i) improving *ex ante* performance specification through better project frameworks, including better baseline data, (ii) tracking development objectives during project implementation, (iii) ongoing development and refinement of post-evaluation guidelines, (iv) developing a more consistent evaluative framework for performance measurement during implementation, and (v) providing technical assistance and training to DMCs to improve their capacity to monitor results. Donors requested ADB to continue improving its evaluation systems at project, sector/subsector, and country levels.

⁷ *Enhancing Effectiveness: Managing for Development Results*. Discussion Paper, Tokyo, Dec 2003.

⁸ These four criteria were identified by a number of official evaluation and audit organizations, and have been summarized in *OED Reach: Independence of OED* (World Bank, Washington, D.C., 24 February 2003).

35. ***Independent Operations Evaluation Department.*** An independent Operations Evaluation Department (OED) was established on January 1, 2004. Donors agreed that, to ensure the organizational independence of the OED, the department should report directly to the Board through the Development Effectiveness Committee (DEC). Donors noted that this change brings ADB into harmonization with practices in other international institutions (e.g., World Bank, the International Monetary Fund), while also enhancing the external credibility of evaluation results.

IV. ADB'S REFORM AGENDA IN ADF IX

36. ***Need for institutional reform.*** Donors agreed that implementing the above principles will require important institutional reforms within ADB and strong, consistent leadership from ADB Management. Building on the ADF VIII Midterm Review, and continuing through these negotiations, Donors raised questions about the way ADB conducts its business, with particular reference to organizational structures and processes that do not support a results-focus. In this regard, Donors noted that ADB had undertaken a major reorganization and established new business processes. However, recognizing the magnitude of the work to be done, Donors agreed that continued reforms will be necessary to achieve the mission of poverty reduction.

37. ***ADB's commitments.*** Beginning during the ADF VIII Midterm Review and continuing through the ADF IX negotiations, Donors consistently expressed concerns about various aspects of ADB operations that affect the management of ADF resources. In response to those concerns, ADB's President made a number of important, high priority commitments in his remarks at Copenhagen (October 2003), Tokyo (December 2003), and Lisbon (March 2004). Those commitments were refined into a strategic reform agenda that includes both organizational and operational deliverables (see Table 1). Donors agreed that this reform agenda consolidates important issues and provides a sound basis for achieving the shared objectives of donors and ADB Management in strengthening leadership and achieving development effectiveness in the region. ADB has implemented some of the commitments, made significant progress on others, and is committed to a time-bound action plan to accomplish the remainder.

38. ***Key role of Vice Presidents in implementing the reform agenda.*** Donors agreed that full implementation of the Reform Agenda requires strong leadership from Senior Management, particularly at the Vice President level. Since 1999, ADB has clarified and expanded the role and responsibilities of the Vice Presidents by: (i) establishing a Management Committee comprised of the President and the Vice Presidents; (ii) delegating responsibility for CSPs to Vice Presidents, as well as project and implementation level responsibilities; (iii) involving the Vice Presidents in external relations; and (iv) reducing the span of control by the President by creating the fourth Vice President position (Knowledge Management). Donors agreed that ADB should continue to strengthen its corporate governance through the articulation of a transparent and integrated Management accountability framework that more clearly defines the scope of Vice Presidents' responsibilities. The Vice Presidents will actively support the reform agenda within ADB, including at both Headquarters and Resident Missions, and in communicating the organizational changes to external audiences and civil society. The Vice Presidents will play highly visible roles in communicating and advocating for the reform agenda during the first half of ADF IX.

39. ***Status of commitments.*** The status of ADB's commitments on its reform agenda is summarized as Table 1, with deliverables identified as completed, in process, or planned.

Table 1: ADB's Reform Agenda for ADF IX

Commitments	Deliverables	Benchmarks / Time-bound Indicators
Completed Deliverables		
1. New accountability mechanism	<ul style="list-style-type: none"> ◆ Office of the Compliance Review Panel (OCRCP) and Office of the Special Project Facilitator (OSPF) established. ◆ OSPF's Operational Procedures completed with full public disclosure 	OCRCP and OSPF's operational activities ongoing. OCRP Operational Procedures for finalization in early June 2004.
2. Independent Operations Evaluation Department (OED)	Independent OED established.	Independent OED since 1 January 2004 and has been fully operational.
3. Results Agenda as key priority	<ul style="list-style-type: none"> ◆ Establishment of Results Management Unit (RMU) and work program ◆ Preparation for pilot testing of results-based CSPs 	<ul style="list-style-type: none"> ◆ Stocktaking completed Q2 2004 ◆ Preparation of two results-based CSPs by Q4 2004 ◆ Standard set of performance indicators for CSPs; economic, sector, and thematic work; and institutional performance by Q1 2005. ◆ Measurable indicators (quantifiable, timebound, including baseline data) incorporated in all project documents by year-end 2005
4. Review of the Poverty Reduction Strategy	Discussion papers presented and discussed during ADF IX negotiations	Working Paper followed by final R-paper to be considered by the Board of Directors on 2 July 2004.
Deliverables in Process		
5. Strengthening ADB's Senior Management Team	<ul style="list-style-type: none"> ◆ Integrated Management accountability framework ◆ Fourth VP's position established and filled, emphasizing ADB's commitment to Knowledge Management ◆ Managing Director position established and filled 	<ul style="list-style-type: none"> ◆ New Management Team fully operational from 1 April 2004 ◆ Management Team to lead ADF IX implementation and midterm review
6. Review of the Performance-Based Allocation system	Discussion papers presented and discussed during ADF IX negotiations	Working Paper followed by final R-paper to be considered by the Board of Directors in Q4 2004.
7. Development of Results Methodologies	Discussion papers presented and discussed during ADF IX negotiations	Processes and procedures for delivering MfDR documented and presented to Board of Directors.
8. Human Resources Strategy	Revised draft strategy now being prepared under the guidance of Management	Circulate to the Board of Directors for comments in June 2004.
9. Results-Based CSPs	ADB is making tangible progress towards integrating the MDGs and goals for governance and private sector development into CSPs/CSPUs.	<ul style="list-style-type: none"> ◆ Pilot, results-based CSPs are in process and will be completed in 2004. ◆ Integrate results measurement in all new CSPs by year-end 2005
10. Addressing "Bunching"	Tighter planning and monitoring of Board schedules	Exploring options to more closely align operational cycles of ADB with individual borrowers.

Commitments	Deliverables	Benchmarks / Time-bound Indicators
11. Reviewing and mobilizing resources	Management has instituted a systematic process for reviewing efficient and effective resource use	Treasurer's Department and Strategy and Policy Department to provide regular reports to Management, including on cancellation and reprogramming of undisbursed loans commitments, by Q4 2004.
12. Harmonization of results indicators	RMU working closely with partners to identify appropriate indicators	Will report to the Board of Directors by Q4 2004
<i>Planned Deliverables</i>		
13. Independent Review of Reorganization	Review of implementation aspects and recommendations being implemented	Independent review by a panel of external experts to assess efficacy of ADB's reorganization. Target finalization of independent assessment by year-end 2004.
14. Unified Public Communications Policy	<ul style="list-style-type: none"> ◆ Draft policy on web site for public comment ◆ Consultation workshops with stakeholders 	Public comment period concluded on 28 May 2004. Final R-paper to be submitted to the Board of Directors by Q4 2004.
15. Review of Governance and Anticorruption Policies	Technical analysis underway, taking into account findings of the Review of the Poverty Reduction Strategy	To be discussed with the Board of Directors in Q3 2004.
16. Review of Private Sector Development (PSD) Strategy	Review and preparation of a Board Information Paper on the Implementation of the PSD Strategy is underway.	To be discussed with the Board of Directors in Q3 2004.

V. COMMUNICATING AND ADVOCATING THE ADF IX REFORM AGENDA

40. ***Communicating and advocating the reform agenda.*** Donors agreed that the ADF IX Reform Agenda must be communicated and advocated both within ADB and among external stakeholders. Further, staff in both operations and non-operations departments need to be fully informed and support the reform agenda. In order to translate the ambitious reform agenda into reality, ADB will develop a strategic communications and advocacy action plan. Under the leadership of the ADB President, the Management, team will guide the implementation of the action plan and support advocacy initiatives across the institution.

41. The communications plan will clearly specify the activities required to disseminate the reform agenda to broader publics, including the international development community, DMC Governments, and civil society. Consultations with stakeholders will be held as appropriate, and the ADB web site will prominently feature the reform agenda. Management will be actively involved in communicating and advocating for reform with both internal and external audiences. A series of workshops and seminars will be held to raise awareness of the reform agenda.

VI. STRENGTHENING POLICY IMPLEMENTATION FOR POVERTY REDUCTION

A. Moving the Poverty Reduction Strategy Forward

1. Critical Review of Progress

42. ADB launched its review of the Poverty Reduction Strategy (PRS) in May 2003. The review assessed progress in reducing poverty in the region, evaluated the conceptual framework of the PRS, and addressed implementation challenges. Information sources included focus group discussions, in-depth interviews, and in-country assessments in six DMCs. Government officials, civil society, academics, and development partners were engaged in dialogue. Results were validated and refined at a workshop attended by representatives of 33 borrowing DMCs. A progress report was posted on the ADB website, a first draft was presented to Donors at the Copenhagen meeting, and a paper on the PRS review was discussed at the Lisbon meeting.⁹

43. Donors welcomed the report on the review of the PRS, and there was broad support for the proposals contained in the discussion paper. Donors requested that ADB (i) clearly recognize gender and environment as cross-cutting priorities, (ii) ensure that the 40% target be replaced by a credible system for monitoring poverty reduction, (iii) designate capacity development as a thematic priority, and (iv) better explain the complex relationship of the three pillars of the PRS (sustainable economic growth, inclusive social development, and good governance) and their relationship to thematic priorities. Donors requested that the revised review paper reflect these views and feature a time-bound action plan for implementation.

⁹ ADB 2004. *Review of ADB's Poverty Reduction Strategy*. Manila.

2. Stronger Implementation

44. ***Policy dialogue and social development activities.*** Findings of the Review showed that the proportion of ADF operations supporting governance has increased since introduction of the PRS in 1999. Donors requested ADB to intensify its policy dialogues with DMC Governments and development partners to identify the most appropriate blend of assistance required to achieve the MDGs. These discussions should explore ways to expand assistance for social development and the promotion of good governance.

45. ***Building internal capacity.*** Donors discussed the importance of enhancing ADB's internal capacities by addressing key human resources issues. ADB's forthcoming Human Resource strategy will identify specific actions to (i) upgrade the organization's staff resources and skill mix, (ii) integrate training and mentoring programs, and (iii) clarify institutional responsibilities for guiding and monitoring policy and strategy implementation.

3. Improved Methods for Measuring Poverty Impact

46. Donors encouraged ADB to ensure that CSPs/CSPUs provide a clear and comprehensive analysis of development partner activities and how those efforts contribute to reducing poverty. Donors noted that CSPs/CSPUs incorporate quality analytical work, while also supporting ADB's initiatives to deepen that analysis through improved logical frameworks that clarify the relationships among proposed activities, desired outputs, expected outcomes, and the MDGs. Donors noted that ADB needs to make a greater effort to integrate baseline data in its analyses, and that Management should involve the Board more closely in the review process for CSPs/CSPUs. Progress in achieving specific targets at output and outcome levels should be reported in subsequent CSPUs.

4. More Flexible Modalities

47. Donors supported ADB's move to expand its range of financial modalities and instruments to better respond to the needs of DMCs. Many ADF borrowing countries will continue to require external financing, both concessional loans and grants. Many of these countries remain vulnerable to external shocks, including natural disasters, conflicts, and fluctuating commodity prices. ADF provides highly concessional support to such poor countries to ease their integration into the world economy and international markets. Donors agreed that implementing grants in ADF IX in the poorer DMCs represents an important effort by ADB to be more responsive in its assistance modalities to countries with high levels of poverty and debt vulnerability. Donors also recommended that ADB undertake more innovative analytic work on weakly performing DMCs.

5. Managing for Results and Country Ownership

48. Donors supported ADB's actions to establish a more results-oriented monitoring and evaluation system, grounded in the principle of country focus, to support more effective management of the PRS. The PRS monitoring framework at the institutional level will be at the core of ADB-wide MfDR initiative.¹⁰

¹⁰ In 2003, ADB established a working group to review, among other things, results-based management at ADB and its implications. In 2004, a formal results management unit was established to spearhead ADB's further efforts to better manage for development results. ADB is building on lessons learned from other agencies, as well as the substantial body of work on results-based management, to craft the conceptual framework for moving forward.

49. Donors discussed ADB's proposed monitoring framework for the PRS. The framework has four basic elements:

- (i) **Desired impact** of the PRS on poverty reduction at country and regional levels will be measured in relation to MDGs 1-7, as well as indicators for private sector development and private sector operations, good governance, and environmental stewardship.
- (ii) **Expected outcomes** of PRS implementation will be measured by aggregate achievement of CSP objectives.
- (iii) **Proposed output** of PRS implementation, especially aligning ADB operations with key components of the PRS, including tracking ADB operations by the three pillars, thematic priorities, and type of intervention.
- (iv) **Stronger institutional capacity** to implement the PRS through skills development, systems enhancements, and focused poverty-related activities at regional, country, and project levels.

6. Moving Forward with the PRS

50. **Improvements in the PRS.** Donors also recognized the need for evolutionary improvements in the PRS (for example, adding capacity development to the PRS's current thematic priorities of environment, gender, private sector development, and regional cooperation). Donors, emphasizing the importance of sharper country focus in ADB operations, agreed that ADB-wide lending targets or prescriptions for specific sectors and subsectors are inappropriate. Instead, donors encouraged ADB to develop better mechanisms for ensuring development effectiveness, including the implementation of results-based CSPs. In this context, donors agreed that the 40% target for poverty interventions must be replaced by credible mechanisms that ensure that poverty reduction remains a priority.

51. **Capacity development as new thematic priority.** Donors agreed with a proposal by ADB to add capacity development as a new thematic priority. This change is justified by the importance of sound public policy implementation in facilitating and sustaining rapid and inclusive economic growth. Donors supported ADB's proposal to update the PRS framework to comprise the existing three pillars (pro-poor sustainable growth, social development, and governance) and five thematic priorities (private sector development, gender, environment, regional cooperation, and capacity development).

52. **Enhancing country focus through NPRSs.** Donors supported ADB's decision to further enhance country focus by more closely aligning its assistance with NPRSs. Donors stressed that goals and medium-term targets specified in CSPs/CSPUs should be consistent with goals and medium-term targets as stated in NPRSs. Donors noted that ADB has decided not to enter into any new Poverty Partnership Agreements (PPAs) with DMC governments that adopt a NPRS. Agreed goals and medium-term targets contained in already-signed PPAs will be integrated into new CSPs and progress reported through CSPUs, as long as they are consistent with the goals and medium-term targets in NPRSs.

53. **Integrating timebound indicators throughout ADB operations.** Donors emphasized the importance of developing timebound indicators to measure progress towards clearly stated development objectives. This might include both quantitative and qualitative measures that are shown to be both measurable and reliable. The RMU is developing indicators based on the principles outlined above.

B. Improving Performance-Based Allocation of ADF IX Resources

54. **PBA Policy.** ADB's policy on *Performance Based Allocation (PBA) for ADF Resources*¹¹ was approved in March 2001. Lending commitments for 2002-2004 have been approved under the policy, as have approvals for 2002–2003. The PBA policy supports poverty reduction and sustainable development by allocating ADF resources based on country performance. The PBA exercise converts country performance ratings into allocation shares for ADF borrowers using a formula that takes into account country performance, adjusted for average need as measured by GNP per capita and country size. Under the PBA policy, each country's performance is assessed on: (i) the coherence of its macroeconomic and environmental policies, (ii) the quality of its governance and public sector management, (iii) the degree to which its policies and institutions promote equity and inclusion, and (iv) portfolio quality.

55. **Donor discussions of PBA.** Donors considered the impact that the introduction of the PBA has had on lending allocations in ADF, and noted that although a link between performance and allocations had been established, that linkage should be strengthened in ADF IX allocations. Noting that small countries were attracting a declining share of ADF resources under the PBA, and that such countries are not in general poor performers, Donors expressed some concerns about this trend and then discussed technical and implementation aspects of the PBA policy.¹² Donors noted some gaps in the existing policy, particularly those related to the treatment of post-conflict allocations and allocations for weakly-performing countries. Some Donors questioned the weight given to governance in ADF and inquired why the treatment was different from that in IDA, and felt that a sharper focus on governance as an element of performance would be justified. While appreciating the need for the flexible application of PBA methods, Donors felt that there would be a continuing need for strong oversight of the policy by the Board. Donors underlined the importance of close inter-agency coordination on PBA methods, and requested that a comparison of PBA methods be undertaken with active participation by ADB. Donors stressed the value of keeping the PBA simple and the need for transparent arrangements that improve accountability.

56. **Refining country focus.** Donors stressed the need for congruence between the PBA and ADB's broader strategic interests. Donors agreed that the allocation formula should be recalibrated to achieve a sharper focus on poor, small, and mid-size countries that are performing well, as most such countries do not have access to ordinary capital resources (OCR), cannot easily mobilize private sector resources, and face deeply embedded structural disadvantages. Donors recommended that a separate pool of resources be maintained for the Pacific DMCs.

57. **Strengthening governance and the performance-allocation link.** Donors agreed that country performance needed to exercise a more pronounced effect on allocations. Donors also stressed that greater weight should be given to governance in the measurement of country performance. Donors supported Management proposals to increase the formula weight on the country performance score (from 1.75 to 2), and to adopt a modified country performance scoring system that increases the "effective" weight of governance to over 50%.

¹¹ *Policy on Performance Based Allocation for Asian Development Fund Resources*, Asian Development Bank, Manila, March 2001.

¹² ADB 2003. *Performance-based Allocation at ADB: Some Options for Enhancing the Policy and Its Implementation*. Discussion paper presented at December 2003 ADF IX meeting in Tokyo. ADB 2004. *Performance-based Allocation at ADB: Revised Paper*. Discussion paper presented at March 2004 ADF IX meeting in Lisbon.

58. **Ending triggers and collars.** Donors noted that country-specific performance criteria, as well as associated “triggers,” had proven costly to implement and had had little impact on allocations. Donors endorsed Management’s proposal to discontinue triggers. Donors also supported Management’s proposal for the removal of the “collar” in ADF IX to ensure that allocations are more closely aligned with performance.

59. **Addressing special considerations.** Donors agreed that post-conflict allocations be guided by the IDA 13 framework. Among other things, this will require an annual assessment of performance using IDA’s “Post-Conflict Progress Indicators.” Donors agreed that up to 5% of ADF IX resources could be used to support regional and sub-regional projects where benefits are demonstrably multi-country. Donors requested ADB to develop a special approach for engaging and assisting weakly performing countries. Donors stressed that the allocation of grants, other than technical assistance grants, should take place within the framework of the PBA, and that ADB’s sanctions policy should remain in force for countries with ADF arrears.

60. **Broadening disclosure.** In keeping with the need for transparency and in full consultation with the Board, ADB Management will prepare a roadmap for moving toward full disclosure of PBA scores. More immediately, Donors agreed on (i) disclosure of country ratings scores at aggregate and cluster level to each borrower, with average scores for all borrowers; (ii) disclosure of aggregate and cluster scores to the Board on completion of country programming missions, on a confidential basis only; and (iii) public disclosure of an annual PBA report, modeled on the IDA format. These steps will bring ADB practices immediately into line with fuller disclosure consistent with IDA disclosure practices.

61. **PBA focal point.** Donors stressed the importance of clarifying institutional accountabilities. They agreed to Management’s proposal that this would be best accomplished through the creation of an organizational focal point for the PBA exercise outside of operations departments, ensuring a clear separation of operational and resource management responsibilities. The new operational unit would be fully responsible for implementing policies and procedures for ADF allocation. This organizational modification has important advantages in increasing transparency and ensuring the consistent application of the policy. The operations departments will continue to conduct country performance assessments.

62. **Allocation cycle.** For all countries except PDMCs, PBA allocations and loan approvals are aligned annually. To ease operational constraints, Management proposed and donors supported a move to a biennial allocation cycle, with approvals aligned to commitments within each biennial period.¹³ Adjustments will be determined by annual performance assessments, except for small countries where a biennial assessment will take place. For larger countries and for those countries undergoing significant changes the annual country performance assessment (CPA) cycle will be retained. Donors concluded that these steps will contribute to better business processes.

63. **Action Plan.** Management has committed that allocations over the period of ADF IX will be made under the provisions of the revised system. Since the lead times in the PBA system are long, an action plan has been formulated to facilitate the transition from existing arrangements to the new arrangements that will be provided under the revised system (see Appendix 3).

¹³ Because loan projects are infrequent in small PDMCs (excluding PNG), approvals and commitments cannot be aligned biennially; thus, they will be aligned in each replenishment period.

C. ADB's Action Plan for Managing for Results

64. In response to Donor suggestions at Lisbon, ADB developed a draft Development Results Action Plan to be implemented by the Results Management Unit (RMU). The Action Plan was based on information presented to Donors in Tokyo, and revised based on further experience and insights since that meeting. The action plan focuses on activities to be undertaken in 2004, with a clear understanding that longer-term impacts will continue to be monitored with a results-focus.

65. The RMU will implement the MfDR concept with full support from Management, and especially the Vice Presidents. Implementation is likely to go through a sequence of stages typical of major organizational change: (i) awareness raising, with a common understanding emerging and commitments to change being made; (ii) stocktaking; (iii) implementation; and (iv) continuous learning. The RMU is collaborating closely with all concerned departments and offices in ADB, and reports to the Management Committee on a regular basis. Progress reports are submitted to the Development Effectiveness Committee (DEC) for information.

D. Working With Weakly-Performing DMCs

66. **Overview.** For a variety of reasons, standard forms and modalities of aid have not necessarily worked well in some countries. Donors noted that weakly performing countries are usually less able to respond to significant development and poverty alleviation challenges. Such situations can deteriorate rapidly, with political, economic, social, and security consequences for both the country concerned and neighboring countries. Consistent with the PBA and the low income countries under stress (LICUS) approach of the World Bank, Donors recommended that ADB quickly operationalize a special approach for weakly performing countries. ADB has already adopted a PBA system that rewards countries with appropriate development policies and institutions and the ability to use ADF funds effectively. This implies that strict application of PBA will lead to some countries receiving a diminishing share of ADF resources. This is already happening. Donors, however, emphasized that the needs of countries should be addressed within the PBA framework. ADB has analyzed the characteristics of DMCs with chronically weak performance. Findings showed that such DMCs are characterized by policy misdirection, weak governance, and civil conflict. These factors are at times so intractable that they mitigate against the effectiveness of normal ADB operations.

67. **Approach for engagement and assistance.** Donors recommended that ADB's approach for engaging with weakly performing countries be based on: (i) analytical work that addresses the most significant aspects of poor performance within a particular country, including issues such as governance, ownership, and commitment to reform; (ii) stronger partnerships with development agencies and stakeholders; (iii) identification of key impact areas; and (iv) new and innovative ways of engaging with such states. Strategies will also be developed to encourage key stakeholder support within weakly-performing DMCs.

68. **Operational issues and implications for ADB.** Donors recognized that, in many cases, the quality and nature of the Bank's engagement with weakly performing countries—rather than the level of lending as such—has the most development impact. This has implications for ADB's human resources management, especially the way in which staff are recognized and rewarded for innovative and effective methods. Organizational and financial implications for ADB are being assessed, with particular attention to staff incentives and skill mix. Modest lending operations should not work as a negative factor in the evaluation of staff performance. Conversely, work in complex and problematic country circumstances should be

recognized and rewarded. The incentive structure should also encourage the high quality, country-specific analysis that is required for designing an effective assistance package.

69. **Improving ADF support for weakly performing countries.** Donor discussions identified several issues that will need to be addressed as ADB moves forward, including: (i) developing valid indicators for identifying weakly-performing DMCs; (ii) validating current approaches to country-level analytical work (with appropriate division of labor among specialized agencies); and (iii) developing strategies to encourage stakeholder support within weakly-performing DMCs. Donors stressed that any planned support or assistance to these DMCs should be formulated within a CSP/CSPU framework and that any provision of grant assistance to weakly-performing countries in arrears must be considered by the Board of Directors on a case-by-case basis.

VII. USE OF ADF IX RESOURCES

70. **Context.** Donors recognized that ADB faces increasing demands for concessional resources by poor countries in the region. The region now has greater development challenges, including supporting peace and stability in post-conflict situations and addressing regional public goods (including resources to prevent communicable diseases). Donors agreed that ADB, as it seeks to increase the development effectiveness of ADF IX, must manage based on clear analysis of the demand for and availability of resources. Donors examined and gave broad endorsement to a set of planned programs of ADF IX operations amounting to \$7.0 billion over the period 2005-2008 (derived from ADB's current strategic operational planning process). The discussions focused on (i) ADF IX allocations based on ADB's current country operational programs and regional programming, (ii) potential resource availability in ADF IX, (iii) grants, and (iv) technical assistance resource needs. These programs will build on achievements in DMCs resulting from earlier ADF-financed operations, while also incorporating the ADF IX policy agenda.

71. **Key Role of CSPs/CSPUs.** High quality country strategies are required for ADF IX resources to effectively support broad-based growth that disproportionately benefits the poor. Demand assessment for ADF IX seeks to identify optimal assistance levels by taking into account country absorptive capacity and the incremental impact of ADF IX on borrowing capacity. This approach supports sound fiscal management, policy reform, strengthening of regulatory frameworks and administrative capacities, and stronger public sector management competencies. ADB supports ADF-eligible countries in preparing realistic, strategic targets for poverty reduction. Within this context, CSPs/CSPUs play a key role in channeling resources to sectors that optimally support poverty reduction. Donors recommended that there should be improved consultation with the Board of Directors during the process of developing CSPs/CSPUs.

72. **New Challenges.** Donors noted that adequate ADF IX resources are critical for reducing poverty in the region, particularly given unprecedented challenges that have dramatically increased demand for concessional funding. ADF funds must now support post-conflict recovery in Afghanistan and Sri Lanka; provide for the needs of the two new borrowers in ADF VIII (Azerbaijan, Timor-Leste); and address cross-border challenges requiring regional cooperation and a focus on regional public goods. Combined with the ongoing needs of ADF borrowers to support sustainable growth and reduce poverty, the demands on ADF IX resources will be substantial.

73. **Use of ADF IX resources in strategic context.** Donors agreed that ADF IX resources should be used in a manner consistent with ADB's strategic framework (see Chapter II above). The CSP/CSPU for each ADF borrower should present a compelling case for continuing ADF assistance, taking into account absorptive capacity and country performance. Donors agreed that the CSP/CSPU should (i) specify how development effectiveness will be supported, (ii) how results will be measured and assessed, and (iii) how the use of ADF IX resources will be monitored. Donors emphasized the importance of using ADF IX resources to support achieving the MDGs and the need to use resources more effectively through partnerships, harmonization, and results-focus.

74. **ADF eligibility.** Donors recommended continuation of eligibility as applied to ADF VIII for allocating resources in the ADF IX period (2005–2008). Donors also reaffirmed that small island DMCs face special problems due to small size, remote location, high transport costs, lack of natural resources, and limited creditworthiness. Donors noted that the Board of Directors would review the possible eligibility of Uzbekistan for limited access to ADF funds. Appendix 4 shows indicative country allocations in ADF IX.

75. **Disbursement Performance.** The current active portfolio in ADF consists of 278 loans, representing \$6.6 billion in ADF resources. Special evaluation studies of historical ADF lending have concluded that ADF-financed operations have generally met their objectives. However, Donors noted that other analyses have shown that weaknesses exist in disbursement performance in the current ADF portfolio. They recommended that ADB Management address this problem on a priority basis before the commencement of ADF IX, including through a comprehensive analysis of undisbursed loan commitments. Management agreed to make a greater effort to identify cancelable loan resources that may be reprogrammed for new lending during ADF IX.

76. **Technical Assistance in ADF IX.** Technical Assistance (TA) plays a key role in improving efficiency, driving policy reform, and strengthening institutions. ADB treats its TA activities as demand-driven and country-owned. In that context, TA is generally prioritized in relation to CSPs/CSPUs and regional/subregional needs. TA resources finance knowledge products and services (KPS), which include economic and sector work, poverty assessments, and advisory and project preparatory technical assistance. KPS (i) help transfer knowledge to DMCs, (ii) raise awareness of good practices, (iii) facilitate open information exchange, (iv) foster regional cooperation, (v) support reforms, and (vi) improve quality at entry for ADF projects. At the macro level, TA interventions foster needed policy reforms and institutional strengthening. At the operations level, TA improves the quality of CSPs/CSPUs by supporting better analytic work and ensuring that the full range of stakeholders are engaged. TA also supports better quality at entry through sound project designs and lays a foundation for effective project implementation. Donors urged ADB to continue to strengthen TA and to use TA more strategically in support of country-level objectives as stated in CSPs/CSPUs; this will be accomplished in part by integrating MfDR principles into all TA provided under ADF IX.

VIII. ESTABLISHING GRANTS IN ADF IX

77. **Overview.** Donors discussed the development, financial, and legal implications of introducing grants in ADF IX and a framework for their allocation and use. Donors agreed that the demand and allocation of ADF IX resources, including grants, must take into account developments in the international community and the region. Particularly important is the consensus reached at the Monterrey Conference on Financing for Development stressing the

need to mobilize greater financial support while ensuring that resources are used more efficiently. Donors emphasized that recent decisions made during International Development Association (IDA) 13 and African Development Fund (AfDF) 9 negotiations should be taken into account in determining use and allocation of ADF IX funds, including grants.¹⁴ Donors agreed that the most appropriate framework would draw on the cumulative experiences of IDA and AfDF, while remaining appropriate for the development conditions in the Asia and Pacific Region and ADB's institutional strengths and experience.

78. **Role and use of grants in ADF IX.** Donors agreed to establish a grant program to meet the broad development objectives of: (i) reducing the debt burden of development finance in the poorest countries of the region; (ii) assisting poor countries in accelerating their transition from post-conflict situations to peace and stability; (iii) combating HIV/AIDS and other infectious diseases; and (iv) undertaking priority technical assistance. Grants awarded in support of these development objectives will be allocated according to the agreed grant allocation framework (see Appendix 5).

79. **Framework for the ADF IX grants program.** Donors agreed that the introduction of grants in ADF IX did not commit future replenishments to continue offering grant assistance. Further, they agreed that ADB should continue to collaborate closely with the World Bank and the IMF on the evolving debt sustainability framework. Donors recommended that the grant allocation framework and its application be reviewed towards the end of the second year of ADF IX and adjusted if deemed appropriate. Donors noted the importance of retaining some flexibility in application of the ADF IX grants framework through the work of the ADB's Board of Directors.

80. **Managing grants in ADF IX.** Donors agreed that ADF should provide grants in a manner that (i) is consistent with its mandate as a broad-based development institution, (ii) harmonizes with activities of development partners, and (iii) draws on ADB's comparative strengths. Donors noted that, while enhanced concessionality through grants provides financial and development benefits to ADF's borrowers, it will also affect the future capacity of ADF to support new concessional operations. Decisions on the use of grants in ADF IX will have to take into account the development effectiveness of ADF operations and associated instruments/modalities in poor countries, access by poor countries to other concessional resources and interaction with other development partners, and implications for ADF's financial capacity. This framework will facilitate operationalization of the ADF IX grants program, the monitoring and assessment of development impacts of ADF grants, and the accountability and reporting on ADF grants to donors. The allocation and use of grants will be made on the basis of the PBA system and in accordance with the individual country's NPRS as reflected in the CSP/CSPU. Projects will be designed so that results of grant funding can be clearly measured.

81. **Resolution.** Donors concurred that authorization be included in the ADF IX Resolution to allow grant financing of projects and programs of high developmental priority from ADF IX contributions and agreed that the Regulations of the Asian Development Fund be amended accordingly, in particular Section 3.01(a) of the Regulations. The amendment to Section 3.01 will, in essence, authorize ADB to use ADF resources for financing projects and programs of high developmental priority from grants if express authorization for such type of financing has been provided by the appropriate Resolution of the Board of Governors.

¹⁴ Those funds allocate a sizeable proportion of concessional resources on a grant basis within a specific development framework.

82. Donors concluded that grants would represent up to 21% of total ADF IX operations, including 3% as priority technical assistance (see Appendix 5). Donors agreed to finance grants in ADF IX under the “Belgian option”¹⁵ (see Chapter IX). Donors agreed to maintain the financial integrity of ADF and to address the costs relating to introducing grants in ADF IX. The forgone interest of grants made in ADF IX are financed by donor contributions to ADF IX. The forgone principal will be financed in future replenishments. Donors also recommended that ADB work closely with the World Bank and International Monetary Fund to continuously evaluate debt sustainability issues during ADF IX, including in post-conflict situations. In this context, Donors recommended that the ADF IX grant framework be reviewed as part of the ADF IX Midterm Review.

IX. ADF IX FINANCIAL MANAGEMENT AND REPLENISHMENT FRAMEWORK

A. Financial Management

83. During the ADF VIII Midterm Review, Donors requested ADB to prepare a report on the nature and operation of the expanded advance commitment authority (EACA) scheme and examine means to improve currency risk management of ADF resources.¹⁶ Donors examined current procedures and practices for ADF resource management and associated currency risks. Donors discussed the operations of different resource pools that provide ADF commitment authority and finance disbursements under ADF operations. Donors endorsed Management’s proposals to strengthen ADF financial management by (i) updating the underlying assumptions involved in projecting the reflows-based commitment authority under the EACA scheme, particularly the levels of lending and donor contributions, and (ii) denominating the EACA in special drawing rights (SDRs). A provision for disbursement risk will be maintained. Measures to reduce the impact on commitment authority will be explored during the ADF IX period.

84. While recognizing the increased demand for ADF resources, Donors affirmed that lending levels should be governed by resource availability. This is reflected in ADB’s effort to eliminate carry-over of conditionally approved loans from ADF VIII to ADF IX.

B. Burden Sharing and Replenishment Size

85. Donors endorsed an ADF IX program of \$7.0 billion, plus additional amounts for financing forgone interest of grants.¹⁷ The ADF IX program is derived from ADB’s strategic operational planning process and takes into account the increased need for concessional assistance in the region for (i) accelerating progress towards the MDGs in the poorest countries; (ii) meeting the special needs and circumstances of smaller, less developed countries; (iii) assisting countries in their transition from conflict; (iv) assisting countries with significant debt challenges; (v) strengthening regional cooperation and (vi) supporting priority technical assistance across the region. Donors recommended continuation of eligibility as applied to ADF VIII for allocating resources in the planned ADF IX period (2005-2008). This ADF IX program should enable robust implementation of ADB’s strengthened Poverty Reduction Strategy.

¹⁵ The Belgian option was proposed during the IDA14 discussions on 18-20 February 2004 in Paris. Under this option, the financing of grants is to be approached in two segments: Segment 1, consisting of forgone service and commitment (or interest) charges to be financed by IDA14 contributions, and Segment 2, consisting of foregone principal reflows to be financed on a pay-as-you go basis.

¹⁶ ADB 2004. *ADF Financial Management and Review of Expanded Advance Commitment Authority*. Discussion paper prepared for the Lisbon ADF IX Meeting.

¹⁷ The ADF IX program of \$7.0 billion includes loans, grants, and transfers to TASF.

86. ADB committed to maximize the mobilization of internal resources, while maintaining its financial integrity. Of the \$7.0 billion, at least \$3.7 billion will be provided from internal resources, with the remainder to be provided by new Donor contributions on a burden-shared basis of \$3.2 billion, plus some additional, voluntary contributions.

87. **Burden Sharing.** New contributions pledged by Donors were made mainly on accepted burden sharing principles. Donors pledged to contribute \$3.3 billion, consisting of \$3.1 billion of basic burden-shared contributions,¹⁸ \$0.2 million of supplementary contributions, \$44.4 million of additional contributions from accelerated note encashments, and \$162.9 million of financing for the forgone interest of grants (see Table 2). Several Donors increased their burden shares in ADF IX, thus reducing the structural gap. Contributions to ADF IX include renewed support from Malaysia, and a first time contribution from the People's Republic of China (PRC). Donors agreed to work towards achieving a 50/50 share of regional and non-regional contributions. The increase in Donor contributions to ADF IX, in both amounts and burden shares, underscores the significant effort by Donors to assist accelerated poverty reduction in the Asia-Pacific region.

88. **Promissory note encashment schedule.** Donors noted that the current practice of using a fixed schedule based on disbursement needs facilitates budgetary planning.¹⁹ Therefore, Donors agreed to adopt a fixed encashment schedule under ADF IX combining three components on a weighted basis: (i) ADF financing, (ii) transfers to TASF, and (iii) financing for forgone interest of grants (see Appendix 6). The encashment schedule for ADF financing is based on historical loan disbursement profiles weighted by the sector distribution of the proposed ADF IX program. Seven percent of basic and supplementary contributions of \$219.8 million,²⁰ to be transferred to TASF, will be encashed in four equal payments over the four years of ADF IX. The encashment schedule of the forgone interest portion of grants is patterned after the ADF encashment schedules.

89. To allow more flexibility on the encashment of installment payments, Donors agreed to ADB's proposal that they may be given credit for the investment income from accelerated portion of the ADF IX encashments (referred to as Accelerated Note Encashment Program, or ANE), at their option, as part of their contribution to assist donors in meeting or increasing their burden shares, or as an additional contribution (see Appendix 7).

90. **Exchange Rates.** Donors agreed to use the six-month average of daily IMF exchange rates between 1 October 2003 and 31 March 2004 to translate their national currency contributions into SDRs, particularly in determining burden shares.

¹⁸ Of the \$3.2 billion burden shared replenishment, \$3.1 billion has been pledged by donors to-date, representing 98.11% of total burden shares. The remaining 1.89% or the structural gap will be further reduced when Hong Kong, China and Singapore confirm the amounts of their contributions to ADF IX.

¹⁹ Fixed encashment schedule was first introduced in ADF VII.

²⁰ If there is any change in the Table 2 amounts awaiting confirmation, this amount shall be adjusted accordingly.

Table 2: ADF IX Financing Framework and Burden Sharing

A. Planned Level of ADF IX Operations	SDR	4,777,250,460	US\$	7,000,000,000
B. Reflows-Based Resources		2,516,928,528		3,688,000,000
C. Burden Shared Replenishment	100.00	2,183,885,925		3,200,000,000
D. Additional Resources Needed to Meet the Planned Level of ADF IX Operations (A-B-C)		76,436,007		112,000,000
E. Financing of Grants		113,289,082		166,000,000

	Burden Share (%)	Currency Unit per SDR ^a	Basic Contributions		Grants Financing		Supplementary Contributions/ Additional Resources from ANE ^e		Total Contributions		Unit of Obligation	
			SDR	US\$	SDR	US\$	SDR	US\$	SDR	US\$		
Austria	0.87	1.202226	18,999,808	27,840,000	985,615	1,444,200			19,985,423	29,284,200	Euro	24,026,995
Belgium	0.72	1.202226	15,723,979	23,040,000	815,681	1,195,200			16,539,660	24,235,200	Euro	19,884,409
Canada	4.66	1.929992	101,769,084	149,120,000	5,279,271	7,735,600	14,963,174	21,925,210	122,011,530	178,780,810	Can\$	235,481,276
Denmark	0.89	8.950102	19,436,585	28,480,000	1,008,273	1,477,400			23,284,740	34,118,617	DKr	208,400,797
Finland	0.50	1.202226	10,919,430	16,000,000	566,445	830,000	1,452,941	2,128,962	12,938,816	18,958,962	Euro	15,555,381
France	4.41	1.202226	96,309,369	141,120,000	4,996,049	7,320,600			101,305,418	148,440,600	Euro	121,792,007
Germany ^b	5.78	1.202226	126,228,606	184,960,000	6,548,109	9,594,800			132,776,715	194,554,800	Euro	159,627,619
Italy	3.90	1.202226	85,171,551	124,800,000	4,418,274	6,474,000			89,589,825	131,274,000	Euro	107,707,217
Luxembourg	0.10	1.202226	2,183,886	3,200,000	113,289	166,000	136,493	200,000	2,433,668	3,566,000	Euro	2,925,819
Netherlands	2.90	1.202226	63,332,692	92,800,000	3,285,383	4,814,000			66,618,075	97,614,000	Euro	80,089,982
Norway	1.11	10.127294	24,240,282	35,518,752	1,257,465	1,842,535			25,497,747	37,361,288	NKr	258,223,180
Portugal	0.60	1.202226	13,103,316	19,200,000	679,734	996,000			13,783,050	20,196,000	Euro	16,570,341
Spain	2.00	1.202226	43,677,718	64,000,000	2,265,782	3,320,000			45,943,500	67,320,000	Euro	55,234,470
Sweden	1.37	10.937077	29,919,237	43,840,000	1,552,060	2,274,200	4,753,918	6,965,811	36,225,215	53,080,011	SKr	396,197,968
Switzerland	1.23	1.876568	26,861,797	39,360,000	1,393,456	2,041,800			28,255,253	41,401,800	SwF	53,022,903
Turkey	0.16	1.465278	3,568,441	5,228,758	185,113	271,242			3,753,554	5,500,000	US\$	5,500,000
United Kingdom	6.00	0.828085	131,033,155	192,000,000	6,797,345	9,960,000			137,830,500	201,960,000	£	114,135,370
United States	13.70	1.465278	299,100,241	438,265,003	15,515,825	22,734,997			314,616,066	461,000,000	US\$	461,000,000
Nonregional Subtotal	50.90		1,111,579,177	1,628,772,514	57,663,170	84,492,574	24,146,408	35,381,201	1,193,388,755	1,748,646,288		
Australia	6.49	1.981270	141,734,197	207,680,000	7,352,461	10,773,400			149,086,658	218,453,400	A\$	295,380,923
China, People's Republic of	0.89	1.465278	19,464,224	28,520,499	1,009,707	1,479,501			20,473,931	30,000,000	US\$	30,000,000
Hong Kong, China ^c		1.465278									US\$	
Japan ^d	35.00	158.351033	764,360,074	1,120,000,000	39,651,179	58,100,000			804,011,252	1,178,100,000	¥	127,316,012,373
Korea, Rep. of	3.35	1,723.463468	73,160,178	107,200,000	3,795,184	5,561,000	6,323,704	9,265,985	83,279,067	122,026,985	W	143,528,429,633
Malaysia	0.15	5.567448	3,244,037	4,753,417	168,284	246,583			3,412,322	5,000,000	RM	18,997,924
New Zealand	0.70	2.262150	15,287,201	22,400,000	793,024	1,162,000			16,080,225	23,562,000	NZ\$	36,375,881
Singapore ^c		2.504538									S\$	
Taipei, China	0.54	49.338883	11,792,984	17,280,000	611,761	896,400			12,404,745	18,176,400	NT\$	612,036,264
Thailand	0.09	57.876082	1,965,497	2,880,000	101,960	149,400			2,067,458	3,029,400	B	119,656,340
Regional Subtotal	47.21		1,031,008,393	1,510,713,916	53,483,560	78,368,284	6,323,704	9,265,985	1,090,815,657	1,598,348,185		
F. Total Burden Share Contribution	98.11		2,142,587,570	3,139,486,429								
G. Structural Gap (C-F)	1.89		41,298,355	60,513,571								
H. Total Grants Financing			111,146,730	162,860,859								
I. Grants Financing Gap (E-H)			2,142,352	3,139,141								
J. Supplementary Contributions			136,493	200,000								
K. Additional Resources from ANE			30,333,620	44,447,185								
L. Total Donors' Contributions (F+H+J+K)			2,284,204,413	3,346,994,473								
M. ADF IX Replenishment Size (B+L)			4,801,132,941	7,034,994,473								
N. Remaining Gap (A+E-M)^f			89,406,602	131,005,527								

ADF=Asian Development Fund; SDR=Special drawing rights; US\$=United States dollars; ANE=Accelerated Note Encashment

^a -=minus; +=plus

^b International Monetary Fund (IMF) average daily rates from 1 October 2003 to 31 March 2004.

^c Contribution amount to be confirmed no later than the time of deposit of the Instrument of Contribution. The Table shall be deemed amended to the extent of any change in the amount so confirmed to ADB. Unit of obligation (National Currency/Special Drawing Rights/US Dollar) will be decided by the member, no later than the time of deposit of its Instrument of Contribution. For purposes of illustration, Euro was used in this table.

^d Hong Kong, China and Singapore have indicated their intention to contribute to the replenishment, with the amounts to be confirmed. ADB may accept Instruments of Contribution from Hong Kong, China and Singapore in amounts not less than the amounts so confirmed by Hong Kong, China and Singapore, and, upon such confirmation, the Table shall be deemed to have been amended accordingly.

^e Japan considers their historic burden share of 33.69 percent.

^f Luxembourg has indicated its intention to make supplementary contribution while other donors have indicated their intention to accelerate their ADF IX note encashment to generate additional ADF resources.

The remaining gap is to be filled by additional contributions and/or internal resources.

X. PLANNING THE ADF IX MIDTERM REVIEW

91. **Timing and scope.** In order to monitor progress and keep Donors fully informed about all aspects of ADF IX operations, the ADF IX Midterm Review will be carried out during the fourth quarter of 2006. The Midterm Review (MTR) represents the central accountability mechanism for ADF IX. As such, it plays a key role in Donor oversight and results-based management of the fund on the part of ADB. The MTR will draw upon and complement the evaluation work of OED and the results-based tools being developed by the RMU. While the precise content of the MTR will be finalized depending upon emerging operational issues and donor concerns, following are the anticipated topics for discussion and assessment.

A. Discussion Papers

92. **Report on the financial position of ADF IX and the mobilization and use of ADF IX resources.** Donors will be provided with a status report documenting the mobilization and use of ADF IX resources in 2005-2006, including progress made to increase cancellation and reprogramming of undisbursed loan commitments. By the midpoint of ADF IX, it should be possible to identify any shortfalls and needed corrective actions, as well as to develop tentative projections through the end of the replenishment.

93. **Report on review of grants.** The introduction of grants in ADF IX represents a major innovation in the history of the Fund. It will be important for Donors to receive an initial report on ADB's experience with regard to grants during the first half of ADF IX. The grant framework will be analyzed and reviewed in light of its first two years of implementation. If necessary and appropriate, adjustments to the grant framework will be adopted at that time.

94. **Report on review of Performance-Based Allocation.** ADF IX will see the introduction of a substantially revised PBA exercise based on refinements agreed to during these negotiations. This includes, but is not limited to, the use of more direct poverty measures, the discontinuation of triggers, fuller disclosure of PBA scores, increased emphasis on rewarding performance, an increased governance weight, and removal of the collar. The review will also assess the evolving nature of linkages between the PBA exercise, CSPs/CSPUs, and ADF IX operations.

95. **Report on Managing for Development Results.** The central focus on results in the ADF IX negotiations, as well as the establishment of the RMU, changes the way in which operations are planned and conducted. By the time of the MTR, ADB will have re-oriented ADF operations towards MfDR, including introducing results-based CSPs/CSPUs, developing results indicators for all operations, and revising staff incentives to motivate a results-focus. The discussion paper will specifically address how increased harmonization is being attained and how indicators are being refined in partnership with other institutions. This MTR Report will provide the initial update for donors and allow early challenges to be identified and adjustments made if required.

96. **Report on ADB's experience with its approach to weakly-performing DMCs.** In the context of the ADF IX negotiations, ADB, with the guidance of Donors developed a more specific and strategic approach for engaging with and assisting weakly-performing states. This report will examine ADB's initial experience with the approach in the latter part of 2004 and in 2005-2006. The report will focus on the implications for operations in DMCs, technical assistance resource allocation, and use of staff and other institutional resources.

97. **Report on the implementation of the new Human Resources Strategy.** ADB's new Human Resource Strategy will realign staff incentives and improve results focus across the organization. The MTR report will update Donors on progress in implementing the new strategy, including especially incentive structures, in support of development effectiveness.

98. **Planning for ADF X.** The MTR provides the logical platform for beginning to plan for ADF X. ADB will present an approach for planning the ADF X negotiations for consideration by Donors. The outcome of the MTR should be a better understanding of the ongoing performance and future resource needs for ADF, and therefore some understanding of probable changes to be considered for ADF X.

B. Information Papers

99. **Report on revised PRS implementation in ADF borrowing countries.** Given that the ADF IX negotiations have led to major revisions in PRS implementation, as documented in this report and in discussion papers presented at Copenhagen and Lisbon, the MTR provides a valuable first opportunity to assess the effectiveness of the changes. The review will focus on the innovations introduced during the first half of ADF IX, including results-based CSPs, elimination of sector-specific lending targets, and deeper harmonization with partners in support of nationally-owned poverty reduction strategies.

100. **Report on selected OED evaluations of ADF operations.** Consistent with ADF IX's emphasis on development effectiveness, Donors need to be updated on the findings of ongoing evaluation conducted by the now-independent OED. In addition to presenting the findings of specific evaluations, other important evaluation issues will be discussed. Possible topics include changing evaluation criteria, implementation of agreements emerging from the MDB Evaluation Cooperation Group, and organizational relationships between OED and the Development Effectiveness Committee (DEC).

101. **Report on ADB cooperation with development partners in ADF IX.** One of the prominent themes of the ADF IX negotiations, as reflected in this Donors' Report, is the need for better harmonization of operations with development partners. ADB has committed to support nationally-owned poverty reduction strategies and to collaborate with other MDBs, bilateral donors, civil society, and Governments to support nationally agreed development objectives. This report will provide an assessment of progress in deepening collaboration with development partners and challenges to be addressed through the duration of ADF IX.

**ASSESSMENT OF PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS
(OCR and ADF Borrowers)**

Country	Proportion of Population Below \$1 Per Day at 1993 Purchase Power Parity (%)		Ratios of Girls to Boys				Under-Five Mortality Rate (per 1,000 live births)		Infant Mortality Rate (per 1,000 live births)	
	1990	2000	Primary Education				1990	2001	1990	2001
			Early 1990s	Late 1990s	1990	2001				
Afghanistan	—	—	0.52 (90)	0.47 (95)	260	257	167	165		
Azerbaijan	<2.0	—	0.94 (90)	0.95 (98)	105	105	74	74		
Bangladesh	35.9	29.1	0.81 (90)	0.92 (98)	144	77	96	51		
Bhutan	—	—	0.74 (93)	0.82 (98)	166	95	107	74		
Cambodia	48.3	35.5	0.81 (93)	0.84 (98)	115	138	80	97		
China, People's Republic of	31.3	15.3	0.86 (90)	0.92 (98)	49	39	38	31		
Cook Islands	—	—	—	0.91 (98)	32	23	26	19		
Fiji	—	—	0.95 (91)	0.93 (98)	31	21	25	18		
India	52.5	44.2	0.71 (90)	0.81 (98)	123	93	84	67		
Indonesia	20.6	8.3	0.95 (90)	0.94 (96)	91	45	60	33		
Kazakhstan	<2.0	<2.0	0.97 (93)	0.97 (98)	67	76	54	61		
Kiribati	—	—	0.98 (90)	0.96 (97)	88	69	65	51		
Kyrgyz Republic	—	—	0.99 (90)	0.96 (98)	86	61	69	52		
Lao People's Democratic Republic	53.0	34.6	0.77 (90)	0.82 (98)	163	100	120	87		
Malaysia	0.5	0.0	0.95 (90)	0.94 (98)	21	8	16	8		
Maldives	—	—	0.96 (92)	0.96 (98)	115	77	80	58		
Marshall Islands	—	—	—	0.93 (98)	92	66	63	54		
Micronesia	—	—	—	—	31	24	26	20		
Mongolia	13.9	—	1.00 (90)	1.01 (98)	107	76	77	61		
Myanmar	—	—	0.94 (90)	0.97 (98)	130	109	91	77		
Nauru	—	—	—	1.02 (98)	—	30	—	25		
Nepal	37.7	—	0.56 (90)	0.72 (98)	145	91	100	66		
Pakistan	47.8	31.0	0.48 (90)	0.55 (98)	128	109	96	84		
Papua New Guinea	23.7	18.5	0.80 (90)	0.82 (98)	101	94	79	70		
Philippines	19.1	13.2	0.95 (90)	0.94 (95)	66	38	45	29		
Republic of Korea	<2.0	—	0.94 (90)	0.89 (97)	9	5	8	5		
Samoa	—	—	0.98 (90)	0.95 (98)	42	25	33	20		
Solomon Islands	—	—	0.80 (90)	—	36	24	29	20		
Sri Lanka	4.0	6.6	0.93 (90)	0.94 (98)	23	19	20	17		
Tajikistan	—	—	0.96 (90)	0.95 (96)	78	72	57	53		
Thailand	12.5	5.2	0.94 (90)	0.93 (98)	40	28	34	24		
Timor-Leste	—	—	—	—	—	—	—	85		
Tonga	—	—	0.92 (90)	0.86 (98)	27	20	23	17		
Turkmenistan	20.9	12.1	—	—	97	99	56	76		
Tuvalu	—	—	0.91a (90)	0.85 (98)	56	52	40	38		
Uzbekistan	3.3	—	0.96 (90)	—	62	68	47	52		
Vanuatu	—	—	0.89 (90)	0.91 (98)	70	42	52	34		
Viet Nam	50.8	9.6	—	0.90 (98)	50	38	36	30		

— = not available

^a Including three years of education provided in community training centers.

[http://www.unescap.org/LDC&\[Page\]overty/MDG.asp](http://www.unescap.org/LDC&[Page]overty/MDG.asp)

Source: ESCAP and UNDP, Promoting the Medium Development Goals in Asia and the Pacific, 2003.

Country	Estimated HIV Prevalence Rate (%) in Young People (15-24),				Proportion of Land Area Covered by Forest		Urban Water Supply Coverage (%)		Rural Water Supply Coverage (%)	
	Female		Male		1990	2000	1990	2000	1990	2000
	Low	High	Low	High						
Afghanistan	—	—	—	—	2.1	2.1	—	19	—	11
Azerbaijan	—	—	—	—	11.5	13.1	—	93	—	58
Bangladesh	<.01	0.01	<.01	0.02	9.0	10.2	99	99	93	97
Bhutan	—	—	—	—	64.2	64.2	—	86	—	60
Cambodia	2.31	4.70	0.94	3.77	56.1	52.9	—	54	—	26
China, People's Republic of	0.02	0.03	0.07	0.18	15.6	17.5	99	94	60	66
Cook Islands	—	—	—	—	95.7	95.7	—	—	—	—
Fiji	—	—	—	—	45.5	44.6	—	43	—	51
India	0.40	0.82	0.14	0.58	21.4	21.6	88	95	61	79
Indonesia	0.02	0.04	0.01	0.04	65.2	58.0	92	90	62	69
Kazakhstan	—	—	0.05	0.09	3.7	4.5	—	98	—	82
Kiribati	—	—	—	—	38.4	38.4	—	82	—	25
Kyrgyz Republic	—	—	—	—	4.0	5.2	—	98	—	66
Lao People's Democratic Republic	0.05	0.05	0.02	0.05	56.7	54.4	—	61	—	29
Malaysia	0.08	0.10	0.03	0.82	65.9	58.7	—	—	—	94
Maldives	—	—	—	—	3.3	3.3	—	100	—	100
Marshall Islands	—	—	—	—	—	—	—	—	—	—
Micronesia	—	—	—	—	34.8	21.7	—	—	—	—
Mongolia	—	—	—	—	7.2	6.8	—	77	—	30
Myanmar	1.13	2.30	0.42	1.67	60.2	52.3	—	89	—	66
Nauru	—	—	—	—	—	—	—	—	—	—
Nepal	0.13	0.26	0.06	0.23	32.7	27.3	93	94	64	87
Pakistan	0.03	0.06	0.02	0.10	3.6	3.1	96	95	77	87
Papua New Guinea	0.16	0.33	0.03	0.13	70.1	67.6	88	88	32	32
Philippines	0.04	0.08	0.01	0.05	22.4	19.4	93	91	82	79
Republic of Korea	<0.01	0.01	0.01	0.03	63.8	63.3	—	97	—	71
Samoa	—	—	—	—	46.1	37.2	—	95	—	100
Solomon Islands	—	—	—	—	90.3	88.8	—	94	—	65
Sri Lanka	0.03	0.07	0.02	0.07	35.4	30.0	91	98	62	70
Tajikistan	—	—	—	—	2.7	2.8	—	93	—	47
Thailand	1.53	3.11	0.47	1.89	31.1	28.9	87	95	78	81
Timor-Leste	—	—	—	—	36.6	34.3	—	—	—	—
Tonga	—	—	—	—	6.5	5.5	—	100	—	100
Turkmenistan	—	—	—	—	8.0	8.0	—	—	—	—
Tuvalu	—	—	—	—	—	—	—	—	—	—
Uzbekistan	—	—	—	—	4.6	4.8	—	94	—	79
Vanuatu	—	—	—	—	36.2	36.7	—	63	—	94
Viet Nam	0.09	0.10	0.15	0.38	28.6	30.2	86	95	48	72

— = not available.

HIV = human immunodeficiency virus.

[http://www.unescap.org/LDC&\[Page\]overty/MDG.asp](http://www.unescap.org/LDC&[Page]overty/MDG.asp)

Source: ESCAP and UNDP, Promoting the Medium Development Goals in Asia and the Pacific, 2003

LIST OF ADF IX DONORS' MEETINGS AND ASSOCIATED REPORTS

Date	Location	Meeting	Discussion and Information Papers
9-10 October 2003	Copenhagen, Denmark	First meeting (2 days)	<p>Discussion Papers:</p> <ol style="list-style-type: none"> 1. Development Effectiveness in ADF IX 2. The Asian Development Bank's Poverty Reduction Strategy: Lessons and Issues (Preliminary Draft for Consultation) 3. Enhancing the Independence and Effectiveness of the Operations Evaluation Department (Preliminary Draft for Consultation) 4. Review of the Policy on Performance-Based Allocation: Scope and Issues 5. Exchange Rates for Use in the Eighth Replenishment of ADF 6. Planned Program of ADF IX Meetings of Donors 7. ADF IX Donors' Report: Pathways to Poverty Reduction (Draft Outline) <p>Information Papers:</p> <ol style="list-style-type: none"> 1. An Updated Report on the Status of the Action Plan for ADF VIII Implementation 2. ADF VIII Resources: An Update 3. Grants in the Asian Development Fund of the Asian Development Bank: A Background paper 4. Incorporation of the Millennium Development Goals in the Asian Development Bank's Planning, Programming, Project Design, Implementation, and Monitoring
9-11 December 2003	Tokyo, Japan	Second Meeting (3 days)	<p>Discussion Papers:</p> <ol style="list-style-type: none"> 1. Enhancing Effectiveness: Managing for Development Results 2. Millennium Development Goals: Initiatives and Challenges 3. Performance-Based Allocation at ADB: Strengthening the Policy and its Implementation 4. Use of ADF IX Resources 5. Grants in the Asian Development Fund of the Asian Development Bank: A Discussion Paper 6. ADF IX Donors' Report: Development Effectiveness for Poverty Reduction (First Draft) <p>Information Paper:</p> <ol style="list-style-type: none"> 1. An Updated Report on the Status of the Action Plan for ADF VIII Implementation

Date	Location	Meeting	Discussion and Information Papers
9-11 March 2004	Lisbon, Portugal	Third Meeting (3 days)	<p>Discussion Papers:</p> <ol style="list-style-type: none"> 1. Managing for Development Results: Status Report on Action Plan 2. Review of ADB's Poverty Reduction Strategy 3. Performance-Based Allocation at ADB: Proposed Enhancements 4. ADB's Approach to Weakly-Performing Developing Member Countries: A Discussion Paper 5. Grants in the Asian Development Fund of the Asian Development Bank: A Discussion Paper 6. ADF Financial Management and Review of Expanded Advance Commitment Authority 7. ADF IX Replenishment Framework and Burden Sharing 8. ADF IX Donors' Report: Development Effectiveness for Poverty Reduction" [Second Draft] and Resolution of the Board of Governors of the ADB" [First Draft] <p>Information Papers:</p> <ol style="list-style-type: none"> 1. ADF Disbursements 2. A Comparison of Performance-Based Allocation Methods 3. Notes on Allocations to Bangladesh: ADF and IDA 4. Management and Effectiveness of Technical Assistance: Status Report on TA Action Plan
11-12 May 2004	Seoul, Republic of Korea	Fourth Meeting (2 days)	<p>Discussion Papers:</p> <ol style="list-style-type: none"> 1. ADF IX Updated Financing Framework and Burden Sharing with Financing of Grants (Revised) ADF IX Accelerated Note Encashment Program (supporting document) 2. ADF IX Donors' Report: Development Effectiveness for Poverty Reduction" [Fourth Draft] and Resolution of the Board of Governors of the ADB" [Second Draft] <p>Information Paper/Note:</p> <ol style="list-style-type: none"> 1. ADB's Approach to Weakly-Performing Developing Member Countries: Information Paper 2. Revised Table on Debt Sustainability Indicators

PBA ACTION PLAN

	Completion Point	Issues	Actions
2003 Country Performance Assessments and Scoring	Completed, May 2004	<ul style="list-style-type: none"> Roadmap for full public disclosure under preparation. Scores to be disclosed to borrowers during Country Programming Confirmation or sooner (Q3). Following disclosure to borrowers, disclosure to Board (Q3/Q4). Preparation of PBA report for public disclosure (Q3/Q4). 	<ul style="list-style-type: none"> Revised country performance scores calculated under proposed revisions to the country performance scoring framework (May 2004).
Country Programming Missions, 2004	Completed	<ul style="list-style-type: none"> Current allocations for 2005-2006 are indicative only, and will be subject to adjustments under the revised policy. 	<ul style="list-style-type: none"> Country performance triggers have been discontinued.
CSPUs	July 2004	<ul style="list-style-type: none"> Allocations for 2005-2007 in the CPSUs will be indicative only, and will be subject to revision on approval of the revised PBA policy. 	<ul style="list-style-type: none"> Guidance on format and phrasing of CSPUs for 2005-2007, consistent with pending PBA revisions, has been provided to operations departments.
Indicative ADF IX country allocations and set-asides, 2005-2006	Mid July 2004.	<ul style="list-style-type: none"> Preliminary allocations may raise issues of absorption capacity and debt sustainability for some countries. Weaker performers will have sharply reduced allocations. 	<ul style="list-style-type: none"> Preliminary allocations determined under the provisions of the revised PBA (May 2004). Preliminary allocations currently under review by operations departments and Management (June 2004). Indicative allocations finalized and forwarded for approval to Management by mid July 2004.
Establishment of PBA Focal Point	Q3/Q4, 2004	<ul style="list-style-type: none"> To be located outside of operations departments. Draft terms of reference, and proposals about institutional location, and resources under consideration. 	<ul style="list-style-type: none"> Interim arrangements are in place that separate ADF IX resource allocation from operational decisions. SPD is acting as interim PBA focal point. Formal establishment of PBA Focal point.
Inter Agency Coordination	June and July 2004	<ul style="list-style-type: none"> Debt sustainability and PBA. Pending revisions in IDA 14. Inter-agency review. 	<ul style="list-style-type: none"> Meetings with IDA and AfDF planned in June (Washington, DC) and July (Manila).
Management approval of indicative commitments, 2005-2006	August 2004	<ul style="list-style-type: none"> Estimated resource envelope contingent on assumptions about loan savings, and timing of donor contributions. 	<ul style="list-style-type: none"> Management instructions to Operational Departments on loan cancellations and savings have been issued.
Revised PBA Policy, Working Paper	September 2004	<ul style="list-style-type: none"> Board discussion. 	<ul style="list-style-type: none"> Discussion paper for interdepartmental review. Board seminar. Preparation of W-paper with issues for Board guidance.
Country Program Confirmation Missions	October to November 2004	<ul style="list-style-type: none"> Communication of provisions of revised PBA. Disclosure of country performance scores and dialogue on future processes. Discussion of revised PBA allocations and revised pipelines. 	<ul style="list-style-type: none"> PBA training for staff. Preparation of training materials for borrowers. Expanded TORs for CPCMs in 2004.
PBA Report	Q4, 2004	<ul style="list-style-type: none"> New activity. Format and content will depend on the roadmap for public disclosure. 	<ul style="list-style-type: none"> Proposed content and format of PBA report (Q3). Preparation of report (Q3/Q4). Release of report Q4.
Revised PBA Policy: Board Approval	November 2004	<ul style="list-style-type: none"> Management's recommendations to be formulated and presented to the Board for approval. 	<ul style="list-style-type: none"> Preparation of operating guidelines for implementation of the revised policy.
Management approval of planning directions and commitments for 2005-2006	January-February 2005	<ul style="list-style-type: none"> Will require prior approval of revised PBA policy. Will depend on latest estimates of expected commitment authority. 	<ul style="list-style-type: none"> Issuance of Planning Directions.

Donors' Recommendations to Strengthen PBA System

Implementation

- **Focal Point:** An institutional focal point will be established outside of operations, with responsibilities as presented in the current paper. Its location will be determined in connection with the ongoing Reorganization review; but in no case later than the conclusion of the ADF-IX negotiation. Adequate authority and resources will be ensured.
- **Assessment Cycle:** Performance will be assessed on an annual cycle (except in the case of small countries, where a biennial assessment will be conducted).
- **Allocation Cycle:** Allocations will be made on a biennial cycle with adjustments made as determined by the annual performance assessment cycle.
- **Disclosure:** ADB will bring disclosure on country performance ratings into alignment as early as possible (and no later than end-2004) with the International Development Association (IDA) and prepare a roadmap for full disclosure.

Methodology and Formula

- **Formula Weights/Performance:** The formula weight on performance (i.e., the performance exponent) will be increased to the IDA/AfDF value of 2.
- **Formula Weights/Country Size:** The formula weight on population (i.e., the exponent capturing the "small country bias") will be reduced to preserve an appropriate small country bias.
- **Weight of Governance Variable:** The formula weight given to governance will increase to over 50%.
- **Collar:** Use of the collar will be discontinued when ADF-IX commences.
- **Triggers:** Triggers will be discontinued.
- **Needs Measurement:** ADB will continue to explore, in close cooperation with ongoing work in other institutions, use of alternative measures of needs (i.e., beyond per capita GDP) such as the UN Human Development Index.

Special Circumstances

- **Weak Performers:** Allocations will be determined within the PBA system. Board approval for special allocations may be requested on a case by case basis.
- **Regional Cooperation:** Allocations for regional cooperation will be capped at 5%. Where the benefits can be attributed on a country-specific basis, allocations will be drawn from country-specific resource envelopes.
- **Post-Conflict:** ADF will adopt the IDA framework.

INDICATIVE COUNTRY ALLOCATIONS IN ADF IX
(in Million US\$)

Country	Projected ^{1/} 2005-2008
Group A	
1 Afghanistan	800
2 Bhutan	39
3 Cambodia	358
4 Kiribati	18
5 Kyrgyz Republic	126
6 Lao People's Democratic Republic	167
7 Maldives	25
8 Mongolia	143
9 Nepal	457
10 Samoa	29
11 Solomon Islands	8
12 Tajikistan	140
13 Timor-Leste	30
14 Tuvalu	4
15 Vanuatu	11
Subtotal	2,357
Group B1	
16 Azerbaijan	92
17 Bangladesh	963
18 Cook Islands	6
19 Micronesia, Federated States of	19
20 Marshall Islands	21
21 Pakistan	963
22 Sri Lanka	576
23 Tonga	15
24 Viet Nam	978
Subtotal	3,633
Group B2	
25 Indonesia	400
26 Papua New Guinea	60
Subtotal	460
Regional	550
TOTAL	7,000

^{1/} Indicative allocations based on ADB's strategic operational programming as supported by CSPs/CSPUs.

ADF IX GRANTS: ALLOCATION FRAMEWORK AND INDICATIVE ESTIMATES

Demand/Use of Grants	% of Total Grants	Qualifying Countries/Uses (per capita GNI in parenthesis)	Grant Share as a % of Total Assistance	Grants as a % of Total ADF IX Financing
A. Technical Assistance (TA)				
To ensure support for priority technical assistance, through a partial transfer of ADF IX contribution to the TA Special Fund. This can include support for ADB sector policies and regional cooperation.	Approximately 14%	Includes all ADF Borrowers	7% of Donor Contributions to ADF IX transferred to TASF	Approximately 3%
B. Poor Debt Stressed / Post-Conflict Countries	Approximately 76%			16.0%
(i) Poorest and Debt Stressed < \$360 per capita GNI		Lao, PDR (\$310) Kyrgyz Republic (\$290) Nepal (\$230) Cambodia (\$280)	Up to 50% ^a Up to 50% ^a Up to 50% ^a Up to 50% ^a	(i) 8.0%
(ii) Poorest Post Conflict < \$360 per capita GNI		Afghanistan (\$186) Tajikistan (\$180) Timor-Leste (\$430) ^b	Up to 50% ^a Up to 40% ^a Up to 40% ^a	(ii) 6.7%
(iii) Post Conflict > \$360 per capita GNI		Solomon Islands (\$620) Sri Lanka (\$840)	Up to 30% ^a Up to 15% ^a	(iii) 1.3%
C. HIV/AIDS and other Infectious Diseases	Approximately 10%	Includes all ADF borrowers	Up to 100% ^c	2%
TOTAL	100%			≈ 21.0% including TA
				≈ 18.0% excluding TA

Note: Assumes total ADF IX financing framework at \$7,000 million.

Percentages are rounded.

^a Program basis.

^b While per capita GNI is above \$360, Timor-Leste's special circumstances warrant placement in this grants category.

^c Project basis.

ADF IX STANDARD ENCASHMENT SCHEDULE

Year	ADF Encashment Rate as % of ADF Contributions	Transfer to TASF Encashment Rate as % of TASF Contributions	Grants Encashment Rate as % of Grants Financing	ADF, TASF & Grants ^a Encashment Rate as % of Total Contributions
2005	2.1	25.0	2.1	3.6
2006	4.4	25.0	4.4	5.8
2007	8.7	25.0	8.7	9.8
2008	13.2	25.0	13.2	14.0
2009	15.6		15.6	14.6
2010	17.0		17.0	15.9
2011	16.1		16.1	15.0
2012	11.8		11.8	11.0
2013	7.4		7.4	6.9
2014	3.7		3.7	3.4
Total	100.0	100.0	100.0	100.0

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

^a The standard encashment schedule combines the encashments for ADF financing, including financing of grants, and transfers to TASF.

ACCELERATED NOTE ENCASHMENT (ANE) PROGRAM

1. ADB proposes an extension of the ANE program in that Donors could accelerate the encashments of their contributions and use investment income from the accelerated portion, at their option, to

- i. meet or increase their burden shares, or
- ii. be treated as additional contributions,

provided their installment payments are encashed in full by the end of 2011 or earlier dates agreed by Donors.

2. **Discount Rates.** Individual discount rates used are the adjusted 3-year average Commercial Interest Reference Rates (CIRRs).²¹ These CIRRs relate to investments up to 5 years, which correspond to the approximate average tenor of the ANE investments. In case CIRR of a particular currency is not available, an equivalent rate as agreed between ADB and the donor will be applied.

3. CIRRs of most currencies are calculated on the basis of the yields of government bonds issued in the country concerned, supplemented with a 100 basis point margin. Since most ANE resources will be invested in government securities, the margin should be removed from CIRRs when used as discount rate for investment activities, making it a closer approximation to the expected rates of return from the ANE. The adjusted CIRRs to be used in ANE income computation are shown in Table 1.

Table 1: Adjusted CIRR of Potential ANE Participants By Currency

Currency	Adjusted CIRR ¹ (%)
Australian dollar	A\$ 5.30
Euro	Euro 3.56
Canadian dollar	Can\$ 3.93
Danish kroner	DKr 3.91
Korean won	W 5.95
New Zealand dollar	NZ\$ 5.89
Norwegian kroner	NKr 5.73
Swedish kronor	SKr 4.25
Pounds sterling	£ 4.36
US dollar	US\$ 3.02

¹ Three-year average from February 2001 to April 2004.

4. **Investment.** Cash generated from the ANE program will be invested under the ADF investment policy and guidelines. However, the maturity may be extended as appropriate to match the purpose of the ANE program. Under current ADF regulations that preserve original currencies of contributions, each currency will be invested separately.

²¹ CIRRs are published monthly by OECD for use by its members as minimum interest rates applicable to official financing support for export credits.

5. **Application (i) to meet or increase burden share.** Under Application (i), Donors which make an unqualified contribution are given the opportunity to pay part of their contribution listed in Table A through accelerated encashment of their installment payments, at the applicable ANE discount rate applied to their contributions. Any request to that effect must be made at the time of submission of the Instrument of Contribution or thereafter.

6. Three options for accelerated encashments are illustrated: upfront payment (Option 1), 4 years (Option 2), and 7 years (Option 3).

7. A discount rate of 3% is used as an example in Table 2.

Table 2: ADF IX Accelerated Encashment Schedules¹

Year	Standard	Options		
		1	2	3
2005	2.1	100.0	25.0	2.7
2006	4.4		25.0	5.7
2007	8.7		25.0	11.3
2008	13.2		25.0	17.2
2009	15.6			20.3
2010	17.0			22.1
2011	16.1			20.7
2012	11.8			
2013	7.4			
2014	3.7			
Total	100.0	100.0	100.0	100.0
Discount Rate (%)	3.0	3.0	3.0	3.0
Net Present Value Equivalent (%)	86.2	98.5	94.8	88.3
Credit as % of face value		12.5	9.1	2.4
Encashment as % of face value		87.5	90.9	97.6

¹ This encashment schedule refers only to the encashment of basic burden-shared and supplementary contributions, net of transfers to TASF, and excluding the financing of forgone interest of grants.

8. For example, a donor that chooses Option 1 under Application (i) to meet its burden-shared contribution of \$100 million, and has an adjusted CIRR of 3% will be given the opportunity to pay \$12.5 million of its total burden-shared contribution of \$100 million through accelerated encashment of its contribution. The donor pays only \$87.5 million in cash.

9. **Application (ii) to make additional contribution.** Under Application (ii), Donors can choose to have investment income from the accelerated portion of the encashment credited as additional contributions. In this case, estimated income will be used to increase commitment authority in 2008 and will be credited to Donors.

10. For example, if another donor chooses, instead, to use the investment income to generate additional contribution, the cash payment of \$100 million under Option 1 will be requested from the donor and the investment income (estimated from 3% return on the accelerated portion of the encashment) will be credited to the donor.