



**ASIAN DEVELOPMENT FUND XI DONORS' REPORT:
EMPOWERING ASIA'S MOST VULNERABLE**

Asian Development Bank

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ANE	–	accelerated note encashment
CAPE	–	country assistance program evaluation
CPS	–	country partnership strategy
DeFR	–	development effectiveness review
DMC	–	developing member country
DRF	–	disaster response facility
FCAS	–	fragile and conflict-affected situations
GNI	–	gross national income
IDA	–	International Development Association
IED	–	Independent Evaluation Department
km	–	kilometer
MDG	–	Millennium Development Goal
MfDR	–	managing for development results
OCR	–	ordinary capital resources
PBA	–	performance-based allocation
PML	–	prudential minimum liquidity
PPP	–	public–private partnership
PSO	–	private sector operations
PSOD	–	Private Sector Operations Department
RCI	–	regional cooperation and integration
SDR	–	special drawing right
SES	–	special evaluation study
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

In this report, "\$" refers to US dollars.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

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EXECUTIVE SUMMARY

While Asia and the Pacific has been one of the fastest growing regions of the world, Asian Development Fund (ADF) countries have not shared fully in this prosperity and development. The development gap between ADF countries and other countries in the region is widening, which could undermine social cohesion and political stability in the region.

Despite considerable progress, poverty continues to affect the lives of millions in ADF countries. As of 2008, 27% of the population in ADF countries (about 148 million people) lived on less than \$1.25 a day and almost 60% (314 million) lived on less than \$2 a day. ADF countries as a group are on track to achieve slightly more than one-third of the non-income Millennium Development Goals by 2015. Additional progress is within sight but will require renewed efforts.

ADF countries are least equipped to deal with the challenges they face and require continued support. They lag in economic and social infrastructure, suffer from weak governance and institutions, and lack an environment conducive to private sector development and private investment. They are also the most vulnerable. Of particular concern are the high and volatile food and fuel prices. More than one-third of ADF countries are currently classified as fragile and conflict-affected situations. In addition, ADF countries are more vulnerable to crises and natural disasters, as well as to the adverse effects of climate change.

The ADF is a crucial financing source to help ADF countries achieve the Millennium Development Goals and address other development challenges. During 1995–2009, the ADF accounted for more than 10% of the official development assistance ADF countries received. ADF operations contributed significantly to the development progress of these countries, helping them accelerate economic growth and expand the access of women, children, and the poor to quality education and health care, reliable electricity and clean water, and other social services, as well as economic opportunities.

ADF operations benefit from the comparative strengths and institutional improvements of the Asian Development Bank (ADB). ADB has made significant progress on internal reforms in recent years and is becoming a more effective organization. This is being achieved through the introduction of greater strategic clarity, innovative and flexible products, more results-oriented and transparent business processes, as well as better organizational arrangements and staff skills and incentives. ADB's efforts to improve its management for development results are widely recognized and the ADF is considered as providing good value for money.

Under ADF XI, ADB will accelerate its transformation to reinforce its effectiveness with due consideration for the cost and efficiency of operations. ADB will focus on the following priority reforms: (i) improving project performance and outcome achievement, (ii) leveraging ADB resources effectively to mobilize additional investments, (iii) delivering knowledge and innovation better, (iv) aligning human resources with Strategy 2020, (v) strengthening transparency and accountability, (vi) consolidating ADB's decentralization, and (vii) refining and mainstreaming further results-based management approaches. ADB will also partially liberalize procurement eligibility by introducing a blanket waiver of member country procurement eligibility restrictions for cofinanced ADF operations. ADB will continue to monitor the progress of its reforms closely through the Development Effectiveness Review process and the ADF XI implementation matrix.

The key mandate of ADF XI will be to reduce poverty in Asia and the Pacific through ADB's Strategy 2020 and its three complementary development agendas: (i) inclusive growth, (ii) environmentally sustainable growth, and (iii) regional integration. ADF XI will also focus on

Strategy 2020's five core areas of operations: infrastructure, finance sector development, education, environment, and regional cooperation and integration (RCI). Within this strategic context, ADB will give special considerations to three special themes: gender, fragile and conflict-affected situations, and food security. Donors emphasized the important role that ADF should play in promoting private sector development and investment, and good governance in ADF countries. Donors also highlighted the importance of capacity development in ADF countries to ensure the sustainability of operations, particularly in conjunction with ADF-financed infrastructure projects.

With considerable development challenges remaining, the demand for ADF XI will continue to be strong. ADB will deliver an operational program in line with the resources available. The largest share (about 85%) will be allocated to countries through performance-based allocations (PBAs). Given the continued weak capacity and vulnerability of Pacific countries, the size of the set-aside for these countries will be maintained at 4.5% of PBA resources. Similarly, 10% of ADF resources will continue to be earmarked for RCI to sustain the momentum of the effective implementation of the increased RCI assistance during ADF X.

Recognizing the vulnerability of Asia and the Pacific, particularly ADF countries, to natural disasters, a dedicated funding mechanism—the Disaster Response Facility—will be set up on a pilot basis for the ADF XI period. The facility will support ADF countries' rehabilitation and reconstruction financing needs after major natural disasters. Three percent of the PBA resources will be reserved to support ADF-only countries.

Under ADF XI, ADB will continue to provide post-conflict assistance to Afghanistan over an extended phaseout period, from 2013 to 2018. By contrast and in light of the positive developments in Timor-Leste, ADB will end that country's special post-conflict status and assistance by bringing forward the end of the post-conflict phaseout period from 2014 to 2012.

Demand for technical assistance resources is expected to remain strong during the ADF XI period. Technical assistance resources are important for ADF countries, as they facilitate capacity development, knowledge building, and project preparation. In response to this demand, the Technical Assistance Special Fund will be replenished at 3% of the total size of ADF XI.

Donors agreed on a total replenishment size of SDR7.93 billion, consisting of SDR7.69 billion for ADF XI and SDR0.24 billion for the fifth replenishment of the Technical Assistance Special Fund. This is equivalent to \$12.40 billion, based on the average daily exchange rates from 1 September 2011 to 10 January 2012. The replenishment will be financed from the following sources: (i) SDR2.97 billion from new donor contributions; (ii) SDR4.65 billion from internal resources derived from reflow-based resources (SDR3.34 billion), liquidity drawdown of the remaining usable liquidity (SDR0.25 billion), and additional resources from the three enhancement options: (a) accelerated repayment (SDR0.48 billion), (b) hardening of lending terms of blend borrowers (SDR0.08 billion), and (c) adjustment of the prudential minimum liquidity (SDR0.50 billion); and (iii) net income transfer from ordinary capital resources (SDR0.31 billion) subject to annual approvals by ADB's Board of Governors. New donor contributions will account for about 37.5% of the total replenishment, representing an 11.6% increase in SDR terms from the ADF X level.

Donors called on ADB to initiate discussions on a longer-term strategic vision for the ADF—reflecting the political and economic changes of the past decades, and adapting the ADF's role, mandate, and financing structure to the present realities. It was agreed that discussion on this topic will continue beyond the ADF XI replenishment negotiations.

Under ADF XI, ADB will continue to assess and report on progress in implementing the ADF program through its annual Development Effectiveness Review. A revised results framework for the ADF will be adopted by January 2013. ADF donors will be consulted at various stages of the review process, including the choice of specific indicators and targets. ADF donors and ADB Management will also continue to review ADF implementation each year on the sidelines of ADB's annual meeting. The ADF XI midterm review will be held during the fourth quarter of 2014.

I. POVERTY REDUCTION IN ASIAN DEVELOPMENT FUND COUNTRIES

A. Poverty in Asian Development Fund Countries

1. **Widening development gap between Asian Development Fund countries and other countries in the region.** Asia and the Pacific has been one of the fastest growing regions of the world in terms of economic growth over the past decade. However, Asian Development Fund (ADF) countries¹ have not shared fully in this prosperity and development. The number of people living on less than \$1.25 a day in developing Asia dropped from more than 1.4 billion in 1990 to 754 million in 2008,² but much of this gain was driven by ordinary capital resources (OCR) countries. Using the \$1.25-a-day poverty line, OCR countries reduced the number of poor by 51%, compared with only 15% in ADF countries. Using the \$2-a-day poverty line, the number of poor living in ADF countries actually increased by 13%. By contrast, the number of poor based on this metric dropped by almost 30% over the same period in OCR countries. This widening development gap, if left unaddressed, could hamper economic growth and undermine social cohesion and political stability in the region.

2. **Persistent income poverty.** Poverty continues to affect the lives of millions in ADF countries. Based on most recent data available (2008), 27% of the population in ADF countries (about 148 million people) still lives on less than \$1.25 a day and almost 60% (314 million) lives on less than \$2 a day. Those living on less than \$2 a day are extremely vulnerable and could easily slip back into absolute poverty.

3. **Tangible but slow progress towards non-income Millennium Development Goals.** ADF countries have made considerable progress towards the non-income Millennium Development Goals (MDGs), but not fast enough to reach many of the targets by 2015. Based on a set of 14 indicators covering education, health, and water and sanitation, ADF countries as a group are on track to achieve only five (36%) of the non-income MDGs by 2015 and are close to achieving another two (14%). Looking at specific indicators, ADF countries are clearly lagging behind. For example, based on the most recent data available, the maternal mortality rate in ADF countries at 348 per 100,000 live births is more than twice as high as that in OCR countries (153). The under-5 mortality rate at 74 per 1,000 live births is also much higher than in OCR countries (44). Child malnutrition is more acute in ADF countries with 36% of children underweight, compared with 28% in OCR countries. The comparative figure for Sub-Saharan Africa is 27%.³ In education, only 66% of students complete primary school in ADF countries, compared with 96% in OCR countries. Progress on gender-related MDG targets in ADF countries has been slow or at best mixed, with countries classified as fragile and conflict-affected situations (FCAS) lagging on all fronts.

B. Challenges in Fighting Poverty in Asian Development Fund Countries

4. **Slower growth and rising inequality.** Sustained and inclusive economic growth is necessary to make substantial progress in reducing poverty and reaching the MDGs. However, gross domestic product (GDP) growth in ADF countries has been consistently slower than in OCR countries, contributing to the widening development gap and uneven progress toward the

¹ ADF countries are those with access to the ADF. These can be disaggregated into (i) "ADF-only" countries; and (ii) "blend" countries, which have access to both the ADF and Asian Development Bank's (ADB) ordinary capital resources.

² Poverty estimates are from G. Wan and I. Sebastian, 2011. Poverty in Asia and the Pacific: An Update. *ADB Economics Working Paper Series*. No. 267. Manila: ADB.

³ United Nations. 2010. *The Millennium Development Goals Report 2010*. Statistical Annex. New York.

MDGs. And there are renewed concerns that the uncertain economic outlook in developed countries could curb growth in the region. ADF countries are more vulnerable to economic crises and can often lose their hard-fought gains when confronted with such crises. In addition, the growth process in itself may not be sufficiently inclusive: income disparities between the rich and poor have been increasing within many ADF countries, reducing the impact of growth on poverty reduction.⁴ Likewise, gender inequalities continue to persist hindering progress towards better development outcomes—inclusive growth, faster poverty reduction, and accelerated progress toward MDG attainment.

5. **Limited capacity to catch up.** Closing the development gap is a challenge because ADF countries face serious capacity constraints. They continue to lag in terms of economic and social infrastructure. A recent study by the Asian Development Bank Institute (ADBI) found that, despite considerable investment, infrastructure improvements have not kept pace with the growth in demand. Consequently, infrastructure remains a key development bottleneck in Asia and the Pacific.⁵ The 2009–2010 Global Competitiveness Report also highlighted important infrastructure gaps in the region with Central and West Asia, the Pacific subregions, and South Asia having the worst overall infrastructure composite scores in the world (even below Sub-Saharan Africa).⁶ ADF countries are also much less conducive to private sector development, leading to higher and often prohibitive private financing costs and consequently fewer private inflows. Weak fiscal situations, which have been exacerbated by the global economic downturn, further compound these problems.

6. **Weak governance and institutions.** ADF countries suffer from weak governance and institutions. The World Bank's Worldwide Governance Indicators capture several key dimensions of governance.⁷ The aggregate rating of ADF countries has improved in recent years and is now at par with OCR countries, but they still perform poorly overall with a median ranking below 40 out of 100. A more disaggregated analysis, however, highlighted important differences in terms of government effectiveness and regulatory quality. ADF countries scored 27 on government effectiveness and 24 on regulatory quality, notably worse than OCR countries (48 on government effectiveness and 44 on regulatory quality).

7. **Greater vulnerability.** ADF countries with the greatest needs are also the most vulnerable. Of particular concern are the high and volatile fuel and food prices, which undermine many aspects of economic and human development. Since many ADF countries (especially ADF-only countries) are net food and energy importers, they are more vulnerable to fluctuations in food and oil prices. Commodity price inflation could have a direct and immediate impact on poverty because inflation erodes the purchasing power of households, especially poor households where food accounts for more than 60% of total household consumption. More than one-third of ADF countries (11 of 28) are currently classified as FCAS countries. Data availability in FCAS countries is usually limited. However, for most countries with available data, poverty rates and MDG achievements tend to be worse than in other countries. In addition, ADF countries are more vulnerable to crises, natural disasters, and the adverse impact of climate change, although they contribute very little to it.

⁴ A. Kwasi Fosu. 2011. *Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence*. Brooks World Poverty Institute. Manchester: University of Manchester.

⁵ ADBI. 2009. *Infrastructure for a Seamless Asia*. Tokyo.

⁶ World Economic Forum. 2009. *The Global Competitiveness Report 2009–2010*. Geneva.

⁷ World Bank. Worldwide Governance Indicators. <http://info.worldbank.org/governance/wgi/index.asp>

II. ROLE AND CONTRIBUTIONS OF ASIAN DEVELOPMENT FUND

8. The ADF is a crucial financing source in helping ADF countries achieve the MDGs and address their other development challenges. During 1995–2009, the ADF accounted for more than 10% of official development assistance to those countries.⁸ Operations supported by the ADF, the largest special fund managed by the Asian Development Bank (ADB), benefit from ADB's comparative strengths and institutional improvements. The ADF also provides good value for money.⁹

A. Past Performance of the Asian Development Fund

9. **Progress on Asian Development Fund operational commitments.** Starting as a modest fund of \$770 million under ADF I (1973–1975), the ADF has grown steadily over the years to more than \$11.3 billion under ADF X (2009–2012). In an independent evaluation of ADF operations approved during 2001–2010 (covering ADF VIII, IX, and the first 2 years of ADF X), the Independent Evaluation Department (IED) noted that ADB made solid progress on key ADF operational commitments agreed upon with donors, although the promotion of good governance in ADF countries remained a challenge.¹⁰ The IED report found that

- (i) ADB's focus on private sector development increased from 9% of ADF VIII operations to 16% in ADF IX and then to more than 20% in the first 2 years of ADF X;
- (ii) gender mainstreaming improved recently with 45% of approvals in 2010 gender mainstreamed;
- (iii) environmental sustainability as a theme grew to 30% of ADF operations in the first 2 years of ADF X;
- (iv) regional cooperation and integration (RCI) has become more prominent in ADF operations;
- (v) harmonization and alignment have improved; and
- (vi) progress in implementing the recommendations of the previous special evaluation study (SES) on ADF operations was good with 8 of the 10 recommendations considered to have been substantially followed.

10. **Country-level performance.** During 2001–2010, IED completed 12 country assistance program evaluations (CAPEs) for countries with access to ADF. Seven were assessed *successful* and five were *partly successful*. ADB has taken steps in recent years to address the issues identified in the CAPEs. To maximize results, efficiency, and impact, ADB decided to be more selective and focused in its operations under Strategy 2020,¹¹ based on the needs of its developing member countries (DMCs) and ADB's comparative strengths and to ensure complementarity of efforts with other development partners. ADB has also taken a number of steps to improve the quality of country partnership strategies (CPSs) and programs. Responding to the findings of the 2006 quality-at-entry assessment of CPSs, ADB has focused on improving

⁸ Total aid received from all sources by the 28 ADF countries during that period (excluding aid designated for the region with no country identified) was \$217.6 billion, of which ADF accounted for \$23.7 billion, according to aggregate aid statistics from the Organisation for Economic Co-operation and Development as of October 2011. <http://stats.oecd.org/>

⁹ Department for International Development and UKaid. 2011. *Multilateral Aid Review*. London.

¹⁰ IED. 2011. *Special Evaluation Study: The Asian Development Fund Operations—A Decade of Supporting Poverty Reduction in the Asia and Pacific Region*. Manila: ADB.

¹¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

the quality of country and sector diagnostics, which are the knowledge base for CPSs. Furthermore, ADB has adopted corporate-level operational plans to develop key sector and thematic operations in line with ADB's strategic agendas. ADB's communities of practice have played a key role in gathering sector knowledge and good practices, and incorporating them into the operational plans. This process ensures the strategic relevance of the plans and the effective delivery of priority outcomes. However, donors asked ADB to ensure a broader involvement of the Board and external stakeholders of ADB in the development of operational plans to ensure higher quality and sufficient ownership for their implementation. Plans for energy, transport, water, education, finance, climate change, food security, health and public-private partnerships (PPPs) have been developed.¹² ADB monitors the plans using their results frameworks. To improve effectiveness in FCAS countries, ADB developed a strategic and operational approach for these countries in 2007. As all these measures were implemented recently, their results may not be fully captured under the SES review period of 2001–2010. Looking forward, ADB should sustain implementation of these measures to further strengthen performance at the country level.

11. **Project-level performance.** Success rates of ADF projects during the ADF VI to ADF IX periods improved substantially compared with earlier replenishments. This is partly attributed to ADB carrying out institutional and related reforms called for in various ADF replenishments, including (i) the adoption of new planning processes; (ii) the establishment of a task force to improve project quality; and (iii) the implementation of a number of policies and practices that have had a direct impact on the relevance, quality, and delivery of projects and programs. Despite progress, the 66% success rate of ADF operations over the review period remained below the ADB target of 80% for 2012. However, this figure was strongly influenced by the poor performance of Pakistan projects.¹³ In addition, the success rate of projects in FCAS countries tends to be lower than the average for non-FCAS countries, although the impact on the ADF average is limited. Excluding Pakistan, the success rate of ADF projects during this period was 80%. ADF investment projects have performed somewhat better than ADF program loans since ADF IV (1983–1986), although differences in performance have narrowed over the years as the success rates of program loans began improving in ADF VI (1992–1995).

12. During the ADF XI replenishment discussions, donors expressed concern over the recent shortcomings in project outcomes highlighted in the *2010 Development Effectiveness Review (DEfR)*. Following commitments made in the 2010 DEfR, ADB scrutinized the underlying constraints to project success and put in place an action plan to improve project outcomes.¹⁴ The plan highlights a number of key initiatives: (i) intensify regional departments' efforts to promote outcome achievement; (ii) complete operational plans for all key focal areas; (iii) continue the implementation of the streamlined business processes; (iv) mainstream the use of sector road

¹² ADB. 2009. *Energy Policy*. Manila; ADB. 2010. *Sustainable Transport Initiative*. Manila; ADB. 2011. *Water Operational Plan, 2011–2020*. Manila; ADB. 2010. *Education by 2020*. Manila; ADB. 2011. *Financial Sector Operational Plan*. Manila; ADB. 2010. *Addressing Climate Change in Asia and the Pacific: Priorities for Action*. Manila; ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila; ADB. 2008. *An Operational Plan for Improving Health Access and Outcomes Under Strategy 2020*. Manila; and ADB. 2012. *Public-Private Partnership Operational Plan (2012–2020)*. Manila. ADB is developing plans for environment, social protection, and urban development.

¹³ The review period (2001–2010) was particularly turbulent for Pakistan. Significant challenges included a political crisis, natural disasters, external and internal shocks, and more recently serious insecurity. ADB has made concerted efforts in the past 5 years to address the underlying factors affecting portfolio performance through (i) a strategic shift in focus, (ii) rationalization of the portfolio, (iii) greater use of the programmatic approach, and (iv) stronger portfolio management.

¹⁴ ADB. 2010. *Good Project Implementation Practice: Report of the Project Implementation Working Group*. Manila; and ADB. 2011. *Improving Project Outcomes*. Manila. <http://www.adb.org/documents/improving-project-outcomes.pdf>

maps and results frameworks throughout the project cycle; (v) improve the peer review process; (vi) implement the recommendations of the project implementation working group (footnote 14); (vii) increase the focus on the latter stages of project implementation; and (viii) increase staff participation in training programs on project design and management, and managing for development results (MfDR). Each regional department also developed its own action plan reflecting country-specific and region-specific challenges.

13. To promote the sustainability of project outcomes, ADB is improving monitoring and assessment of outcome sustainability. To capture lessons and update sector results frameworks, ADB has introduced an assessment of sector outcomes and outputs, including outputs of ADB-funded projects, in the country portfolio review exercise. Impact evaluation studies initiated under technical assistance (TA) approved in 2010 and additional studies being undertaken by regional departments will identify lessons related to project sustainability and the links between project outputs and specific development outcomes.¹⁵ An interdepartmental impact evaluation committee established in 2011 oversees the implementation of these studies. Furthermore, ADB improved its safeguard policy to support the sustainability of project outcomes by protecting the environment and people from potential adverse impacts of projects.¹⁶ To ensure that the policy is implemented well, ADB added 34 new safeguard positions in 2010–2011 (including nine in resident missions), and is undertaking training programs and developing tool kits for DMC stakeholders. In 2014, IED plans an evaluation of safeguard implementation.

B. Contribution to Development Results

14. ADF operations have contributed significantly to development in ADF countries. They have helped deliver critical outputs such as schools and trained teachers, new or better roads, water supply and sanitation facilities, power distribution and transmission lines, and telecommunications facilities. More specifically, ADF operations completed during ADF IX and the first 3 years of ADF X (2005–2011)

- (i) expanded the access of more than 19 million students to quality education by delivering more than 60,000 new or upgraded classrooms and 720,000 trained teachers;
- (ii) helped more than 252 million people gain better access to wider economic opportunities and social services by constructing or rehabilitating more than 56,000 kilometers (km) of roads;
- (iii) provided more than 2.1 million households with access to clean water by installing or rehabilitating about 14,000 km of water supply pipes;
- (iv) connected more than 1.8 million households to electricity by building or upgrading more than 35,000 km of power transmission and distribution lines, contributing to industrial productivity and economic growth; and
- (v) reduced greenhouse gas emissions by 2 million tons of carbon dioxide equivalent per year by promoting more efficient and cleaner energy operations

15. In addition to outputs and outcomes that have already been achieved, ADB expects to deliver a significant amount of outputs over the ADF XI period from its ADF-funded core sector operations approved during 2007–2010 (Appendix 1).

¹⁵ ADB. 2010. *Implementing Impact Evaluation at ADB*. Manila.

¹⁶ ADB. 2009. *Safeguard Policy Statement*. Manila. The Safeguard Policy Statement was approved by the Board in July 2009 and became effective in January 2010. It includes appropriate requirements for different lending modalities, and strengthens the requirements for safeguard monitoring and supervision.

16. ADF outputs have helped countries, including those classified as FCAS, accelerate economic growth and expand the access of women, children, and the poor to quality education and health care, reliable electricity and clean water, and other social services, as well as economic opportunities. The ADF helped Afghanistan sustain growth and improve service delivery by supplying uninterrupted electricity to people through the construction of 241 km of high-voltage transmission lines, representing 54% of such lines in the country. In the Lao People's Democratic Republic, the ADF contributed significantly to better connectivity by delivering 1,390 km of roads, representing 43% of the country's roads that were paved with support from external financing. This led to impressive growth in trade, new income opportunities for the poor, and easier access to social services. ADF assistance also promoted sustainable maintenance of roads and road safety.¹⁷

17. The ADF was instrumental in Mongolia's impressive achievement of education outcomes. ADF projects rehabilitated about 1,630 classrooms, or 44% of all classrooms in the country, and trained about 20,600 teachers, representing 90% of teachers in primary and secondary schools.¹⁸ A targeted gender project in 15 of the poorest districts in Nepal tackles different facets of gender discrimination through a multisector approach with positive results: (i) 62,274 women got involved in savings and loan groups; (ii) 52,000 households benefited from community infrastructure including toilets, drinking water facilities, roads and/or trails, small irrigation schemes, and micro hydropower to meet women's basic infrastructure needs; and (iii) 10,973 households installed better cooking stoves and water mills, which reduced women's work burdens and improved their health.¹⁹

18. ADB country briefs on development effectiveness, which have been prepared for 20 ADF countries so far, present how ADF operations at the country level helped improve people's lives and address the challenges ADB and DMCs face in pursuing agreed upon development goals. ADB will continue to prepare these briefs and refine their methodology to demonstrate credibly the outcomes and impact of ADF operations and their value for money.²⁰

19. The most recent SES on ADF operations (footnote 10) noted that the ADF contributed to economic growth by helping countries improve connectivity, increase the level and reliability of power supplies, develop legal and institutional frameworks for finance and commerce, and increase agricultural production. The ADF also sought to support efforts to make growth more inclusive and promote social development primarily through greater access to resources for smaller enterprises and better social infrastructure. Of projects reviewed in the SES, 74% were assessed as likely to have a positive impact on poverty reduction. The SES concluded that the ADF played an important role in sustaining a broad-based pattern of growth in the region and that ADB's engagement in ADF countries remains crucial. The study recommended that ADB seek increased funding for future ADF operations.

¹⁷ ADB. 2011. *Delivering Results through the ADF*. Paper prepared for the first ADF XI replenishment meeting in Manila, Philippines, 8–9 September 2011. Data are from eight ADF projects in Lao PDR completed during 1998–2010, and one in Afghanistan completed in 2009.

¹⁸ Footnote 17. Data are from three loans and two grant projects funded by ADF during 1996–2010.

¹⁹ ADB. 2011. *Nepal: Gender Equality and Empowerment of Women Project*. Manila. Midterm progress report and government data.

²⁰ Development effectiveness country briefs.

<http://www.adb.org/publications/series/development-effectiveness-country-briefs>

C. Asian Development Fund Strengths and Areas for Further Development

20. Donors noted that ADB has made significant progress on internal reforms and acknowledged Management's leadership in the process. As a result, ADB is becoming a more effective organization. This is being achieved through the introduction in recent years of greater strategic clarity, innovative and flexible products, more results-oriented and transparent business processes, and better organizational arrangements and staff skills and incentives. Since 2008, ADB has taken additional actions to remove weaknesses identified through the DEfR process, including measures to (i) improve the quality of country strategies and programs; (ii) strengthen project performance; (iii) improve gender mainstreaming in operations; and (iv) reinforce organizational effectiveness through strengthened resident missions, improved gender balance within ADB, and continued attention to budget adequacy and efficiency. Most recently, ADB has improved its transparency and accountability by upgrading its Public Communications Policy²¹ and reviewing its Accountability Mechanism Policy.²²

21. ADB's efforts to improve its MfDR have progressively been recognized. Several external studies have been undertaken to analyze the quality of aid and assess relative donor performance (a summary of these studies is in Appendix 2). In all these studies, ADB ranked highly and its assistance was considered good value for money. ADB scored particularly well in relevance, effectiveness, specialization, and alignment and harmonization. ADB also performed well relative to other multilateral development banks in the Paris Declaration monitoring surveys of the Organisation for Economic Co-operation and Development. In 2011, IED's assessment of ADB's MfDR agenda implementation concluded that ADB had achieved most of the intended results of the MfDR action plan.²³ The study rated ADB's efforts in mainstreaming MfDR as relevant, responsive, and results oriented, with an overall rating of *successful*. The study found that the objectives of improving ADB's results orientation and institutional effectiveness, and sustaining effective partnerships on MfDR, had been achieved. However, IED found that ADB's intended support for DMC capacity development on MfDR was only partly achieved, as its full implementation requires a more sustainable and cost-effective approach to capacity development.

22. The reform process is a continuing effort. ADB will accelerate its transformation over the coming years to reinforce its effectiveness with due consideration of the cost and efficiency of operations. Drawing on the findings of the DEfRs and the IED SES, as well as outcomes from the Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea, ADB will focus on the following priority reforms:

- (i) improve project performance and outcome achievement by (a) strengthening country diagnostics including aspects such as political economy, development challenges, and risk management to ensure the relevance of ADB country strategies; (b) reinforcing quality-at-entry assurance mechanisms; (c) promoting total project readiness; (d) improving project and portfolio supervision; (e) reviewing procurement arrangements and promoting efficient procurement; (f) ensuring effective implementation of ADB's safeguards policy; (g) using country systems as appropriate; and (h) applying lessons more systematically;

²¹ ADB. 2011. *Public Communications Policy 2011: Disclosure and Exchange of Information*. Manila.

²² ADB. 2012. *Accountability Mechanism Policy 2012*. Manila.

²³ IED. 2011. *Special Evaluation Study: Managing for Development Results*. Manila: ADB. The first assessment was conducted in 2007: IED. 2007. *Special Evaluation Study: Managing for Development Results in Asian Development Bank—A Preliminary Assessment*. Manila: ADB.

- (ii) leverage ADB resources effectively to mobilize additional investments by (a) increasing private sector operations (PSOs) in ADF countries; (b) exploring the use of ADF resources to issue partial risk and partial credit guarantees; and (c) increasing PPPs in line with ADB's PPP operational plan (footnote 12);
- (iii) deliver knowledge and innovation better by (a) developing a new action plan for knowledge; (b) improving management of ADB's knowledge products and services; (c) completing an independent review of ADB's knowledge products and systems; (d) strengthening ADB's communities of practice;²⁴ and (e) upgrading information and communication systems;
- (iv) align human resources with Strategy 2020 by continuing the implementation of ADB's Our People Strategy and the Human Resource Function Strategic Framework and Action Plan, with particular emphasis on improving gender balance at all levels in the institution;²⁵ and implement follow-up actions to the 2012 staff engagement survey;
- (v) strengthen transparency and accountability by (a) implementing ADB's new Public Communications Policy (footnote 21) to expand and accelerate access to information; (b) improving the effectiveness of ADB's Accountability Mechanism Policy (footnote 22) based on a recent review; and (c) strengthening ADB's capacity to share aid information with stakeholders, including by assessing the World Bank's experience with Mapping for Results;
- (vi) consolidate ADB's decentralization by (a) completing the assignment of staff to resident missions under the 3-year transformation plan,²⁶ (b) strengthening expertise in critical sectors and crosscutting themes, (c) expanding capacity for procurement and project supervision, and (d) upgrading information and communication technology. In addition, ADB will enhance the critical role of resident missions in policy dialogue and donor coordination; and
- (vii) refine and mainstream further results-based management approaches by (a) reviewing ADB's corporate results framework, (b) improving results-based work plans, (c) sharpening the results orientation of corporate sector and thematic plans, (d) consolidating results management in countries and projects, (e) promoting more effective communication on results with external stakeholders, and (f) reinforcing support for DMC country capacity development on MfDR.

23. ADB will continue to monitor the progress of its reform initiatives closely through the DEfR process and the ADF XI implementation matrix (Appendix 3), and will report on their progress at the donor consultation meetings on the sidelines of ADB's annual meetings and during the ADF XI midterm review.

24. To leverage its development effectiveness and attract more cofinancing resources, donors also agreed to a partial liberalization of procurement eligibility through the introduction of a blanket waiver of member country procurement eligibility restrictions in cases of cofinancing for ADF-financed operations. Such a blanket waiver is expected to facilitate contributions from cofinanciers whose eligible source countries for procurement include countries that are not

²⁴ Communities of practice are groups of ADB staff members recognized as technical leaders in their fields or informal networks of ADB staff interested in the sector and/or theme.

<http://www.adb.org/site/knowledge-management/communities-of-practice>

²⁵ ADB. 2010. *Our People Strategy: Skills and Passion to Improve Lives in Asia and the Pacific*. Manila; and ADB. 2010. *Human Resource Function Strategic Paper and Action Plan*. Manila.

²⁶ To ensure the quality of its expanding portfolio under the fifth general capital increase, ADB is implementing a 3-year (2010–2012) budget transformation plan to remove persistent resource gaps. ADB. 2009. *Work Program and Budget Framework 2010-2012*. Manila.

eligible sources of ADF-financed procurement. Several donors expressed the desire for complete liberalization.

III. STRATEGIC DIRECTIONS FOR ASIAN DEVELOPMENT FUND XI

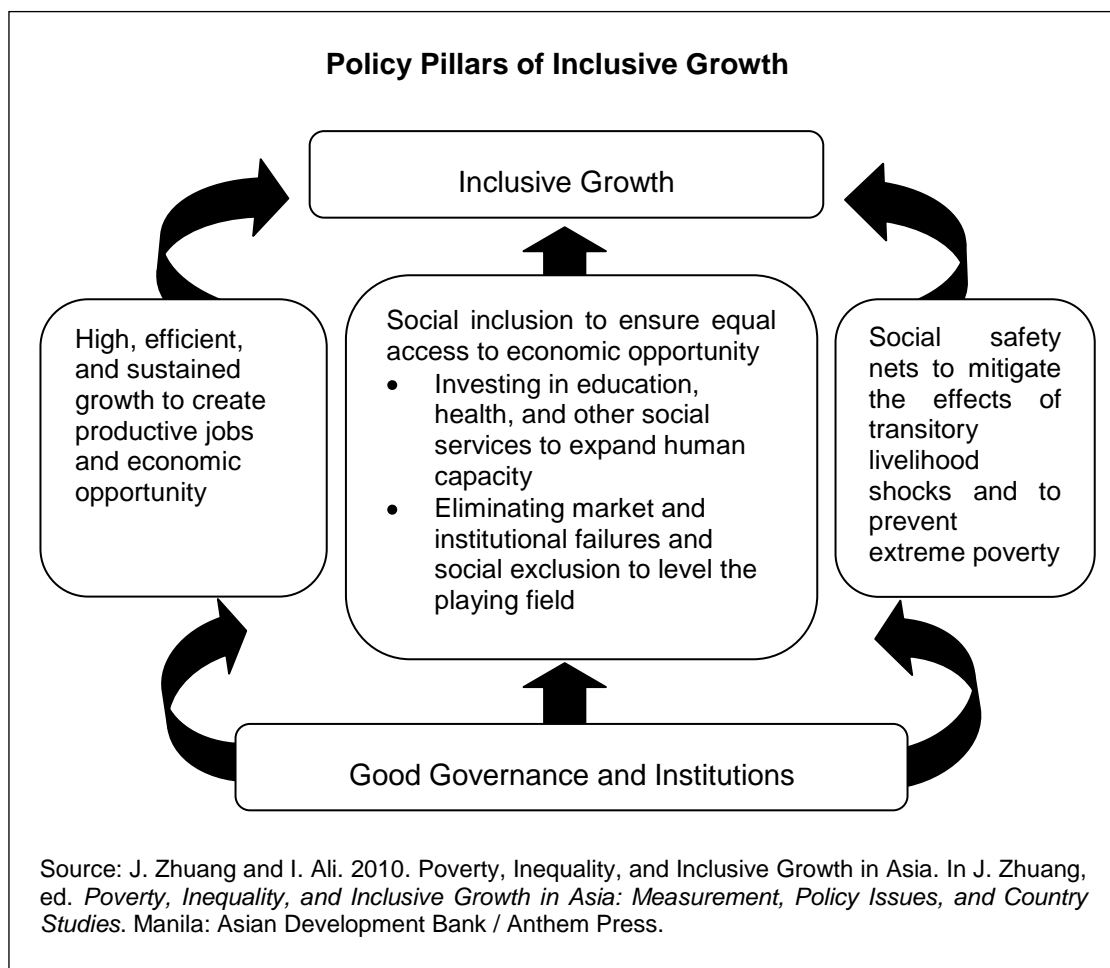
25. Donors recognized that poverty reduction remains an unfinished agenda in ADF countries. They also noted that in order to maximize efficiency and impact, ADF assistance should remain focused. To address the challenges identified, donors agreed to pursue Strategy 2020 priorities under ADF XI. The key mandate of ADF XI will be to reduce poverty in Asia and the Pacific through three complementary development agendas: (i) inclusive growth, (ii) environmentally sustainable growth, and (iii) regional integration. ADF XI will also focus on Strategy 2020's five core areas of operations: infrastructure, finance sector development, education, environment, and RCI. Within this strategic context, ADB will give special considerations to three special themes that appear particularly relevant to ADF countries: gender, FCAS, and food security. Donors also emphasized the important role that the ADF should play in promoting private sector development and investment, and good governance in ADF countries. Donors called on ADB to initiate discussions on a longer-term strategic vision for the ADF—reflecting the political and economic changes of the past decades, and adapting the ADF's role, mandate, and financing structure to the present realities. It was agreed that discussion on this topic will continue beyond the ADF XI replenishment negotiations.

A. Broad Development Agenda

1. Inclusive Growth

26. Inclusive growth is of paramount importance for poverty reduction. Continuing high levels of poverty—particularly in rural areas—and growing inequality in ADF countries contribute to increasing development gaps within and between countries in the region, which could undermine social cohesion, endanger social and political stability, and hamper the region's growth momentum. Higher inequality also affects the pace of growth and its impact on poverty reduction. The structure of markets and economies, as well as the growth pattern in itself, may also generate inequality and exclusion. Jobless growth and barriers for women and other disadvantaged groups—including but not limited to the poor, ethnic minorities, tribal communities, the disabled, and the discriminated—to access financial services underpin exclusion and fragmentation. To address rural poverty, adequate attention to the agriculture sector is particularly important. When large segments of society have limited access to financial services and participation in the labor market and political decision making, productivity, growth, and political stability are severely undermined. Since these are exacerbated in times of economic crises, ADB should closely monitor the development and impact of such crises. Growth and equality should not be seen as trade-offs but part of a virtuous cycle.

27. Under Strategy 2020, ADB's approach to inclusive growth is anchored on three main policy pillars: (i) high, sustained, and broad-based economic growth to create sufficient levels of good and productive jobs, and expand economic opportunity for all; (ii) social inclusion to ensure equal access to opportunity through investment in human capital and elimination of market, institutional, and policy barriers that lead to distortions and social exclusion; and (iii) effective social safety nets to manage risks and vulnerabilities, particularly of disadvantaged and chronically poor people. Good governance and effective institutions are needed to support the implementation of these three pillars (Figure).



28. At the country level, ADB seeks to strengthen inclusive growth through the combined effect of all the elements of its country operations: projects, TA, knowledge products and services, and policy dialogue. These are selected in the CPSs in close coordination with other development partners after undertaking thorough country diagnostic studies and relying on ADB's comparative strengths and their mutual complementarities to maximize inclusive growth. This emphasis on the country program rather than on individual projects to achieve strategic outcomes is an essential strategic choice that ADB made after the 2004 review of the Poverty Reduction Strategy (PRS)²⁷ and the adoption of the enhanced PRS.²⁸

29. Following the adoption of Strategy 2020 and the enhanced PRS, CPSs have placed more emphasis on fostering inclusive growth. Based on in-depth analytical studies of binding development constraints, CPSs are defining ways in which ADB can strengthen inclusive growth at the country level. ADB completed such a study for Nepal and is carrying out studies for the Lao People's Democratic Republic and Papua New Guinea. Similar studies have been initiated for some other ADF countries, including Bhutan, Cambodia, Maldives, and Viet Nam. These studies, which will guide country operations during the ADF XI period, aim to improve the relevance and effectiveness of ADB operations by focusing the strategies of ADB and its DMCs on the most binding constraints to inclusive growth and development.

²⁷ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

²⁸ ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

30. ADB also has a clear approach to inclusive growth in its sectors and thematic areas of operations. To support Strategy 2020 implementation in each of these areas, various operational plans are in place to provide strategic directions on promoting inclusive growth in ADB operations. At the project level, ADB seeks to optimize the flow of benefits to the disadvantaged and ensure the participation of all stakeholders in the preparation and implementation of projects. It also seeks to address any adverse impact by conducting initial poverty and social analyses and by applying social safeguards as required by ADB's Safeguard Policy Statement to avoid, minimize and mitigate adverse impacts on affected people. Where relevant, measures are implemented to ensure that the indigenous peoples can participate in the development process on their own terms and share in the benefits.

31. Donors stressed the importance of focusing more on the quality and pattern of growth in the first pillar of ADB's approach to inclusive growth, as well as on effectively operationalizing its inclusive growth strategy. ADB will seek to further intensify its efforts to support inclusive growth in this respect in ADF countries. Under ADF XI, ADB will

- (i) improve its monitoring of inclusive growth at the country level (i.e., how to assess country performance in these areas more rigorously);
- (ii) increase and strengthen its country diagnostics and economic and sector analyses in collaboration with other development partners to improve understanding of how inclusive growth can be achieved in ADF countries, as well as its links to other strategic concerns;
- (iii) more systematically review its operations to ensure that (a) inclusive growth is effectively supported in all ADF countries, and (b) all CPSs for ADF countries henceforth emphasize inclusive growth; and
- (iv) develop indicators to capture ADB's contribution to inclusive growth as part of the review of the ADB and ADF results frameworks in 2012.

2. Environmentally Sustainable Growth

32. While growth remains a high priority under ADF XI, its relevance and appropriateness will depend on how environmentally sustainable it is. The main environmental challenges facing ADF countries include climate change (especially adaptation for ADF countries) and increased vulnerability to natural disasters, water scarcity, unplanned and unsustainable urbanization, pollution, and loss of forest cover and biodiversity. ADF countries need help to address these global and local environmental issues through investments in sustainable infrastructure, ecosystem management, and enhanced environmental governance, including improved compliance and enforcement. Under ADF XI, ADB will enhance support for projects with environmental sustainability as a theme and continue to address climate change as a priority. ADF operations with environmental sustainability as a theme are expected to account for at least 50% of the indicative ADF XI operational program, a substantial increase from 36% under ADF X. At least 40% of projects will address climate change, of which more than half will do so through adaptation measures.

33. Asia and the Pacific has the most people at risk from the impacts of climate change. These impacts include more frequent floods, droughts, changes in precipitation patterns, coastal degradation, and health risks. Women are particularly vulnerable to climate change impacts. The scarcity of natural resources and reduced food production, combined with climate-induced disasters, could have significant negative consequences for women's employment, income, time-use, and health. ADF countries are among the most vulnerable because of (i) high population density in low-lying coastal areas; (ii) greater reliance on natural resources for livelihoods, including agriculture and fishing, especially among the poor; and (iii) lower capacity to adapt and

respond to the impact of climate change. However, these countries have contributed relatively little to global emissions. Looking forward, ADF countries face the challenge of seeking to further strengthen their resilience to climate change, while establishing a trajectory that meets their development objective without contributing further to the underlying causes of climate change and environmental degradation.

34. To help ADF countries shift towards greater environmental sustainability, ADB will seek to promote environmentally sustainable, low-carbon growth through a range of policy dialogue, capacity development programs, and projects. Through its Clean Energy Program,²⁹ ADB will seek to scale up clean energy investments in ADF countries, with an emphasis on prioritizing energy access for the poor. Through its Sustainable Transport Initiative,³⁰ ADB will help climate-proof transport projects, promote synergistic land use and transport planning, and encourage the use of public transport and integrated transport solutions. Through its Cities Development Initiative for Asia,³¹ ADB will work with cities, other development partners, and the private sector to build green, low-carbon, and climate-resilient cities (including increasing access to reliable and affordable water and sanitation). ADB will also selectively support sustainable forest management and ecosystem conservation, as well as agricultural land use improvements, to promote carbon sequestration and environmental sustainability more generally. ADB will also seek to promote technological advancement, transfer, and deployment in ADF countries through initiatives such as the cluster TA for Establishing a Pilot Center to Facilitate Technology Investments in Asia and the Pacific.³² Through these initiatives, ADB will seek to establish mechanisms to facilitate and leverage private sector engagement and investments in environmentally sustainable projects and strategic investments.

35. ADB will also help ADF countries adapt to the already unavoidable impact of climate change. ADB will continue to support country-driven climate change adaptation programs by (i) promoting the mainstreaming of adaptation, disaster risk reduction, and environmental management into national development plans and CPSs; (ii) helping build the climate resilience of vulnerable sectors, such as water, energy, transport, and agriculture, with a view to enhance food security; and (iii) assisting ADF countries in climate- and disaster-proofing projects to ensure that their outcomes are not compromised by climate change or by other natural hazards.³³ Enhanced regional cooperation will also be needed to manage large ecosystems sustainably, including marine ecosystems that sustain future development prospects. ADB will continue to support improved policy frameworks and institutional capacity to promote more environmentally responsible action, better implementation of environmental laws and regulations, expanded use of spatial planning tools such as strategic environmental assessment, and more investment in natural capital.

36. Responding to ADF countries' environmental challenges requires the full engagement of all development partners across the region, with each bringing its own unique set of skills, interests, and objectives. ADB will continue to engage the international community in knowledge sharing and outreach, and help build capacity through training, workshops, and assistance programs. Civil society organizations will play a key role as partners, especially where they have demonstrated capacity to work with local communities. ADB will also seek to strengthen collaboration to mobilize more resources, for example, through the Climate Investment Funds,

²⁹ ADB. 2011. *Asia Clean Energy Forum Report*. Manila; and ADB. 2011. *Clean Energy. In Focus*. Manila.

³⁰ ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

³¹ Cities Development Initiative for Asia. <http://www.cdia.asia/>

³² ADB. 2011. *Proposed Cluster Technical Assistance for Establishing a Pilot Center to Facilitate Climate Technology Investments in Asia and the Pacific*. Manila.

³³ ADB. 2012. *Addressing Climate Change and Migration in Asia and the Pacific*. Manila.

the Global Environment Facility, and the private sector. Innovative financing and risk-sharing approaches will also be explored to ensure that climate change adaptation measures and disaster risk management go hand in hand, including insurance and other disaster risk management instruments.

3. Regional Integration

37. Regional integration plays a critical role in accelerating economic growth and reducing poverty and economic disparities in ADF countries. With decades of experience in Asia and the Pacific, ADB is uniquely positioned to serve as a catalyst for regional integration, linking national and regional priorities.³⁴ ADB operations in support of RCI under ADF XI will continue to be guided by ADB's RCI strategy,³⁵ which focuses on four interrelated pillars: (i) regional and subregional economic cooperation programs on cross-border infrastructure and related software, (ii) trade and investment cooperation and integration, (iii) monetary and financial cooperation and integration, and (iv) cooperation in regional public goods.

38. Under ADF XI, RCI projects are expected to increase further, accounting for 24% of the operational program. This exceeds the resources available from the RCI set-aside, which donors agreed to maintain at 10% of total ADF resources under ADF XI. This excess demand is expected to be financed through country allocations. The diversification of the RCI portfolio is expected to continue under ADF XI, driven mostly by two key developments. First, activities supporting each pillar are becoming increasingly intertwined, requiring a better balance both across and within pillars. Second, the trend towards greater funding for regional public goods reflects the rising importance of energy security, food security, and climate change, as well as the need to address other social and environmental issues resulting from faster growth.

B. Special Considerations

1. Gender

39. Gender inequality is a challenge in all countries, but is more pronounced in ADF countries than elsewhere in the region. Girls still have poorer educational attainments, especially at the secondary and tertiary levels. Gender inequalities persist in women's access to economic opportunities, employment, decent work, and productive resources such as land, credit, and financial services. Further, women's limited participation in political decision-making acts as a barrier to making policy and service delivery more accountable to women. All these factors combine in a mutually reinforcing manner to undermine gender equality. The consequences for women are detrimental, and for the economy, it translates into reduced productivity, slower growth and sustained poverty and underdevelopment.³⁶

40. Women are particularly vulnerable to the specific challenges facing ADF countries. For example, household food security is largely the responsibility of women since they are responsible for producing, processing, and preparing food for their families. Food security is also inextricably linked to agriculture, a sector in which women play a vital role across all ADF countries. Likewise, the water–food–climate change nexus and its potential impacts on the scarcity of natural resources and reduced food production, combined with climate-induced

³⁴ ADB. 2010. *Development Effectiveness of Regional Cooperation and Integration Initiatives*. Paper prepared for the ADF X midterm review meeting in Manila, Philippines, 18–19 November 2010.

³⁵ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

³⁶ More details are in ADB. 2011. *Gender Equality and Women's Empowerment*. Paper prepared for the second ADF XI replenishment meeting in Dhaka, Bangladesh, 5–6 December 2011.

disasters, have significant gender-related implications. During extreme climate events, women and girls are often disproportionately affected because of their limited mobility, care responsibilities, limited access to disaster warning information, fewer economic resources, and lower decision-making power, which reduce their capacity to respond rapidly in situations of environmental risk. Recent global economic crises have also posed a threat; in some ADF countries they stalled progress towards achieving the MDGs. While both men and women risk losing jobs during economic downturns, women are disproportionately affected because of their preexisting unequal status in the labor market. Women in FCAS countries fare notably worse compared with other women in the region for many human development indicators. They are more likely to die from childbirth; have less access to transport, electricity, piped water, sewerage, and jobs; and their daughters are less likely to access education and employment. Maternal mortality and household violence against women also remain unacceptably high in several FCAS countries.

41. Strategy 2020 recognizes gender equity as a key driver of change and highlights the importance of gender equity in reducing poverty and improving living standards. ADB's key strategy and approach for promoting gender equality is "gender mainstreaming" in all operations—country strategies and programs, economic and sector work, and programs and projects. During 2006–2010, 42% of ADF projects (equivalent to \$5.9 billion of ADF resources or more than \$1 billion per year) were approved with gender equality objectives. These resources enabled ADB to invest in (i) reducing gender gaps in education; (ii) supporting women's economic empowerment by creating employment and income opportunities, and providing access to credit and skills training; (iii) supporting women's basic infrastructure needs; (iv) softening and reducing the impacts of the fuel and food crises; (v) giving women "voice" by promoting their involvement in decision-making groups, especially at the community level; and (vi) supporting key gender-related policy and legal reforms. In 2010, ADB significantly increased the pace and intensity of gender mainstreaming efforts. Almost all CPSs approved during 2010 and 2011 included gender strategies and sector gender diagnostics, although gender equality results are not systematically included in country results frameworks. ADB's 2010 annual performance on gender mainstreaming exceeded the 2012 corporate gender target of 50%: 53% of ADF-financed public sector operations were categorized as "gender mainstreaming." These projects spanned the social and economic sectors with 100% of education, 75% of agriculture, 73% of water supply and sanitation, 44% of finance, and 31% of transport sector projects explicitly addressing gender equality objectives.

42. The task of promoting gender equality and women's empowerment is complex, requiring interventions across multiple sectors. Simultaneously, entrenched cultural and traditional attitudes and behaviors must be managed and navigated. ADF resources are particularly suitable for supporting women's economic empowerment and stimulate productivity and growth by integrating women in economic activity and in the labor market. This can be done by addressing the multiple causes of gender inequality through multisector and integrated approaches over a sustained period. Under ADF XI, ADB will intensify its efforts to ensure gender equality remains "front and center" of its development efforts. Of the indicative ADF XI operational program, 60% involves projects categorized as gender mainstreaming, of which one-fourth have gender equality as a theme. While corporate-level gender targets will be retained, the robustness of existing gender indicators will be reviewed and gender-related indicators enhanced following the review of ADB's results framework in 2012. Building on its experience, ADB will explore the inclusion of gender indicators in country and sector results frameworks. Sector diversification in gender mainstreaming will also be intensified, especially in energy, transport, and finance, to meet women's infrastructure needs, increase their access to essential services,

and improve their economic livelihoods and opportunities. ADB will also expand initiatives geared towards scaling up gender-related investments in FCAS countries and address gender in post-conflict reconstruction, food security, and climate change interventions. To ensure gender equality outcomes are met, ADB will include indicators for measuring ADB's contribution to gender equality outputs and outcomes at the country level. Greater emphasis will also be placed on improving the quality of gender action plans in projects, and on monitoring, reporting, and measuring gender equality results through regular supervision and monitoring of the implementation of gender action plans.

2. Fragile and Conflict-Affected Situations

43. Eleven ADF countries are currently classified as FCAS: two are considered conflict-affected (Afghanistan and Timor-Leste) and nine Pacific DMCs are considered fragile (Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, Tuvalu, and Vanuatu).³⁷ Fragile DMCs are characterized by small, isolated, and often dispersed populations and markets. Improving the environment for private sector development is essential for economic growth and job creation in those countries. Fragile DMCs also suffer from weaknesses in public governance, hampering their ability to address their development constraints. Women in FCAS countries fare notably worse than other women in the region on many human development indicators.

44. Afghanistan has endured 3 decades of civil unrest, political instability, and poor law and order. The significant progress that has been made in reconstruction and development is continually compromised by ongoing conflict and weak state institutions. Timor-Leste is on the way to recovery, but the shortage of experienced government staff and weak delivery of basic services remain challenges. In both conflict-affected DMCs, investments are needed in critical infrastructure, and in developing human and institutional capacity. The growth of a modern and competitive private sector must be supported. State-building and peace-building must be strengthened by developing rural livelihoods, empowering communities, improving community relations, and increasing public confidence in the system of government through mechanisms of accountability, transparency, and participation.

45. FCAS countries have unique development needs that must be addressed to avoid major human, economic, social, and security costs for the country and its neighbors. To improve development effectiveness in these difficult settings, ADB adopted a framework in 2007 for guiding, planning, and implementing its approach to engaging FCAS countries.³⁸ The approach is based on two pillars: selectivity and strategic partnerships. It stresses the need for (i) adopting flexible institutional responses and modalities, (ii) working with parallel institutions such as civil society groups, (iii) adjusting staffing levels, and (iv) strengthening incentives to enhance staff motivation to work and locate in FCAS countries. The approach offers a menu of options allowing ADB to operate more flexibly, depending on country-specific circumstances. An SES by IED evaluated the lessons learned from ADB's approach to FCAS countries.³⁹ It concluded that the 2007 approach had been relevant and was needed.

³⁷ ADB. 2011. *ADB Engagement in Fragile and Conflict-Affected Situations*. Paper prepared for the first ADF XI replenishment meeting in Manila, Philippines, 8–9 September 2011.

³⁸ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries*. Manila.

³⁹ IED. 2010. *Special Evaluation Study: Asian Development Bank's Support to Fragile and Conflict-Affected Situations*. Manila: ADB.

46. Under ADF XI, ADB will continue to pursue its engagement with FCAS countries, building on the momentum achieved so far and piloting country-led initiatives that support the implementation of the New Deal for Engagement in Fragile States.⁴⁰ ADB will also continue to apply its approach flexibly in countries that may not currently be classified as FCAS, but exhibit elements of fragility (e.g., Nepal and Sri Lanka). ADB will focus on

- (i) **Sustaining long-term commitments.** ADB will prioritize fragility and political economy assessments during preparation of CPSs. Fragility assessments are important elements of the New Deal for Engagement in Fragile States to support country-led and country-owned transitions out of fragility. It will also increase the use of the multitranche financing facility, sector-based approach, and other project modalities; incorporate approaches to peace-building and state-building activities in project design; and further strengthen ADB's field presence.
- (ii) **Concentrating on capacity development.** Development in FCAS countries depends largely on institutional and human capacity to perform core government functions. At the country level, capacity development will continue to be incorporated into ADB project interventions. Country performance assessment as a tool in FCAS diagnostics will be supplemented with macro and sector assessments and governance risk assessments. At the institutional level, ADB staff will also be trained in approaches relevant to FCAS engagement.
- (iii) **Intensifying strategic partnerships.** Coordination among development partners in FCAS countries is strong and has strengthened in recent years. Efforts will now focus on improving collaboration and cofinancing with development partners. ADB's field presence in FCAS countries will be sustained and strengthened by cooperating and sharing resources with major development partners, enhancing the participation of civil society and the private sector in development efforts, and strengthening ADB's engagement in international dialogue on FCAS issues.

3. Food Security

47. Although global food price indexes declined in the second half of 2011, they remained high and volatile compared to 2007–2008, the years before the food crisis.⁴¹ This trend of high and volatile prices is expected to continue in the near future. ADF countries are particularly vulnerable to the impact of high and volatile food prices, which affect many aspects of economic and human development (e.g., economic growth, poverty, nutrition, education, health, and productivity). ADB notes that high global food prices translate to high domestic food price inflation in developing countries, where the average household spends roughly half of its budget on food. A 10% rise in domestic food prices in developing Asia could push an additional 64.4 million people into poverty or lead to a 1.9 percentage point increase in poverty incidence based on the \$1.25-a-day poverty line.⁴² Food security and gender equality issues are also critically connected. High and volatile food prices and food insecurity exacerbate women's preexisting lower status.

⁴⁰ Members of the International Dialogue on Peacebuilding and Statebuilding, including ADB, endorsed the New Deal for Engagement in Fragile States at the Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea in 2011. The New Deal uses the peace-building and state-building goals as a foundation to enable progress towards the MDGs in order to guide work in fragile and conflict-affected states. It focuses on new ways of engaging to support inclusive country-led and country-owned transitions out of fragility, and commits to building mutual trust by providing aid and managing resources more effectively and aligning these resources for results.
http://www.oecd.org/document/22/0,3746,en_21571361_43407692_49151766_1_1_1_1,00.html

⁴¹ World Food Situation. Food and Agriculture Organization Food Price Index.
<http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/> (accessed 2 February 2012)

⁴² ADB. 2011. *Global Food Price Inflation and Developing Asia*. Manila.

48. Under ADF XI, ADF operations to address food security and nutrition will be guided by ADB's operational plan for food security within the context of Strategy 2020.⁴³ The plan takes a multisector approach to sustainable food security, noting that ADB's core activities (infrastructure, environment, regional cooperation and integration, finance, and education) and other areas of operation (agriculture, health, and disaster and emergency assistance) have significantly helped ease food security constraints. During 2013–2016, ADF food security operations will focus on three priorities: (i) scaling up infrastructure investments in water, transport, and energy, paying close attention to the food–water–energy nexus; (ii) improving food security safety nets for the poor and vulnerable, with a view to develop these programs into sustainable social protection systems; and (iii) promoting regional cooperation on food security policies and programs. ADB will continue to pursue strategic partnerships with its development partners to bring synergy and add value to selective agriculture and rural development engagement, including agricultural research (particularly to the benefit of poor smallholder and female farmers), building on lessons learned from past operations. ADB will also seek greater cofinancing and enhance private sector involvement in this area.⁴⁴

4. Promoting Private Sector Development and Investments in Asian Development Fund Countries

49. The private sector is a key engine of growth in ADF countries, accounting for the largest share of employment, output, and tax revenues. It is also a key actor and an indispensable partner in promoting inclusive growth because it is able to create economic opportunities and generate income. However, the environment for private sector development and investment in ADF countries remains weak. ADB is working with ADF countries to develop the private sector through both its public and private sector operations. ADB's public sector operations are helping to create an enabling environment for private sector development by promoting good governance, supporting financial intermediation, and facilitating PPPs. ADB's PSOs support investment in ADF countries that contribute to inclusive growth by creating—directly or indirectly—economic opportunities, including jobs for the poor, and improving the efficiency and effectiveness of service delivery. Traditionally, ADB's PSOs in ADF countries have focused on infrastructure and capital markets, with pioneering initiatives in Afghanistan (funding for private sector banking and telecommunications), Cambodia (private equity funds), and Central Asia (development of small and medium-sized enterprises). ADB's trade finance program has also focused heavily on ADF countries. ADB's business processes are designed to ensure complementarity between public sector support for private sector development and PSOs. ADB's regional departments and its Private Sector Operations Department (PSOD) collaborate on the preparation of the private sector assessment for CPSs to identify opportunities for private sector development. PSOs in turn must contribute to the development objectives of the CPS and support private sector development through investments, increased competition, improved corporate governance, and the introduction of new technologies.

50. Moving forward, ADB will explore new and underserved sectors in ADF countries (such as energy efficiency and renewable energy) that could benefit from private sector involvement. ADB is also seeking to increase its PSOs in ADF countries significantly, with a target of 40% of total PSO annual approvals (by number of projects) by 2015. This target was already reached in 2010 and efforts will be made to maintain it. Given their weak macro-economic and regulatory environment, ADF countries involve higher risk and increasing PSOs in ADF countries will

⁴³ ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.

⁴⁴ ADB. 2011. *Asian Development Fund Operations and Food Security*. Paper prepared for the first ADF XI replenishment meeting in Manila, Philippines, 8–9 September 2011.

increase the weighted average risk rating of PSOD's portfolio. This in turn affects the risk bearing capacity of the ADB balance sheet and reduces PSOD's ability to undertake future PSOs. Hence, improving the environment for private sector development is essential to the levels of investment that can be undertaken in ADF countries. In addition to establishing quantitative targets, ADB will continue to monitor the quality of its PSOs by measuring who benefits from these transactions and how. Given the well-established links between women's economic empowerment and social development, the gender dimension of private sector investments in ADF countries is garnering more attention through the collection of gender-disaggregated data and the establishment of targets for increasing financing of creditworthy small and medium-sized enterprises owned and/or managed by women. In infrastructure, the focus will not only be on assessing which constraints to growth can be removed, but doing so in a manner that supports sustainable and green technologies and extends multiple benefits. The scope of private sector investments in ADF countries is also expected to be expanded in the future based on the demonstration effects of projects in more developed economies. In addition, ADB will increase the use of TA in ADF countries to improve the capacity of its private sector partners in risk assessment, adherence to high standards of environment and social safeguards, and business development that also benefits local communities.

51. ADB finances PSOs in ADF countries using a range of instruments, all based on OCR resources. Two of the key ways by which ADB helps improve the commercial viability of projects in ADF countries is by (i) providing sponsors with longer tenors, and (ii) mitigating political or commercial risks. One of ADB's recent innovations was the use of grant funds to lower the costs associated with the implementation and performance risks of introducing new technologies in order to attract investors and demonstrate the commercial viability of projects. Guarantee instruments can also be effective in mitigating risks associated with investment in high-risk sectors and countries. However, under current policies, OCR guarantees with counter guarantees from a government can be considered only on an exceptional basis in ADF-only countries for projects that earn foreign exchange. ADF regulations do not provide for the use of ADF resources to pay for a demand on a guarantee. By contrast, the International Development Association (IDA) and the African Development Bank allow their concessional funding windows to provide guarantees. It was agreed that ADB would expeditiously conduct further due diligence on the use of ADF resources to issue partial risk and partial credit guarantees to catalyze private capital and other cofinancing resources.

5. Governance

52. Strategy 2020 identifies good governance as a key driver of development. The link between governance and institutional quality on the one hand and economic growth on the other is strong. Good and effective institutions and good governance underpin inclusive economic growth through enhanced market exchange, investment, and innovation because of lower transaction costs. Weak governance in DMCs may prevent them from efficiently exploiting economic opportunities and ensuring that growth benefits the poor (footnote 11). As weak institutions hinder poverty reduction and inclusive growth, efforts to strengthen domestic accountability, results orientation, transparency, and performance of public institutions are essential. While country performance assessment scores on governance have been improving in recent years, ADB recognizes that ADF countries continue to require long-term support for governance reforms, as highlighted by IED's evaluation study of ADF (footnote 10).

53. ADB's operational approach to governance under ADF XI will continue to be guided by the Second Governance and Anticorruption Action Plan.⁴⁵ Under the plan, ADB support for governance has supplemented specific governance projects by expanding and mainstreaming governance considerations in country strategies, sectors, and all projects and programs. When preparing a CPS, ADB integrates governance concerns identified through risk assessments and the accompanying risk assessment and management plans detailing mitigation measures to strengthen country systems. Governance risk assessments are subsequently cascaded from country to sector and project levels and mainstreamed in ADB operations.

54. During ADF XI, ADB will deepen its engagement with ADF countries on governance reforms, while also pursuing new areas to improve governance outcomes. It will do so with an appropriate increase in resources. Efforts will include further strengthening and integrating the governance approach in ADF countries by: (i) expanding and deepening work in the thematic areas of public financial management, procurement, combating corruption, and supporting the demand-side of accountability; (ii) providing governance support targeting ADB priority sectors, and strengthening participatory and transparent public sector management; and (iii) supporting long-term capacity development interventions that target weak institutions. This will include ADB's commitment to strengthening country systems, e.g., through regional TA on the use of country safeguards systems,⁴⁶ ongoing efforts to improve national procurement systems,⁴⁷ and support for an inclusive domestic accountability system. ADB will also provide increased TA resources to address risk mitigation measures and longer-term capacity building. Further, ADB will analyze a country's unique political economy and institutional context more thoroughly and factor them into project designs. ADB will review the approach and the implementation of the Second Governance and Anticorruption Action Plan, the quality of risk assessments, and the implementation of risk management plans to make them more effective as inclusive governance mainstreaming tools.

IV. USE OF ASIAN DEVELOPMENT FUND XI RESOURCES

A. Performance-Based Allocation System

55. The performance-based allocation (PBA) system provides a mechanism to allocate scarce ADF resources to eligible countries. It links the ADF allocation to country performance, as determined by a county performance assessment. However, the PBA system also considers other factors such as country needs, absorptive capacity, and special circumstances. Under ADF X, ADB introduced a number of refinements to the PBA system including (i) the introduction of a 14% soft cap on the allocation of blend borrowers;⁴⁸ (ii) the adoption of a new conversion scale for portfolio performance ratings; and (iii) an increase in the set-aside for regional projects from 5% to 10% of the biennial ADF envelope, along with the introduction of country ownership criterion in line with those of the African Development Fund and IDA.⁴⁹ The implementation of the refined PBA system during ADF X was satisfactory and effective (footnote 10). It resulted in more ADF resources being allocated to better-performing countries coupled with a significant increase in the allocation to ADF-only countries. It also reduced allocation volatility and significantly

⁴⁵ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

⁴⁶ ADB. 2010. *Technical Assistance for Strengthening and Use of Country Safeguard Systems*. Manila (TA 7566-REG). This TA project underwent a major change in scope and an increase in amount in 2011.

⁴⁷ ADB. 2009. *Technical Assistance for the Asia Pacific Procurement Partnership Initiative*. Manila (TA-7437 REG). This TA project received supplementary financing in 2011.

⁴⁸ Blend countries with a PBA share greater than the threshold can retain half of the amount above the cap.

⁴⁹ Recipients of ADF regional allocations must provide \$1 from their country allocation for every \$2 allocated from the regional pool.

strengthened ADF's support for RCI.⁵⁰ No major changes to the PBA system are proposed under ADF XI.

B. Set-Aside for Pacific Countries

56. Pacific countries are particularly vulnerable to natural disasters and other external shocks. They are also among those in greatest need of capacity development. Most of them possess elements of fragility that contribute to a complex development environment. The Agreement Establishing the Asian Development Bank (the Charter) mandates that ADB pay special attention to the needs of smaller or less-developed member countries. This is especially relevant for Pacific DMCs, which make up more than 40% of ADF countries (12 of 28). ADB is one of the leading multilateral development partners—and, in some cases, the only multilateral partner—assisting these countries. However, even with the small-country bias built into the PBA allocation formula, allocations to Pacific countries would be too small for ADB to provide meaningful development support if they had to compete for resources with larger ADF countries. Recognizing this, the PBA policy established a special pool for the Pacific, equivalent to 4.5% of total PBA resources, since ADF VIII. To capture the performance aspect, Pacific DMCs receive allocations from the set-aside based on the PBA formula. Given the continued weak capacity and vulnerability of Pacific DMCs, it is essential to maintain the set-aside under ADF XI. With no changes expected in the composition of the Pacific country group, donors agreed to maintain the size of the set-aside at 4.5% of PBA resources, which translates into about SDR 294 million for the ADF XI period.

C. Regional Set-Aside

57. Given the financial constraints facing ADF XI, donors agreed to continue to earmark 10% of ADF resources for RCI under ADF XI to sustain the momentum of the effective implementation of increased RCI assistance during ADF X.

D. Disaster Response Facility

58. Asia and the Pacific is prone to natural disasters. ADF countries are particularly vulnerable to disasters because the magnitude of the impact is often larger and the recovery is slower than in more developed countries. ADF countries also have limited capacity to prevent, prepare for, and respond to disasters. ADB has been supporting the efforts of ADF countries to manage disasters and increase their response capacity. This support has progressively broadened from post-crisis assistance to proactive disaster preparedness and disaster risk reduction. While ADB will continue to enhance support in this area, the need to respond to disasters when they happen will remain. However, ADB's support to ADF countries is constrained by the availability of, and difficult access to, resources. To support disaster preparedness, regular development resources may be utilized through investments, policy-based loans or grants, and/or TA. However, ex-post disaster response cannot be planned and programmed. The main constraints limiting ADB's disaster response for ADF countries include the following: (i) funds provided are generally insufficient (i.e., donor support often covers only a small fraction of the disaster recovery needs); (ii) the PBA system does not take into account disaster vulnerability or repeated exposure to natural hazards, and does not permit the allocation of additional resources to assist countries hit by a disaster; (iii) ADB's current approach of

⁵⁰ ADB. 2010. *ADF's Performance-Based Allocation System: Review of the Current System and the Post-Conflict Assistance Phaseout*. Paper prepared for the ADF X midterm review meeting in Manila, Philippines, 18–19 November 2010.

reallocating and reprogramming diverts resources from much-needed and planned long-term development activities; and (iv) experience with the use of separate trust funds has been problematic. ADB consulted all the 28 ADF recipient countries about a proposed disaster response facility (DRF), and shared its key design parameters. All 27 responses, except from one blend country, supported the establishment of the DRF.

59. After considerable discussion, donors agreed to establish a dedicated funding mechanism, the DRF on a pilot basis for the ADF XI period. The DRF will support ADF countries to cover rehabilitation and reconstruction financing needs—in ADB's areas of comparative advantage—that may arise after a natural disaster of sudden and unusual proportions. The proposed facility will have the following features: (i) the scope of assistance will be limited to natural disasters; (ii) DRF resources will come from 3% of the PBA resources for ADF-only countries, and hard-term ADF resources and OCR for blend countries. However, blend countries, when affected by natural disasters would also receive additional ADF resources up to their contribution to the DRF; (iii) DRF operations would be closely coordinated with those of the World Bank Crisis Response Window and other development partners; and (iv) if unused, ADF resources from the DRF would be returned to the PBA pool at the end of each biennium. Triggers, criteria for levels of support, and the donor coordination process will be presented to the Board of Directors for its consideration in 2012. ADB will report on its initial experience with the DRF at the ADF XI midterm review. The future of the DRF will be discussed during the ADF XII replenishment process.

E. Support for Post-Conflict and Reengaging Countries

60. Under ADF X, two countries were considered as post-conflict (Timor-Leste and Afghanistan), and received exceptional post-conflict support. Timor-Leste received part of its ADF assistance on a grant basis without a volume discount, even though the country is not considered at risk of debt distress. The percentage of ADF grants for Timor-Leste was set to gradually decrease from 100% during 2009–2010 to 67% during 2011–2012 and 33% during 2013–2014. The size of the ADF allocation to Timor-Leste is based on the PBA formula and the set-aside for Pacific countries.

61. Timor-Leste's gross national income (GNI) per capita increased eightfold between 2000 and 2008, and has exceeded the operational cutoff for IDA eligibility since 2007. The country's economic growth prospects are good, supported by strong public investments financed through petroleum revenues. Its external liquidity is very high. The ADB Board of Directors approved the reclassification of Timor-Leste from an ADF-only to a blend country effective 28 October 2011. IDA assessed the country to be at low risk of debt distress in 2010 and stopped providing IDA grants. IDA will end Timor-Leste's post-conflict phaseout in June 2012, as scheduled. In light of these developments, ADF donors agreed to bring forward the end of the phaseout period from 2014 to 2012 and to end Timor-Leste's special post-conflict status and assistance under ADF XI.

62. Under ADF X, Afghanistan received exceptional post-conflict assistance on top of its PBA allocation. During the ADF X replenishment discussions, donors agreed to phase out the post-conflict premium over 6 years starting in 2009. However, with Afghanistan continuing to face strong development needs, donors decided in May 2010 to suspend the phaseout for 2011–2012. Considering the need for continuing support of the country's development, donors agreed during ADF XI discussions on an extended phaseout period that would resume the phaseout in 2013 and end it in 2018. A paper for consideration by the Board of Directors will be prepared for this purpose. Exceptional post-conflict assistance to Afghanistan will continue to follow the

framework as defined in ADF X. A progress report on the development effectiveness of ADB operations in Afghanistan will be prepared for the ADF XI midterm review.

63. During ADF XI, the enhanced assistance for Afghanistan will focus on selected areas considered to be critical for post-conflict reconstruction and development including (i) expanding the provision of and access to energy; (ii) expanding transport facilities through road construction; (iii) improving water supply for agricultural development; and (iv) strengthening governance, capacity, and institutions. ADB will also work closely with Afghanistan to ensure that operation and maintenance related to its infrastructure projects is carried out.

64. Donors agreed that ADB should closely monitor the evolving situation in Myanmar and consult them on its possible reengagement once the situation is deemed conducive for ADF support.

F. Treatment of Grants

65. In light of the fiscal constraints in donor countries, some donors suggested that grant financing be reviewed under ADF XI. The majority of donors did not support changes that would move away from the debt sustainability framework for low-income countries of the World Bank and International Monetary Fund. Consequently, under ADF XI, ADB will continue to provide grant financing to eligible ADF-only countries under the framework. However, the proportion of grants under ADF XI is expected to decline slightly compared with ADF X because of (i) donors' decision to bring forward the end of the phaseout period from 2014 to 2012 and to end Timor-Leste's special post-conflict status and assistance, and (ii) the resumption of the post-conflict phaseout for Afghanistan. ADB will harmonize its approach with the outcome of the recent review of the debt sustainability framework by the World Bank and International Monetary Fund.⁵¹

G. Projected Demand and Indicative Operational Program under Asian Development Fund XI

66. In projecting the demand for ADF XI resources, an analysis of the graduation status of ADF recipients has been undertaken to determine their continued eligibility for ADF resources. The analysis indicates that all countries with access to ADF resources during the ADF X period will continue to require ADF assistance under ADF XI (Appendix 4). Projected demand in 2013–2016 totals SDR8.25 billion (\$12.9 billion). In response to this demand, ADB will deliver an operational program in line with the resources available. The largest share (about 85%) will be allocated to countries through PBAs, including a 4.5% set-aside for Pacific countries and a 3.0% reserve for disaster response. Another 10% of the ADF X program will be earmarked for subregional projects. The remaining 5% will be for the post-conflict premium for Afghanistan. The sector distribution and the expected outputs of these indicative project pipelines are in Appendix 5. The actual investments will be based on availability of funds, performance-based country allocations, and the country assistance programming process.

⁵¹ World Bank and International Monetary Fund. 2012. *Revisiting the Debt Sustainability Framework for Low-Income Countries*. Washington D.C.

V. ASIAN DEVELOPMENT FUND XI FINANCIAL MANAGEMENT AND REPLENISHMENT FRAMEWORK

A. Financial Management Issues: Enhancement Options

67. In connection with the difficult financial outlook for ADF XI, ADF donors agreed on a number of options to enhance ADF internal financial resources.

68. **Exercising accelerated repayment.** ADF loan agreements include a provision allowing ADB to modify the loan repayment terms of a borrower (i) whose GNI per capita⁵² exceeded a specific threshold for 5 consecutive years, and (ii) that has achieved the capacity to borrow from OCR. This provision gives ADB the option to modify the loan agreement by increasing the principal due on each loan service payment date by 100% until the principal amount of the loan has been fully repaid. This is called the principal option. However, ADB may instead—at the request of the eligible borrower—increase the interest rate to the extent as to yield the same grant element⁵³ as would be obtained under the principal option. This is called the interest option. ADB may also agree on a combination of these two options. If the borrower's economic situation deteriorates significantly, at the request of the borrower and upon approval by the Board, ADB could revert the lending terms back to the original terms.

69. Donors endorsed exercising the accelerated repayment clause for outstanding loans to eligible ADF graduates, except for the Cook Islands. Subsequently, the ADB's Board of Directors approved on 20 January 2012 the exercise of the accelerated repayment clause for the outstanding ADF loans to the three ADF graduates: Indonesia, Kazakhstan, and the Philippines.⁵⁴ All three countries have opted for the principal option, which increased resources by SDR477 million.

70. **Hardening lending terms for blend countries.** Donors agreed with ADB's proposal to harmonize lending terms of blend borrowers with those of IDA, which entails (i) adjusting the loan tenor from 24 years for program loans or 32 years for project loans to 25 years for all loans,⁵⁵ (ii) shortening the grace period from 8 years to 5 years, and (iii) increasing loan charges from a step-up rate of 1% during grace period and 1.5% after grace period to 2% throughout the loan tenor. These changes will be implemented starting from 2013. ADB consulted with blend borrowers on the proposed changes. Responses were mixed. Although a number of borrowers supported the proposed terms, a few countries objected to the changes, mainly because they are still classified by the World Bank as IDA-only countries while they are designated as blend countries by ADB.⁵⁶ However, an analysis of the economic impact shows that the overall increases in loan service payments over the loan tenor are not economically significant to eligible borrowers. The adjustment of the lending terms for blend borrowers is estimated to increase ADF XI financial resources by about SDR80 million. The projected increase would be more substantial for future replenishments.

⁵² The provision of the loan agreement and the Special Operations Loan Regulations refer to "per capita gross national product (GNP)." However, the 1998 graduation policy provides that per capita GNI be used in place of per capita GNP following the World Bank's adoption of GNI in place of GNP. ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

⁵³ The grant element is the level of concessionality of a loan measured by the difference between the sum of the present values of loan disbursements and loan service payments, expressed as a percentage of the present value of loan disbursements.

⁵⁴ ADB. 2011. *Accelerated Repayments and Voluntary Prepayments of Asian Development Fund Loans*. Manila.

⁵⁵ The hardening of lending terms does not affect the lending terms of emergency assistance loans and current policies on eligibility to (i) ADF resources, and (ii) hard-term ADF loans.

⁵⁶ Such countries include Bangladesh, the Marshall Islands, and the Federated States of Micronesia.

71. **Pro-rata provision.** Delayed payments of ADF donor contributions⁵⁷ and the proportionate restriction on the use of payments due to the pro-rata exercise reduce available resources for ADF recipients and complicate operational planning within ADB. In addition, there was broad consensus among donors that the pro-rata provision has not served its intended purpose of encouraging donors with qualified contributions and delayed payments to accelerate their budgetary appropriation. Hence, donors urged ADB to explore credible alternative options to encourage donors with arrears to deliver their commitments. ADB presented the following alternatives: (i) a procurement restriction for ADF operations, (ii) a procurement restriction on consulting services only for Technical Assistance Special Fund (TASF) operations, (iii) a penalty charge, and (iv) a possible link between ADF contributions and voting rights. Donors' views were mixed about these alternatives. Some measures would be extremely complex to implement, while others might have some unintended consequences detrimental to achieving their intended objectives. Donors agreed to maintain the status quo for ADF XI and asked ADB to start discussions on possible replacement measures immediately after the ADF XI replenishment negotiation with the target adoption of a credible and acceptable alternative by ADF XII.

72. **Adjustment to the prudential minimum liquidity.** Under the 2007 ADF financial framework, the prudential minimum liquidity (PML) requirement was set at 100% of the next year's projected cash outflows.⁵⁸ Donors agreed to reduce the PML requirement because certain ADF borrowers had converted their ADF legacy loans to special drawing rights (SDR) in 2008–2009, thereby lowering foreign exchange risk. An adjustment of the PML components to reflect the percentage of converted legacy loans was reassessed as part of the ADF XI replenishment exercise, and the possibility of adjusting the PML formula downwards from 100% to 81% of the next year's projected cash outflows was raised. ADB confirmed that the adjusted PML level would be sufficient to meet disbursements and cover administrative expenses over the ADF loan tenor, as well as provide sufficient liquidity even during adverse financial circumstances, as envisaged in the 2007 ADF financial framework. Adjusting the PML requirement to 81% of the next year's projected cash outflows provides a substantial SDR502 million in additional internal resources for ADF XI.

B. Burden Sharing and Replenishment Size

73. Donors agreed on a total replenishment size of SDR7.93 billion, consisting of SDR7.69 billion for ADF XI and SDR0.24 billion for the fifth replenishment of the TASF. This is equivalent to \$12.40 billion, based on the average daily exchange rates from 1 September 2011 to 10 January 2012.

74. The replenishment will be financed from the following sources: (i) SDR2.97 billion from new donor contributions; (ii) SDR4.65 billion from internal resources derived from reflow-based resources (SDR3.34 billion), liquidity drawdown of the remaining usable liquidity (SDR0.25 billion),⁵⁹ and additional resources from the three enhancement options: (a) accelerated repayment (SDR0.48 billion), (b) hardening of lending terms of blend borrowers (SDR0.08 billion), and (c) adjustment of the PML (SDR0.50 billion); and (iii) net income transfer from OCR (SDR0.31 billion) subject to annual approvals by ADB's Board of Governors. New donor contributions account for about 37.5% of the total replenishment, representing an 11.6% increase in SDR terms from the ADF X level. Kazakhstan is a new donor to the ADF. Internal resources make up 58.6% of the total replenishment size, marking an increase of 9.3% in SDR terms compared with ADF X. The ADF XI financing framework is provided in Table 1.

⁵⁷ Referred to donors who submitted qualified instrument of contributions.

⁵⁸ ADB. 2007. *Review of the Financial Framework of the Asian Development Fund*. Manila.

⁵⁹ Of the SDR1.45 billion in usable liquidity identified from the review of the ADF financial framework, SDR1.2 billion was released in ADF X. The remaining usable liquidity is included in the internal resources available for ADF XI.

Table 1: Asian Development Fund XI Financing Framework

Donor	ADF XI Burden Share (%)	I. Total Contribution			ADF XI Burden Share (%)	II. HIPC Compensation			ADF XI Burden Share (%)	III. Grant Compensation			ADF XI Burden Share (%)	IV. ADF XI Basic Contribution (I – II – III)			
		SDR	\$	Unit of Obligation		SDR	\$	Unit of Obligation		SDR	\$	Unit of Obligation		SDR	\$	Unit of Obligation	
Austria ^a	0.74	27,634,949	43,211,112	€	32,000,000	1.00	146,898	229,696	170,102	1.00	627,617	981,367	726,752	0.74	26,860,434	42,000,049	31,103,147
Belgium ^{a,b}	0.60	22,267,724	34,818,704	€	25,785,000	0.87	128,578	201,049	148,887	0.87	549,342	858,973	636,113	0.59	21,589,804	33,758,681	25,000,000
Canada ^b	3.33	123,679,914	193,390,860	Can\$	196,750,378	4.91	723,845	1,131,832	1,151,494	4.91	3,092,594	4,835,703	4,919,707	3.29	119,863,475	187,423,325	190,679,176
Denmark ^{a,b}	0.43	15,948,252	24,937,325	DKr	137,408,931	0.47	68,994	107,882	594,450	0.47	294,775	460,923	2,539,763	0.43	15,584,483	24,368,520	134,274,717
Finland ^{a,b}	0.50	18,704,888	29,247,711	€	21,659,400	0.79	116,627	182,363	135,049	0.79	498,285	779,139	576,992	0.50	18,089,975	28,286,209	20,947,359
France ^{b,c}	2.22	82,386,835	128,823,351	€	95,400,165	3.79	559,713	875,189	648,122	3.79	2,391,347	3,739,206	2,769,070	2.18	79,435,775	124,208,955	91,982,973
Germany ^a	3.34	124,188,871	194,186,686	€	143,805,000	5.26	775,700	1,212,916	898,225	5.26	3,314,144	5,182,128	3,837,626	3.30	120,099,027	187,791,643	139,069,149
Ireland ^c	0.46	17,271,843	27,006,945	€	20,000,000	0.98	144,024	225,202	166,774	0.98	615,338	962,167	712,533	0.45	16,512,481	25,819,576	19,120,693
Italy	1.58	58,724,267	91,823,613	€	68,000,000	3.27	482,563	754,555	558,786	3.27	2,061,729	3,223,802	2,387,387	1.54	56,179,975	87,845,256	65,053,827
Luxembourg ^a	0.20	7,254,174	11,342,917	€	8,400,000	0.11	16,085	25,152	18,626	0.11	68,724	107,460	79,580	0.20	7,169,364	11,210,305	8,301,794
Netherlands ^a	1.39	51,815,530	81,020,835	€	60,000,000	2.55	376,007	587,939	435,398	2.55	1,606,471	2,511,943	1,860,220	1.37	49,833,052	77,920,953	57,704,382
Norway ^a	0.77	28,684,054	44,851,534	NKr	257,400,000	1.06	155,768	243,565	1,397,805	1.06	665,512	1,040,622	5,972,059	0.77	27,862,774	43,567,347	250,030,137
Portugal ^a	0.01	319,767	500,000	\$	500,000	0.01	1,269	1,984	1,984	0.01	5,420	8,475	8,475	0.01	313,078	489,541	489,541
Spain ^{b,d}	1.15	42,754,030	66,851,911	€	49,507,200	3.05	450,392	704,251	521,533	3.05	1,924,280	3,008,881	2,228,228	1.11	40,379,358	63,138,779	46,757,439
Sweden	1.37	50,939,341	79,650,791	SKr	535,867,654	1.49	220,371	344,580	2,318,236	1.49	941,523	1,472,203	9,904,561	1.37	49,777,447	77,834,008	523,644,856
Switzerland ^a	0.91	33,957,611	53,097,479	SwF	48,000,000	1.13	167,190	261,425	236,328	1.13	714,312	1,116,927	1,009,699	0.91	33,076,109	51,719,127	46,753,973
Turkey ^a	0.10	3,703,419	5,790,814	TL	10,600,000	0.14	20,592	32,199	58,939	0.14	87,979	137,568	251,816	0.10	3,594,847	5,621,047	10,289,244
United Kingdom ^a	5.41	201,195,908	314,597,970	£	200,000,000	5.53	815,357	1,274,925	810,511	5.53	3,483,578	5,447,062	3,462,872	5.41	196,896,973	307,875,983	195,726,617
United States ^{a,b}	6.19	229,976,209	359,600,000	\$	359,600,000	10.92	1,610,200	2,517,772	2,517,772	10.92	6,879,506	10,757,070	10,757,070	6.08	221,486,504	346,325,157	346,325,157
Nonregional Subtotal	30.70	1,141,407,587	1,784,750,559		47.32	6,980,174	10,914,479		47.32	29,822,479	46,631,620		30.34	1,104,604,935	1,727,204,460		
Australia ^{a,e}	9.00	334,638,006	523,253,371	A\$	514,759,590	9.00	1,327,683	2,076,019	2,042,320	9.00	5,672,468	8,869,698	8,725,719	9.00	327,637,854	512,307,654	503,991,550
Brunei Darussalam ^b	0.11	4,003,429	6,259,922	B\$	8,000,000	0.13	19,514	30,512	38,994	0.13	83,371	130,363	166,600	0.11	3,900,544	6,099,046	7,794,406
China, People's Republic of Hong Kong, China ^f	0.77	28,779,003	45,000,000	\$	45,000,000						522,305	816,697	816,697	0.78	28,256,698	44,183,303	44,183,303
Japan ^a	35.00	1,301,370,023	2,034,874,222	¥	157,078,967,822	35.00	5,163,213	8,073,407	623,214,168	35.00	22,059,598	34,493,270	2,662,654,609	35.00	1,274,147,211	1,992,307,545	153,793,099,044
Kazakhstan	0.09	3,325,574	5,200,000	\$	5,200,000	0.09	13,194	20,631	20,631	0.09	56,372	88,145	88,145	0.09	3,256,008	5,091,224	5,091,224
Korea, Republic of ^b	2.89	107,398,549	167,932,667	W	191,256,627,600	3.35	494,193	772,740	880,065,345	3.35	2,111,419	3,301,499	3,760,039,753	2.88	104,792,937	163,858,428	186,616,522,502
Malaysia	0.16	6,125,507	9,578,087	RM	30,000,000	0.14	21,050	32,914	103,092	0.14	89,934	140,624	440,456	0.17	6,014,523	9,404,549	29,456,452
New Zealand ^a	0.56	20,877,683	32,645,180	NZD	41,535,962	0.76	112,598	176,063	224,013	0.76	481,070	752,220	957,085	0.56	20,284,015	31,716,897	40,354,865
Singapore	0.15	5,577,300	8,720,890	\$	8,720,890	0.13	19,302	30,182	30,182	0.13	82,469	128,952	128,952	0.15	5,475,529	8,561,756	8,561,756
Taipei, China ^a	0.40	14,732,690	23,036,623	NT\$	694,000,000	0.51	75,780	118,493	3,569,711	0.51	323,767	506,256	15,251,432	0.39	14,333,142	22,411,874	675,178,857
Thailand	0.08	3,104,957	4,855,036	B	150,000,000	0.08	11,585	18,115	559,680	0.08	49,497	77,396	2,391,208	0.08	3,043,875	4,759,524	147,049,112
Regional Subtotal	49.22	1,829,932,720	2,861,355,998		49.20	7,258,114	11,349,077		50.03	31,532,271	49,305,119		49.20	1,791,142,335	2,800,701,801		
Total Burden																	
A. Shared Contribution	79.91	2,971,340,307	4,646,106,557		96.52	14,238,287	22,263,555		97.35	61,354,749	95,936,740		79.54	2,895,747,270	4,527,906,262		
B. Financing Gap	20.09	746,859,758	1,167,819,792														
C. Burden Sharing Basis	100.00	3,718,200,065	5,813,926,349		100.00	14,752,038	23,066,877		100.00	63,027,423	98,552,200		100.00	3,640,420,603	5,692,307,272		
D. Total Contributions (A)		2,971,340,307	4,646,106,557														
E. Internal Resources		4,648,857,397	7,269,139,380														
F. OCR Transfer^g		306,976,030	480,000,000														
Total Replenishment																	
G. Size (D + E + F)		7,927,173,734	12,395,245,937														

ADF = Asian Development Fund, HIPC = Heavily Indebted Poor Country initiative, OCR = ordinary capital resources, SDR = special drawing rights.

Note: Exchange rates are based on the Asian Development Bank (ADB)'s average daily exchange rates from 1 September 2011 to 10 January 2012.

^a Contributions are subject to cabinet/government/parliamentary approval.

^b Some donors indicated their intention to participate in the ADF XI accelerated note encashment program as follows: (i) Belgium, Canada, Finland, Republic of Korea, and Spain to increase their burden shares; (ii) Brunei Darussalam, Denmark, and France to meet their burden shares; and (iii) the United States to reduce its arrears.

^c France will make a net payment of €92.5 million and use the investment income to be earned from the accelerated encashment to meet its burden share.

^d Spain will make a net payment of €48.0 million and use the investment income to be earned from the accelerated encashment to increase its burden share.

^e Australia indicated that it intends to confirm an additional contribution of 2% burden share by 30 June 2013 subject to the ADB's achievement of certain operational and management reforms. The supplemental payment will count towards Australia's final burden share in ADF XI.

^f Hong Kong, China had indicated its intention to contribute to the replenishment subject to seeking approval of the domestic legislature, with the amount to be confirmed.

^g Subject to the approval of ADB's Board of Governors.

Source: ADB's Treasury Department.

C. Encashment Schedule

75. **Standard encashment schedule.** Based on the projected disbursement pattern, a 9-year standard encashment schedule for ADF XI donor contributions has been derived (Table 2). Donors agreed to adopt the proposed 9-year standard encashment schedule.

Table 2: Standard Encashment Schedule
(% of Total Donor Contributions)

Year	ADF X	ADF XI			
	Weighted Standard Encashment	Loans and Grants	TASF	HIPC and Grant	Weighted Standard Encashment
1	3.3	2.7	25.0	25.0	5.1
2	7.0	7.1	25.0	25.0	9.0
3	11.0	11.1	25.0	25.0	12.6
4	15.2	15.5	25.0	25.0	16.6
5	15.9	16.9			15.1
6	15.4	16.4			14.7
7	13.7	14.7			13.0
8	10.9	10.0			8.9
9	7.6	5.5			5.0
Total	100.0	100.0	100.0	100.0	100.0

ADF = Asian Development Fund, HIPC = Heavily Indebted Poor Countries,
TASF = Technical Assistance Special Fund.

Source: Asian Development Bank Treasury Department.

76. **Accelerated note encashment schedule.** Donors also agreed to include an accelerated note encashment (ANE) program in line with past replenishments (Table 3). Under the program, donors may opt to accelerate their encashment schedules and use the expected investment income earned to (i) meet or increase their burden shares; or (ii) provide supplemental contributions to lower the financing gap, without attribution to their individual burden share. Donors also agreed to use the projected investment income from the ANE program of ADF XI to pay for contribution arrears in past and current replenishments. This new feature allows donors that are in arrears and willing to make cash payments faster than the standard encashment schedule to gradually reduce their arrears through the use of the ANE investment income. To implement this new feature, the relevant Board of Governors' resolutions (i.e., ADF VIII–X) will be amended. A uniform SDR-based discount rate of 1.6% per year will be applicable to all ANE participants regardless of currencies contributed.

Table 3: Accelerated Note Encashment
(% of Total Donor Contributions)

Year	TASF at 3% of Total Replenishment Size				
	Standard Encashment Rates	Accelerated Note Encashment Rates			
		Option 1 (1 year)	Option 2 (2 years)	Option 3 (3 years)	Option 4 (4 years)
(a)	(b)	(b)	(b)	(b)	
1	5.1	100.0	50.0	33.0	25.0
2	9.0		50.0	33.0	25.0
3	12.6			34.0	25.0
4	16.6				25.0
5	15.1				
6	14.7				
7	13.0				
8	8.9				
9	5.0				
I. Total	100.0	100.00	100.00	100.00	100.00
II. Discount Rate	1.60	1.60	1.60	1.60	1.60
III. NPV	93.20	98.43	97.65	96.87	96.13
IV. Donors participating in ANE will receive either a credit or a discount (% of face value):					
(i) Credit [(III.b – III.a) / III.a]		5.61	4.77	3.93	3.14
(ii) Discount [(III.b – III.a) / III.b]		5.31	4.56	3.79	3.04

ANE = accelerated note encashment, NPV = net present value, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank Treasury Department.

D. Financing Technical Assistance and Technical Assistance Special Fund Replenishment

77. Donors recognized the importance of TA resources for ADF countries, as they facilitate capacity development, knowledge building, and project preparation. ADB has been providing more intensive TA support to ADF countries with help from the TASF. The ratio of TA to loans and grants in ADF-only countries is four times as large as that in OCR countries, although the ratio for both groups of countries has decreased over the last decade. Among ADF countries, those classified as FCAS receive relatively more TA support. Responding to strong demand, ADB's overall TA and TASF operations have been growing in recent years, but not as fast as grants and loans operations. In its recent SES on ADF operations, IED raised this issue as a potential area of concern that could affect the quality of project design and implementation in ADF countries.

78. Demand for TA resources is expected to remain strong during the ADF XI period. The number of ADF projects is expected to increase by 6.5% from ADF X to ADF XI. Adequate TA resources will be required to support effective ADF operations, especially in FCAS. ADB's growing RCI program will also require more TA support. ADB recently increased TA funding from other financing sources and will keep pursuing such efforts. Nevertheless, the TASF is expected to remain the most critical, predictable, and stable source of TA funding under ADF XI. Donors supported the replenishment size of the TASF replenishment under ADF XI at 3% of the total

size of ADF XI. Donors also encouraged ADB to explore providing TA on a cost recovery basis as appropriate, as well as preparing a strategy for TA that focuses on the criteria for allocating TA funds, among other things. Since 2008, ADB has adopted a set of reform measures to improve the criteria and effectiveness of TA allocation, including the establishment of a TA strategic forum, which regularly discusses strategic priorities of TA. ADB is monitoring and assessing the results of implementing these reforms and will continue to improve the strategic relevance of TA operations.

VI. MANAGING ASIAN DEVELOPMENT FUND XI IMPLEMENTATION

A. Results Management System

1. Results Framework

79. In January 2012, ADB initiated a review of its corporate results framework to further strengthen its results management system. The review assesses the strengths and weaknesses of the results framework as a performance management tool, identifies areas needing improvement, and recommends specific changes. At various stages of the review, ADB will consult key stakeholders, including ADF donors and the Board of Directors. ADB expects to adopt a revised ADF results framework—a subset of ADB’s corporate results framework—by January 2013, which will be used to measure the performance of ADF XI.

80. The review’s underlying objective is to ensure the continued relevance and reinforcement of the results framework as a corporate performance management tool. To support this, ADB will apply the following six core guiding principles in recommending improvements to its results framework:

- (i) ensure alignment with Strategy 2020 and the overall strategic focus of ADF XI,
- (ii) keep a common results framework for ADF and ADB,
- (iii) ensure continued value as a practical corporate-level management tool by avoiding undue proliferation of performance indicators,
- (iv) select performance indicators relevant to corporate-level decision making,
- (v) retain sufficient data comparability to gauge progress over time, and
- (vi) complement performance indicator reporting with more detailed analysis on disaggregated data and qualitative assessments in the DEfR.

81. While the scope of changes to the results framework would depend on the review’s final findings, many ADF donors have urged ADB to improve the measurement in the following areas: (i) operational outcomes, including those of policy-based operations; (ii) inclusive growth; (iii) climate change; (iv) private sector development; (v) gender equity and mainstreaming; (vi) governance and transparency; (vii) knowledge and innovation; (viii) partnerships and aid effectiveness; (ix) decentralization; (x) gender balance at ADB; and (xi) budget efficiency.⁶⁰ ADB will seek harmonization of its results framework with other multilateral development banks, as appropriate. The review will examine ways to better capture the performance of ADB and ADF operations in these areas, and propose specific improvements (Appendix 6).

⁶⁰ These areas reflect issues most commonly raised by ADF donors through the online forum, which was open from December 2011 to January 2012.

2. Assessing and Reporting Progress during Asian Development Fund XI

82. ADB will continue to assess and report on progress in implementing the ADF program through the annual DEfR. Information on ADF operations will continue to be presented separately, whenever feasible, along with ADB-wide information. The review will be guided by the revised results framework (paras. 79–81), and specific benchmarks and targets established for the indicators. As in the past, ADB Management will use the review to identify areas of ADF operations needing adjustment, which will then be reflected in the 3-year rolling work program and budget framework. The review will be submitted annually to the Board's Development Effectiveness Committee for discussion. Following that discussion, the review and a summary by the committee chair, will be submitted for the Board to discuss and take appropriate actions. Results of the review will be presented during ADB's annual meeting.

83. It is proposed that ADF donors and ADB Management continue to review the implementation of ADF annually, on the sidelines of the ADB annual meeting. The meetings will discuss progress on the ADF XI implementation plan (Appendix 3).

B. Planning for Asian Development Fund XI Midterm Review

84. It is proposed that the ADF XI midterm review be held during the fourth quarter of 2014. The list of topics to be discussed will be finalized in the 2014 annual donor consultation meeting. Tentative topics include

- (i) ADF long-term strategic vision
- (ii) Experience with implementing the DRF
- (iii) Alternatives to pro rata provision
- (iv) IED evaluation of safeguard implementation
- (v) IED evaluation of governance operations
- (vi) Progress report of ADB operations in Afghanistan
- (vii) Update on availability and utilization of ADF XI resources
- (viii) ADF and infrastructure, including capacity development

**CORE OUTPUTS EXPECTED DURING ASIAN DEVELOPMENT FUND XI, TO BE
DELIVERED BY PROJECTS APPROVED IN 2007–2010**

Indicator	Programmed Outputs 2013–2016^a
Education	
Classrooms built or upgraded (number)	12,800
Teachers trained (number)	211,200
Students benefiting from school improvement programs or direct support (number)	2,577,000
Energy	
Installed energy generation capacity (MW equivalent)	1,900
Transmission lines installed or upgraded (km)	2,300
Distribution lines installed or upgraded (km)	4,600
New households connected to electricity (number)	346,300
Greenhouse gas emission reduction (tCO ₂ -equiv/yr)	1,191,000
Additional capacity installed using renewable energy (MW) ^b	116
Energy saved (GWh-equiv/yr) ^b	7,719,952
Finance	
Microfinance accounts opened or end borrowers reached (number)	325,000
Small and medium-sized enterprise loan accounts opened or end borrowers reached (number)	57,600
Transport	
Expressways built or upgraded (km)	0
National highways, provincial, district, and rural roads built or upgraded (km)	15,700
Railways constructed and/or upgraded (km)	723
Beneficiaries from road projects (number)	20,852,000
Movement of people and goods on roads built or upgraded (daily vehicle-km) ^b	16,150,000
Movement of people and goods on railways (daily converted ton-km) ^b	746,375,000
Urban rail and bus based mass transit systems built or upgraded (km) ^b	2
Passengers on urban rail and bus based mass transit systems built or upgraded in first full year of operation (average daily) ^b	4,500,000
Water	
Water supply pipes installed or upgraded: length of network (km)	8,800
New households served with water supply (number)	562,000
Wastewater treatment capacity added (m ³ /day)	376,800
New households served with sanitation (number)	444,600
Land improved through irrigation services, drainage, and flood management (hectares)	626,200

GWh-equiv/yr = gigawatt-hour equivalent per year, km = kilometer, MW = megawatt, m³/day = cubic meters per day, tCO₂-equiv/yr = tons of carbon dioxide equivalent per year.

^a Estimates are based on outputs to be delivered by projects approved in 2007–2010. Outputs are assumed to be delivered and reported 6 years after they were programmed.

^b ADB is collecting data for these new indicators for possible inclusion in the results framework.

Source: Asian Development Bank estimates.

**EXTERNAL ASSESSMENTS OF ADB'S DEVELOPMENT EFFECTIVENESS:
SUMMARY FINDINGS**

Document	Findings Relevant to ADB
<p><i>Multilateral Organization Performance Assessment Network (MOPAN) Common Approach Report on ADB (2011)</i></p>	<p>Strategic Management: ADB ranked adequate or higher in all key indicators (such as ADB's direction for results, corporate and country focus on results, focus on thematic priorities).</p> <p>Operational Management: ADB's score showed mixed results; with adequate to strong scores in aid allocation decisions, financial accountability, performance-oriented programming, and delegating decision making. Flags were noted on (i) linking aid management to performance, and (ii) managing human resources.</p> <p>Relationship Management: ADB scored adequate or higher in all key indicators (supporting national plans, adjusting procedures, using country systems, contributing to policy dialogue, and harmonizing procedures).</p> <p>Knowledge Management: This is a clear area of strength for ADB (monitoring external results, presenting performance information, and disseminating lessons learned).</p>
<p><i>UK Multilateral Aid Review Assessment (2011)</i></p>	<p>Overall, the review assessed ADB to be very good value for money. In addition, ADB's contribution to UK development objectives and organizational strength were considered strong.</p>
<p><i>CIDA Strategy for Engagement with ADB (February 2011)</i></p>	<p>Relevance: ADB was considered a relevant partner for CIDA (supports Canada's development objectives; major role in fragile countries and emerging economies); closely aligned with CIDA priorities on sustainable economic growth, food security, infrastructure, education, energy, environment (including climate change), and water (irrigation, water supply and sanitation).</p> <p>Institutional Effectiveness: Overall, ADB's institutional and development effectiveness was considered strong. ADB has sustained progress, especially on development effectiveness (particularly noting corporate results management system), harmonization with other development partners, and promoting institutional learning.</p>
<p>N. Birdsall, H. Kharas, and R. Perakis (2011). <i>Quality of Official Development Assistance Assessment</i>. Brookings—Center for Global Development.</p>	<p>Maximizing Efficiency: ADB ranked third of 31. The AfDB was ranked first, followed by the GFATM.</p> <p>Fostering Institutions: ADB ranked sixth of 31 and third among the eight MDBs assessed, following IDA and AfDF.</p> <p>Reducing Burden: ADB ranked sixth of 31. Higher-ranked (in order) were IDB (Special), Ireland, IDA, New Zealand, and Denmark.</p> <p>Transparency and Learning: ADB ranked 22 of 31. IDA was first-ranked, overall, followed by GFATM and EC. ADB's weak overall ranking is attributed to low scores in 4 sub-indicators on the implementation of IATI data reporting standards, recording of project title and description, detail of project description, and completeness of project-level commitment data.</p>

Document	Findings Relevant to ADB
<p>N. Birdsall, H. Kharas, and A. Mahgoub (2010). <i>Quality of Official Development Assistance Assessment</i>. Brookings—Center for Global Development.</p>	<p>Maximizing Efficiency: ADB ranked third of 31. The GFATM ranked first, followed by IDA.</p> <p>Fostering Institutions: ADB ranked third of 31. Other top-ranking donors (in order) were Ireland, IDA, Denmark, and the Netherlands.</p> <p>Reducing Burden: ADB ranked tenth of 31. Higher-ranked (in order) were IDA, IFAD, Ireland, AfDF, UK, and Finland.</p> <p>Transparency and Learning: ADB ranked 29 of 31. Top-ranked were Australia, EC, Ireland, Denmark, and IDA. ADB performance was particularly weak in the sub-indicators on recording project titles and descriptions, reporting of project disbursements, and completeness of project-level data.</p>
<p>S. Knack, H. Roger, and N. Eubank (2010). <i>Aid Quality and Donor Rankings. Policy Research Working Paper 5290</i>, World Bank.</p>	<p>Of 38 donors covered by the study, ADB first, followed by the World Bank, Denmark, Ireland, and the GAVI. The ranking was based on four dimensions on aid selectivity, alignment, harmonization, and specialization.</p>
<p>What does an effective multilateral donor look like? (ODI, 2010)</p>	<p>The agencies considered most effective were AfDB and the World Bank, followed by the UNDP and ADB.</p>
<p><i>Aid Transparency Assessment: Publish What You Fund</i> (2010)</p>	<p>ADB's overall score on transparency was above donor average. Other MDBs in the above-average category included World Bank, AfDB, IDB, Netherlands, and UK.</p>
<p>W. Easterly, and T. Pfütze (2008). <i>Where Does the Money Go? Best and Worst Practices in Foreign Aid. Journal of Economic Perspectives</i> 22 2: 29–52.</p>	<p>ADB ranked fourth of 37, using four dimensions of best aid practice as indicators (specialization, selectivity, ineffective aid channels, and overhead costs).</p>

ADB = Asian Development Bank, ADF = Asian Development Fund, AfDB = African Development Bank, AfDF = African Development Fund, CIDA = Canadian International Development Agency, CODA = Connection Oriented Data Acknowledge, DFID = Department for International Development, EC = European Commission, GAVI = Global Alliance for Vaccines and Immunization, IATI = International Aid Transparency Initiative, IDA = International Development Association, IDB = Inter-American Development Bank, IFAD = International Fund for Agricultural Development, MDB = multilateral development bank, MOPAN = Multilateral Organization Performance Assessment Network, ODI = Overseas Development Institute, UK = United Kingdom, UNDP = United Nations Development Programme.

Source: ADB. 2011. ADF XI Role and Priorities. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

ASIAN DEVELOPMENT FUND XI IMPLEMENTATION PLAN

Objective	Key Actions	Reporting Mechanism	Time Frame
I. ADB INTERNAL REFORMS			
A. Improve Project Performance and Outcome Achievement			
1. Strengthen project design, readiness, and implementation	1.1 Implement recommendations from GPIP and report on improving project outcomes, focusing on reinforcing quality assurance, achieving total project readiness, ensuring application of safeguard policy requirements, improving oversight for project and portfolio performance, and promoting efficient procurement	Annual Portfolio Performance Report	Ongoing
	1.2 Introduce a blanket waiver of member country procurement eligibility in cases of cofinancing for ADF-financed operations	Board paper	2012
	1.3 Implement, monitor, and report progress on ADB's safeguard policy statement	Report on the implementation update discussed at the annual consultation meeting with ADF donors	2013
2. Apply lessons in designing and implementing projects	2.1 Update business process and formats of PCRs.	Special evaluation study	2014
		Revised project administration instructions on PCRs	2012
B. Leverage ADB Resources Effectively to Mobilize Additional Investments			
3. Promote private sector development and private sector operations	3.1 Ensure the target of 40% of total private sector operations approvals (by number of projects) in ADF countries by 2015 is maintained	DEfR	2015

Objective	Key Actions	Reporting Mechanism	Time Frame
	3.2 Conduct further due diligence on the use of ADF resources on partial risk and partial credit guarantees	Discussion paper	2012/2013
	3.3 Articulate ADB's approach to leveraging greater private sector resources in the medium term and to achieving the Strategy 2020 private sector development target	WPBF	2012
4. Strengthen PPP activities	4.1 Implement and monitor the PPP operational plan on (i) advocacy and capacity development, (ii) enabling environment, (iii) project development, and (iv) project finance	PPP operation plan progress report	2012 onward
C. Deliver Knowledge and Innovation Better			
5. Develop a new operational approach to knowledge management	5.1 Review ADB's knowledge management action plan and develop new action plan	New knowledge management action plan	2012
6. Improve the management of knowledge and products services	6.1 Define the appropriate tiers and structure of the ADBI, ERD, OREI, and RSDD unified results framework and select relevant indicators	Unified results framework	2012
	6.2 Rationalize institutional arrangements to mobilize and allocate resources for knowledge and products services	New institutional arrangements	2012
	6.3 Complete an IED SES on knowledge management	SES	2012
D. Align Budget and Human Resources with Strategy 2020			
7. Improve staff resources, skills, and incentives	7.1 Continue implementing the <i>Our People Strategy</i> and HRFSF action plan	Quarterly report on status	Ongoing
	7.2 Continue implementing the gender action program III extension (2011–2012), with a focus on (i) increasing recruitment of women international staff, (ii) increasing retention of	Quarterly gender statistics posted on internet and intranet	Ongoing

Objective	Key Actions	Reporting Mechanism	Time Frame
	women international staff, and (iii) strengthening management accountability in addressing organizational gender issues		
	7.3 Conduct 2012 staff engagement survey and implement follow-up actions for improvement	Report on the 2012 staff engagement survey	2012
8. Ensure cost effectiveness and efficiency	8.1 Continue maximizing efficiency gains by (i) improving human resources management, (ii) streamlining business processes, (iii) re-prioritizing work outputs, (iv) outsourcing selected activities wherever cost efficient, (v) improving institutional procurement, (vi) strengthening information and communication technology systems, (vii) introducing environment-conserving and space-optimizing initiatives, and (viii) continuing the organizational review of individual departments to improve efficiency	Budget documents	Ongoing
E. Strengthen Transparency and Accountability			
9. Improve access to information of ADB and its operations	9.1 Implement the new Public Communications Policy	Public Communications Policy progress report	Ongoing
	9.2 Undertake proactive outreach both internally and externally of the revised Policy		
10. Strengthen ADB's Accountability Mechanism Policy	10.1 Implement recommendations of the Accountability Mechanism Policy review	Annual joint accountability mechanism report	2013
	10.2 Undertake proactive outreach both internally and externally of the revised Policy		
F. Improve ADB's Responsiveness			
11. Improve resident mission capacity	11.1 Complete the allocation of 140 additional positions to resident missions (21 international staff, 119 national and administrative staff)	WPBF, budget document	2012

Objective	Key Actions	Reporting Mechanism	Time Frame
	11.2 Strengthen sector focus and expertise on safeguards, gender, governance, FCAS, political economy analysis and policy dialogue, portfolio management, project supervision (including procurement), private sector development (including PPP), finance, and administration functions of resident missions	WPBF, DEfR	Ongoing
	11.3 Expand procurement capacity at resident missions through a procurement accreditation program	Progress report on GPIIP action plan	Ongoing
	11.4 Promote flexible arrangements for posting sector staff to resident missions, and use national staff better for project implementation and monitoring	Progress report on GPIIP action plan	Ongoing
	11.5 Improve coordination internally between sector and thematic teams in headquarters and resident missions, and externally with other development partners	Progress report on GPIIP action plan	Ongoing
	11.6 Upgrade information technology at resident missions	ISTS III monitoring report	Ongoing
	11.7 Conduct an independent evaluation of decentralization	SES	2013
	G. Refine and Further Mainstream Results-based Management Approaches		
12. Further strengthen the results orientation in managing ADB and its operations	12.1 Adopt a new results framework for ADB and ADF operations	New results framework 2013 DEfR	2012 2014
	12.2 Sharpen the results orientation of the corporate, sector, and thematic plans and ensure their regular progress monitoring and reporting	Staff instructions for preparing and monitoring operational plans	2012
	12.3 Reinforce support for developing member country capacity building on MfDR and	DEfR Guidance note	Ongoing

Objective	Key Actions	Reporting Mechanism	Time Frame
	better integrate MfDR in governance and sector assessments underpinning CPSs		
13. Promote more proactive communication on results with external stakeholders	13.1 Ensure easier access to result data on ADB website at the country and project level	ADB website	2012
	13.2 Improve the quality of country development effectiveness briefs to present country-level results data more consistently	Country briefs, DEfR	2012
II. STRATEGIC DIRECTIONS FOR ASIAN DEVELOPMENT FUND XI			
14. Develop a long-term strategic vision for the ADF	14.1 Determine the scope and approach for this exercise in close consultation with ADF donors and shareholders	Discussion papers and interactive consultations with shareholders	2012–2013
	14.2 Based on the above, develop a long-term strategic vision for the ADF		2014–2015
15. Intensify efforts to support inclusive growth.	15.1 Mandate sharpened focus on inclusive growth for CPSs in ADF countries	DEfR	2012
	15.2 Enhance the quality of assessments and strategies for promoting inclusive growth in ADF countries		
	15.3 Improve the measurement of ADB's contributions to inclusive growth	New results framework (recommendation paper)	2012
16. Intensify efforts to support environmentally sustainable growth	16.1 Articulate ADB's environment operational directions to promote transitions to environmentally sustainable growth and strengthen climate change resilience in the region	Environment operational directions	Environment operational directions adopted in 2012, taking into account the Rio+20 process on environment and development
17. Intensify efforts to support gender equality	17.1 Review the robustness of existing gender indicators in the corporate results framework and enhance gender-related indicators. Include indicators for measuring ADB's contribution to gender equality outputs and outcomes at the country level to ensure gender equality outcomes are met	New results framework (recommendation paper)	2012

Objective	Key Actions	Reporting Mechanism	Time Frame
	17.2 Improve the quality of gender action plans and the regular supervision and monitoring of gender action plan implementation	Gender and development plan of action annual implementation progress report, guidance note on project gender action plan implementation	2012 onwards
	17.3 Develop sector-specific toolkits and train staff in gender mainstreaming	Sector gender checklists	Ongoing
18. Intensify ADB's efforts in FCAS	18.1 Continue implementing the recommendations of the IED SES on FCAS, monitor and report progress regularly, and update ADB's approach to FCAS incorporating lessons	Management Action Record System, informal Board seminar, and operational plan on FCAS	Ongoing Q1 2013 2013
19. Address food security issues	19.1 Review the implementation progress of the Sustainable Food Security Plan, especially in reference to ADF countries	Review report	ADF XI midterm review
20. Strengthen the mainstreaming of governance in ADF countries	20.1 Review the second governance and anticorruption action plan approach and implementation, the quality of risk assessments, and the implementation of risk management plans to make them more effective as governance mainstreaming tools	Second governance and anticorruption action plan review report IED review of governance operations	2012 2013
III. USE OF ASIAN DEVELOPMENT FUND XI RESOURCES			
21. Improve the responsiveness of ADF to natural disasters	21.1 Establish a pilot disaster response facility for ADF XI	Board paper	2012
	21.2 Review experience with implementing the disaster response facility	Discussion paper	ADF XI midterm review
	21.3 Review the 2008 action plan for implementing ADB's Disaster and Emergency Assistance Policy	Review report	2013
22. Support for post-conflict countries	22.1 Extend the post-conflict phaseout period for Afghanistan	Board paper	2012

Objective	Key Actions	Reporting Mechanism	Time Frame
	22.2 Review ADF operations in Afghanistan	Discussion paper	ADF XI midterm review
IV. ASIAN DEVELOPMENT FUND XI FINANCIAL MANAGEMENT AND REPLENISHMENT FRAMEWORK			
23. Improve the mobilization of committed ADF resources	23.1 Report regularly on ADF contributions and arrears	Annual financial statements	Ongoing
	23.2 Develop alternatives for the pro-rata provision, for discussion with donors	Discussion papers	2013–2015
24. Improve technical assistance financing and use	24.1 Explore providing technical assistance on a cost-recovery basis, and assess measures implemented under the policy paper ADB. 2008. <i>Increasing the Impact of the Asian Development Bank's Technical Assistance Program. Manila.</i>	Board information paper	2013

ADB = Asian Development Bank, ADBI = Asian Development Bank Institute, ADF = Asian Development Fund, CPS = country partnership strategy, DEfR = development effectiveness review, FCAS = fragile and conflict-affected situation, ERD = Economics and Research Department, GPIP = good project implementation practice, HRFSF = human resource function strategic framework, IED = Independent Evaluation Department, ISTS= information systems and technology strategy, MfDR = managing for development results, OREI = Office of Regional Economic Integration, PCR = project completion report, PPP = public–private partnership, Q = quarter, RSDD = Regional and Sustainable Development Department, SES = special evaluation study, WPBF = work program and budget framework.

^a The specific time frame is indicated for actions to be delivered within a certain time frame. Those actions being mainstreamed into regular business processes are labeled “ongoing.”

Source: Asian Development Bank.

ANALYSIS OF GRADUATION FROM THE ASIAN DEVELOPMENT FUND

1. **Graduation criteria.** Graduation from the Asian Development Fund (ADF) is based on two criteria: per capita gross national income (GNI) and creditworthiness. The per capita GNI operational cutoff for ADF eligibility is the same as that applied by the International Development Association—\$1,175 in 2010 US dollars. The assessment of creditworthiness is based on the approved methodology under the graduation policy.¹ Once a country crosses the ADF GNI per capita graduation threshold, a 4-year watch allows for possible declines in per capita income, and more importantly, for close observation and confirmation of the country's creditworthiness. The graduation projections presented under the various economic growth scenarios assume that a country will graduate 4 years after reaching the threshold.

2. **Economic growth scenarios.** The outlook for graduation remains uncertain because the year of graduation is contingent on a country's growth performance and when it crosses the ADF graduation threshold. The graduation outlook is therefore assessed on the basis of three alternative growth scenarios: (i) a baseline or medium-growth scenario that projects per capita GNI based on gross domestic product growth rates projected by the International Monetary Fund and population growth estimates of the United Nations, (ii) a high-growth scenario based on GNI growth projections one standard deviation above the baseline rates, and (iii) a low-growth scenario based on GNI growth projections one standard deviation below the baseline rates. Each of these scenarios is used to estimate each ADF borrowing country's GNI per capita up to 2024.

3. **Graduation projections.** Under the baseline growth scenario, no country is expected to graduate from ADF eligibility at the end of ADF XI (2013–2016); Viet Nam is expected to graduate at the end of ADF XII (2017–2020); and the Lao People's Democratic Republic (Lao PDR) at the end of ADF XIII (2021–2024). Under the high-growth scenario, no country is expected to graduate during ADF XI; the Lao PDR's graduation is accelerated to ADF XII; and Cambodia, the Kyrgyz Republic, and Pakistan would graduate at the end of ADF XIII. Under the low-growth scenario, the Lao PDR, would no longer graduate within the time frame considered (Table A4).

Table A4: Projected Graduation of Asian Development Fund Countries Based on Economic Growth Scenarios

Timing	Growth Scenarios		
	High	Medium	Low
At end of ADF XI (2016)	No country	No country	No country
At end of ADF XII (2020)	Lao PDR, Viet Nam	Viet Nam	Viet Nam
At end of ADF XIII (2024)	Cambodia, Kyrgyz Republic, Pakistan	Lao PDR	No country

ADF = Asian Development Fund, Lao PDR = Lao People's Democratic Republic.
Source: Asian Development Bank estimates.

4. **Exceptions.** This projection method is not applied for two groups of countries. The first group includes small island economies that are exceptionally vulnerable to shocks and have

¹ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

limited capacity to bear risks.² This group currently includes Kiribati, the Maldives, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu. The second group includes countries that have crossed the ADF GNI per capita graduation threshold, but have not yet graduated from the ADF. This group includes Armenia, Azerbaijan,³ Bhutan, Georgia, India,⁴ Mongolia, Papua New Guinea, Sri Lanka, Timor-Leste, and Uzbekistan. Graduation considerations for these countries should take into account projected creditworthiness of these countries. While Armenia, Georgia, and Sri Lanka were considered as potential candidates for graduation from the ADF, ADB's economic reviews show they face considerable vulnerabilities in their external balance, external debt, and government fiscal balance. Armenia and Georgia were also substantially affected by the global economic crisis. Thus, they will need to receive continued ADF assistance under ADF XI (2013–2016).

² ADB. 1998. *A Graduation Policy for the Bank's DMCs*. Manila.

³ Azerbaijan has no access to the ADF.

⁴ India has no access to the ADF.

INDICATIVE ASIAN DEVELOPMENT FUND XI OPERATIONAL PROGRAM

Table A5.1: Indicative Asian Development Fund XI Operational Program by Sector
(%)

Sector	ADF X (2009–2012)	ADF XI (2013–2016)
Core Sectors	76	83
Infrastructure	63	68
Energy	14	14
Transport	25	24
Water	15	24
Others	8	5
Finance sector development	4	5
Education	9	10
Other Sectors	24	17
Agriculture	5	7
Health	6	2
Others	13	8
Total	100	100

ADF = Asian Development Fund.
Source: Asian Development Bank.

Table A5.2: Outputs Expected from Indicative Asian Development Fund XI Operational Program, to Be Delivered by Projects Programmed in 2013–2016

Indicator^a	Outputs^b
Education	
Classrooms built or upgraded (number)	165,000
Teachers trained (number)	656,000
Students benefiting (number)	9,310,000
Energy	
Installed energy generation capacity (MW)	5,000
Transmission lines installed or upgraded (km)	2,000
Distribution lines installed or upgraded (km)	13,000
New households connected to electricity (number)	334,000
Greenhouse gas emission reduction (tCO ₂ -equiv/yr)	1,137,000
Finance	
Microfinance accounts opened / end borrowers reached (number)	89,000
Small and medium-sized enterprise loan accounts opened / end borrowers reached (number)	0
Transport	
Expressways built or upgraded (km)	20
National highways, provincial, district, and rural roads built or upgraded (km)	18,000
Railways constructed and/or upgraded (km)	210
Beneficiaries of road projects (number)	61,791,000
Water	
Water supply pipes installed or upgraded / length of network (km)	74,000
New households served with water supply (number)	4,037,000
Wastewater treatment capacity added (m ³)	607,000
Households served with new sanitation (number)	1,230,000
Land improved through irrigation services, drainage, and flood management (hectare)	2,404,000

GWh-equiv/yr = gigawatt-hour equivalent per year, km = kilometer, m³ = cubic meter, MW = megawatts, tCO₂-equiv/year = tons of carbon dioxide equivalent per year.

Note: Based on a resource envelope of SDR7,689 million.

^a The six new indicators will be included as data become available:

- (i) additional capacity installed using renewable energy (MW),
- (ii) energy saved (GWh-equiv/yr).
- (iii) movement of people and goods on roads built or upgraded (daily vehicle-km),
- (iv) movement of people and goods on railways (daily converted ton-km),
- (v) urban rail- and bus-based mass transit systems built or upgraded (km), and
- (vi) passengers on urban rail- and bus-based mass transit systems built or upgraded in first full year of operation (average daily).

^b Outputs forecasted based on 2013–2016 pipeline, with figures rounded.

Source: Strategy and Policy Department estimates.

REVIEW OF ASIAN DEVELOPMENT FUND RESULTS FRAMEWORK: PRIORITY AREAS

Table A6.1: Level 1—Asia and Pacific Development Outcomes

Current Indicator	Areas for Improved Measurement ^a
Poverty and Human Development	
Population living on less than \$1.25 (PPP) per day (%)	General direction: (i) Consider new indicators for (a) inclusive growth (e.g., standard measures for equality) and (b) private sector development (e.g., investment climate assessments). (ii) Align with Sustainable Development Goals.
Primary education completion rate, both sexes (%)	
Ratio of girls to boys in:	
Primary education	
Secondary education	
Tertiary education	
Women in nonagricultural wage employment (%)	
Under-5 child mortality (per 1,000 live births)	
Women (aged 15 and above) living with HIV (number, million)	
Population with sustainable access to improved water source (%)	
Urban	
Rural	
Population with sustainable access to improved sanitation (%)	
Urban	
Rural	
Other Development Outcomes	
Gross domestic product:	
GDP per capita (at constant 2000 prices, \$)	
Regional cooperation and integration:	
Intraregional trade in total Asia and Pacific trade (%)	
Access to basic infrastructure:	
Telecommunications: fixed lines and mobile telephone subscribers (per 1,000 people)	
Roads: paved roads for every 10,000 people (km)	
Electricity: household electrification rate (%)	
Finance:	
Banking assets to GDP (%)	
Governance:	Governance:
Cost to start business (% of gross national income per capita)	Consider indicators for state effectiveness.
Time to start business (days)	Consider using data from other externally available sources.
Governance and public sector management assessment from country performance assessments	
Environment:	Environment:
Carbon dioxide emissions (tons per capita) ^b	Consider indicators on climate change mitigation and adaptation

GDP = gross domestic product, km = kilometer, PPP = purchasing power parity.

^a This list is based on initial consultations with Asian Development Fund deputies in December 2011 and January 2012 and will be expanded following further consultations with stakeholders and analysis.

^b This indicator will be used for information only and will be consistent with the purpose of the United Nations Framework Convention on Climate Change.

Source: Asian Development Bank.

Table A6.2: Level 2—Core Sector Outputs and Outcomes

Current Indicator	Areas for Improved Measurement ^a	
Education	<p>General direction:</p> <ul style="list-style-type: none"> (i) Consider new indicators for <ul style="list-style-type: none"> (a) climate change (mitigation and adaptation); (b) inclusiveness; (c) Gender (through sex-disaggregated indicators); and (d) Results from private sector operations, and operations focusing on reforms and capacity development. (ii) Include more outcome-oriented indicators. 	
Classrooms built or upgraded (number)		Possible indicators to be identified by Education CoP.
Teachers trained (number)		
Students benefiting from school improvement programs or direct support (number)		
Energy		Indicators being considered: ^b Additional capacity installed using renewable energy (MW) Energy saved (GWh-equiv/yr)
Installed energy generation capacity (MW equivalent)		
Transmission lines installed or upgraded (km)		
Distribution lines installed or upgraded (km)		
New households connected to electricity (number)		
Greenhouse gas emission reduction (tCO ₂ -equiv/yr)		
Finance	Possible indicators to be identified by Finance CoP.	
Microfinance accounts opened or end borrowers reached (number)		
Small and medium-sized enterprise loan accounts opened or end borrowers reached (number)		
Transport	Indicators being considered: ^b Movement of people and goods on roads built or upgraded (daily vehicle-km) Movement of people and goods on railways (daily converted ton-km) Urban rail- and bus-based mass transit systems built or upgraded (km) Passengers on urban rail- and bus-based mass transit systems built or upgraded in first full year of operation (average daily)	
Expressways built or upgraded (km)		
National highways, provincial, district, and rural roads built or upgraded (km)		
Railways constructed and/or upgraded (km)		
Beneficiaries from road projects (number)		
Water^b	Possible indicators to be identified by Water CoP.	
Water supply pipes installed or upgraded: length of network (km)		
New households served with water supply (number)		
Wastewater treatment capacity added (m ³ /day)		
New households served with sanitation (number)		
Land improved through irrigation services, drainage, and flood management (hectares)		

CoP = community of practice, GWh-equiv/yr = gigawatt hour equivalent per year, km = kilometer, MW = megawatt, m³/day = cubic meters per day, tCO₂-equiv/yr = tons of carbon dioxide equivalent per year.

^a This list is based on initial consultations with Asian Development Fund deputies between December 2011 and January 2012 and will be expanded following further consultations with stakeholders and analysis.

^b These indicators were proposed during the 2010 refinement exercise of the results framework.

Source: Asian Development Bank.

Table A6.3: Level 3—Operational Effectiveness

Current Indicator	Areas for Improved Measurement ^a
<p>Quality of Completed Operations Completed CPSs rated <i>successful</i> (%) Completed sovereign operations rated <i>successful</i> (%) Completed nonsovereign operations rated <i>successful</i> (%) Completed technical assistance projects rated <i>successful</i> (%) Positive perceptions of ADB effectiveness in reducing poverty (%)</p> <p>Quality at Entry and Portfolio Performance Quality at entry of CPSs rated <i>satisfactory</i> (%) Quality at entry of sovereign projects rated <i>satisfactory</i> (%) Quality at entry of nonsovereign projects rated <i>satisfactory</i> (%) Performance of sovereign operations during implementation rated <i>satisfactory</i> (%) Average time from approval to first disbursement in sovereign operations (months)</p>	<p>General direction: consider new indicators for</p> <ul style="list-style-type: none"> (i) inclusive growth (e.g., focus in CPS and project level), (ii) climate change (e.g., focus in CPS and project level), (iii) gender equality (e.g., focus in CPS and project level), (iv) private sector operations performance, (v) transparency of ADB operations, and (vi) measuring the sustainability of project outcomes.
<p>Finance Transfer and Mobilization Disbursement ratio for sovereign operations (%) Disbursement ratio for nonsovereign loans and equity (%) DVA cofinancing relative to ADB financing approved annually (%)</p>	
<p>Financing for Strategy 2020 Core Operational Areas Financing for Strategy 2020 core operational areas (%) Projects supporting private sector development (%) Projects supporting regional cooperation and integration (%) Projects supporting environmental sustainability (%) Projects with gender mainstreaming (%)</p>	
<p>Knowledge Management Annual MAKE survey assessment rating (%) ADB perceived externally as excellent source of knowledge on development issues (% strongly agreeing)</p>	<p>Improve the indicator set, focusing on the use of knowledge products and services and innovation through operations.</p>
<p>Partnerships Sovereign operations with CSO participation (%) New program-based approaches approved (number) CPS and CPR missions conducted jointly with at least one other development partner (% annually)</p>	<p>Improve the indicator set by reflecting the outcomes of the Fourth High Level Forum on Aid Effectiveness in Busan.</p>

ADB = Asian Development Bank, CPR = country portfolio review, CPS = country partnership strategy, CSO = civil society organization, DVA = direct value-added, MAKE = most admired knowledge enterprises.

^a This list is based on initial consultations with Asian Development Fund deputies between December 2011 and January 2012 and will be expanded following further consultations with stakeholders and analysis.

Source: Asian Development Bank.

Table A6.4: Level 4—Organizational Effectiveness

Current Indicator	Areas for Improved Measurement^a
Human Resources	
Budgeted international and national staff in operations departments (%)	Consider new indicators for measuring gender balance in managerial positions.
Budgeted international and national staff in resident missions (%)	
Representation of women international staff in total (%)	
Staff engagement survey results (index)	
Budget Efficiency	
Internal administrative expenses per \$1 million of project approval (\$'000)	Improve the indicator set by focusing more on efficiency and reflecting the impact of the 3-year budget transformation plan.
Internal administrative expenses per project approved (\$ million in 2000 constant prices)	
Internal administrative expenses per \$1 million disbursement (\$'000)	
Internal administrative expenses per project under implementation (\$'000 in 2000 constant prices)	
Business Processes and Practices	
Average sovereign operations processing time (months from fact-finding to effectiveness)	Consider new indicators measuring the efficiency of private sector operations.
Sovereign operations administered by resident missions (%)	Improve the indicator set in line with ADB's decentralization model and to better measure ADB's responsiveness to clients.
Resident missions leading country programming (%)	
Resident missions leading country portfolio review (%)	
Resident missions leading country economic work (%)	

ADB = Asian Development Bank.

^a This list is based on initial consultations with Asian Development Fund deputies in December 2011 and January 2012 and will be expanded following further consultations with stakeholders and analysis.

Source: Asian Development Bank.