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Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and the Pacific

This document is being disclosed to the public prior to its consideration by ADB's Board of Directors in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ANR	–	agriculture and natural resources
ASEAN	–	Association of Southeast Asian Nations
CoP	–	community of practice
CPS	–	country partnership strategy
CSO	–	civil society organization
DEfR	–	development effectiveness review
DMC	–	developing member country
ERD	–	Economics and Research Department
FCAS	–	fragile and conflict-affected situation
GAP	–	gender action plan
GCD	–	governance and capacity development
GDP	–	gross domestic product
ICT	–	information and communication technology
LMIC	–	lower middle-income country
MDG	–	Millennium Development Goal
MIC	–	middle-income country
MTR	–	midterm review
OCR	–	ordinary capital resources
OECD	–	Organisation for Economic Co-operation and Development
PPP	–	public–private partnership
PRC	–	People's Republic of China
PSD	–	private sector development
PSO	–	private sector operation
PSOD	–	Private Sector Operations Department
RCI	–	regional cooperation and integration
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
UMIC	–	upper middle-income country

NOTE

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

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I. INTRODUCTION

1. **Strategy 2020.** Approved in 2008, Strategy 2020 is the overarching corporate strategy of the Asian Development Bank (ADB).[1] It replaced an earlier long-term strategic framework for 2001–2015.[2] Affirming ADB's vision for an Asia and Pacific region free of poverty, Strategy 2020 sought to position ADB to implement its mission to help its developing member countries (DMCs) "reduce poverty and improve living conditions and quality of life."

2. Strategy 2020 aims to make ADB operations more selective and focused on areas where ADB has comparative advantages in light of its limited resources, while addressing the region's development challenges. The strategy promotes three complementary agendas: (i) inclusive economic growth, (ii) environmentally sustainable growth, and (iii) regional integration. To achieve these goals, five drivers of change are embedded in ADB operations—private sector development (PSD)[3] and private sector operations (PSOs),[4] good governance and capacity development (GCD), gender equity, knowledge solutions, and partnerships. Selectivity and focus would be reflected in the targeted 80% of ADB's operational focus on five core operational areas—infrastructure, environment, regional cooperation and integration (RCI), finance sector development, and education. Support for other areas of operations, such as health, agriculture, and disaster and emergency assistance, are to be selectively provided.

3. **Scope of midterm review.** As the midpoint of Strategy 2020 approaches, ADB is undertaking a midterm review (MTR) to meet the challenges of a transforming Asia and Pacific region. For this purpose, ADB must improve its relevance, responsiveness, and effectiveness. The MTR analyzes lessons learned through the implementation of Strategy 2020 and assesses the existing and emerging development challenges of DMCs. In this process, it identifies key achievements as well as areas for improvement. Building on this analysis and assessment, the MTR includes a 10-point program on future strategic directions to deepen and rebalance ADB's partnership with DMCs, and to strengthen ADB's institutional effectiveness for the remaining years of Strategy 2020. The MTR focuses on improving ADB operations on the ground, building skills, and providing better service to client DMCs. It also positions ADB to more effectively promote the 3 "I's", that is, a more innovative, more inclusive, and more integrated Asia and the Pacific.

4. **The midterm review process and approach.** ADB Management provided overall guidance for the MTR, which was supervised by a steering committee comprising heads of ADB departments and offices. A secretariat, consisting of staff from the Strategy and Policy Department and other ADB departments, coordinated the preparation of the MTR. The secretariat drew on staff expertise from across ADB. It prepared a detailed paper on the implementation progress of Strategy 2020 in 2008–2012, which was discussed in a Board and Management retreat in September 2013.[5] A series of high-level staff working groups subsequently supported the preparation of the future strategic directions of ADB. Communities

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

2 ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015).* Manila.

3 PSD support (primarily through sovereign assistance) helps to improve and expand policy and institutional reforms to create an enabling environment for the private sector and promote more efficient service delivery. Focus areas include public resource management, governance, fiscal policy reforms, legal and regulatory frameworks, public–private partnership structures, and capacity building and training.

4 PSOs refer to direct lending, equity, or credit enhancement support to a private entity without a sovereign guarantee.

5 ADB. 2013. *Strategy 2020 Implementation Progress, 2008–2012.* Manila. Available on request.

of practice (CoP)[6] and focal groups provided substantive analytical support to the MTR. Inputs from the Board of Directors were sought through two informal board meetings in July and December 2013, in addition to the aforementioned Board and Management retreat.

5. The MTR draws heavily on the annual reporting on Strategy 2020 progress through ADB's development effectiveness reviews (DEfRs),[7] portfolio performance reports, and the effectiveness reviews of the Independent Evaluation Department (IED). It also draws on IED's relevant special and thematic evaluation studies. It takes into consideration the findings of IED's commentary report on the MTR.[8] In addition, the MTR takes into account results of external surveys on perceptions of ADB's performance, as well as the findings and lessons from external performance assessments of ADB undertaken by development partners. Finally, the MTR incorporates recommendations from a panel of external peer reviewers.[9]

6. **External stakeholder consultations on the midterm review.** To obtain feedback from external stakeholders, country and regional consultations involving 30 DMCs took place during October 2013 and January 2014. Views and inputs of DMC officials, civil society representatives, members of the private sector, and international development partners were sought and discussed in these consultations. In addition to active consultations through their representation on ADB's Board of Directors, some non-regional shareholders were consulted through specific meetings attached to broader events in which ADB participated in the various capitals throughout 2013, and through bilateral meetings at ADB headquarters in Manila. In addition, feedback and suggestions on the MTR were received online through a dedicated website.[10] Stakeholders shared important insights, which have been carefully considered in preparing this report.[11]

II. SUMMARY OF IMPLEMENTATION PROGRESS OF STRATEGY 2020

7. This section summarizes the main findings of the review conducted to assess ADB's progress in implementing Strategy 2020 over the first 5 years since it was adopted (2008–2012) (footnote 5).[12]

8. **Scope of the progress review.** The progress review used four parameters to assess ADB's implementation of Strategy 2020:

(i) alignment of ADB sector operations with Strategy 2020's three agendas of inclusive economic growth, environmentally sustainable growth, and regional integration, and the strategic selectivity and operational focus achieved under Strategy 2020 to pursue these agendas;
(ii) progress in embedding the five drivers of change of Strategy 2020—PSD and PSOs, GCD, gender equity, knowledge solutions, and partnerships—into ADB sector operations;

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6 CoPs are informal networks of ADB staff members recognized as technical leaders in their sectors or thematic areas. ADB has 15 CoPs.
7 The DEfR for 2012 is a main reference source for the review on the implementation progress of Strategy 2020. The DEfR assesses ADB's performance against the indicators and targets in Strategy 2020's corporate results framework for 2008–2020. ADB. 2012. *Development Effectiveness Review 2012 Report*. Manila.
8 Independent Evaluation Department. 2013. *Inclusion, Resilience, Change: Strategy 2020 at Mid-Term.* Manila: ADB.
9 Summary of Comments by the Strategy 2020 Midterm Review External Panel of Peer Reviewers (available on request).
10 http://www.adb.org/about/strategy-2020-mid-term-review
11 Summary of Stakeholder Consultations on the Strategy 2020 Midterm Review (available on request).
12 Full-year consolidated data for 2013 was unavailable at the time the progress review was conducted.

(iii) the quality of ADB's operational performance, as measured by project evaluations and ratings of completed and ongoing projects; and
(iv) the effectiveness of ADB's institutional arrangements, including those related to staffing and skills levels and business processes, in facilitating the implementation of Strategy 2020.

A. Alignment of Sector Operations with Strategic Agendas

9. **Strategy 2020's agendas and country partnership strategies.** The three agendas of Strategy 2020 are cascaded to the country level and operationalized through country partnership strategies (CPSs) that ADB and DMCs agree upon. Corporate-level sector operational plans adopted after Strategy 2020 guide the sector frameworks of CPSs and support the alignment of operations with the three agendas.

10. Inclusive economic growth, the first strategic agenda, is increasingly a cornerstone of the framework of assistance in each CPS. ADB's latest quality-at-entry survey conducted in 2012 rated 88% of CPSs *satisfactory* on integrating inclusive economic growth.[13] However, the coherence and consistency in presenting inclusive growth in CPSs have required improvement. Country teams leading CPSs have sometimes struggled to demonstrate clear pathways to inclusive growth. New staff guidelines, issued in 2013, are expected to strengthen the mainstreaming of inclusive economic growth in CPSs.[14] Environmentally sustainable growth, the second strategic agenda, is firmly rooted in CPSs. According to staff estimates, 86% of the CPSs approved during 2008–2012 focused substantively on the environment, including climate change, as (i) part of the development context, (ii) a thematic concern, and/or (iii) an operational focus. Regional integration, the final strategic agenda, is also fully integrated as a strategic and operational pillar in most CPSs approved after the adoption of Strategy 2020.

11. **Expanded overall operational scale under Strategy 2020.** ADB operations (total new commitments for sovereign and nonsovereign[15] operations, including guarantees but excluding cofinancing) rose to more than $65 billion during 2008–2012. Operations during this period represented an increase of about 75% over 2003–2007, the 5-year period preceding the adoption of Strategy 2020.[16] Nonsovereign operations more than doubled over the same period (from an annual average of $777 million during 2003–2007 to about $2 billion during 2008–2012). This operational assistance, which was aligned with the three strategic agendas, came together with ADB's support for knowledge development and leveraging of additional resources to support faster growth in DMCs. It helped reduce poverty and contributed to the achievement of the Millennium Development Goals (MDGs).

1. Contribution of Infrastructure Operations to Strategy 2020's Agendas

12. **Inclusive economic growth.** ADB continued to allocate most of its assistance for infrastructure development (transport, energy, water, and urban services) under Strategy 2020. Infrastructure operations accounted for 72% of ADB operations during 2008–2012, up from 67%

[13] ADB. 2013. *The Quality-at-Entry Assessment of Asian Development Bank Country Partnership Strategies and Projects Approved in 2010–2011*. Manila.
[14] ADB. 2013. *Guidelines on Inclusive Economic Growth in the Country Partnership Strategy*. Manila.
[15] Nonsovereign operations refer to PSOs and lending and other assistance to public entities without a sovereign guarantee.
[16] The progress review uses a "before" and "after" analysis to assess progress under Strategy 2020 during the first 5 years of its implementation (2008–2012) compared with the 5 years before Strategy 2020 (2003–2007). For some analysis, where there are data constraints, the "before" and "after" comparisons are based on shorter periods.

during 2003–2007 (Table 1). During 2009–2012, infrastructure investments are estimated to have accounted for 66% of ADB's support for the first pillar of its framework on inclusive economic growth (creating and expanding economic opportunities) and 75% for the second pillar (improving access to economic opportunities). Infrastructure investments created jobs and expanded economic opportunities. They also provided access to basic services such as electricity, water supply and sanitation, education, and health (Box 1 provides an example of an ADB-assisted inclusive infrastructure project). This, in turn, decreased the work burden for women in rural areas, reduced travel time and costs of reaching social services, extended leisure time for families, enabled children to study at home and family members to go to the hospital when sick, and generally improved the quality of life, especially of poor households. However, few infrastructure or other ADB operations supported social protection, the third pillar of inclusive economic growth.

Table 1: ADB Financing for Operational Areas

	2003–2007		**2008–2012**	
Item	**Amount** ($ million)	**Share of Total ADB Financing** (%)	**Amount** ($ million)	**Share of Total ADB Financing** (%)
1. Core Areas of Operations	**31,574**	**85**	**53,499**	**82**
a. Infrastructure	24,935	67	46,666	72
i. Energy	5,818	16	16,840	26
ii. Transport and Communications	12,382	33	18,873	29
iii. Water	3,552	10	6,013	9
iv. Other Infrastructure	3,184	9	4,941	8
b. Finance	5,001	13	4,991	8
c. Education	1,446	4	1,758	3
d. Others (Multisector)	191	1	84	0
2. Other Areas of Operations	**2,022**	**5**	**3,238**	**5**
a. Agriculture	924	2	1,822	3
b. Health	1,097	3	1,415	2
3. Additional Areas	**3,529**	**10**	**8,363**	**13**
a. Industry	418	1	711	1
b. Public Sector Management	3,111	8	7,652	12
c. Non-core operations that support environment or RCI	351	1	1,680	3
Total ADB Financing	**37,125**	**100**	**65,100**	**100**
Total Financing for Core Areas (Items 1a+1b+1c+1d+3c)	**31,925**	**86**	**55,180**	**85**

ADB = Asian Development Bank, RCI= regional cooperation and integration.
Notes: (i) Disaster-risk management figures, considered as part of "other area of operation" under Strategy 2020, are not reported separately in this table because most of these projects are already classified as part of infrastructure operations.
(ii) The sector shares in total ADB financing include components of a given sector in multisector operations. For this reason, these shares may not match those reported in ADB's work program and budget framework documents.
Source: ADB Strategy and Policy Department.

Box 1: Inclusive Infrastructure—A Case Study from Bhutan

Empirical evidence suggests that infrastructure promotes inclusion best when combined with complementary investments and activities, including those to support capacity development, policies, and institutions. Maximizing the inclusiveness of infrastructure investments therefore requires careful attention to such complementary investments based on sound sector and country diagnostics. An example from the Bhutan illustrates this point.

Bhutan is largely carbon neutral, having tapped its immense hydropower resources to supply energy to its population and maintaining green forests. The country's total installed hydropower capacity of about 1,500 megawatts (MW) far exceeds the 300 MW domestic peak demand. The Government of Bhutan sells the surplus energy to India and uses the revenue gained from these sales to support the country's socioeconomic development in health, education, and agriculture.

Despite the difficult mountainous terrain—and with support from the Asian Development Bank (ADB) and other development partners—the country's rural electrification efforts have increased rural electrification coverage from 20% in 1995 to 60% in 2008 and more than 90% in 2013. The government aims to achieve "energy for all" shortly.

For instance, ADB's Bhutan Green Power Project,[a] approved in 2008, was designed to combine sustainable hydropower development with a rural electrification component to benefit the country, including rural communities. ADB provided $145 million in financing for the project to construct a 126 MW run-of-river hydropower plant that does not use a dam or reservoir on the Dagachhu River. While the majority of the plant's power will be sold across the border to India, the project's rural electrification component ensures that the plant will benefit surrounding communities. Under the project, ADB has already helped provide electricity to more than 9,000 households and public facilities, such as schools, health clinics, and community buildings in remote locations by extending an existing grid and through off-grid solar home systems.

A 2010 independent evaluation study on rural electrification in Bhutan carried out by ADB's Independent Evaluation Department found that rural electrification substantially benefits a number of development sectors.[b] Electrification of households (i) increases nonfarm income, allowing families to pursue microenterprises such as weaving; (ii) reduces the use of polluting sources of energy, such as fuelwood, kerosene, and candles; (iii) improves health conditions by displacing polluting sources and promoting the relocation of health workers to the electrified villages; and (iv) supports education for children by allowing for safer travel to and from school, and the completion of homework at night by electric bulbs when previously a household's budget for kerosene could not support this.

Ensuring access to energy through rural electrification, and supplying this energy through a clean and renewable power source is a win-win for inclusive, green development. This effort is being supported through ADB's Energy for All program in Bhutan and other countries in the region.

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[a] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loans, Asian Development Grant, Technical Assistance Grant, and Administration of Grant for Green Power Development Project in Bhutan*, Manila.

[b] Independent Evaluation Department. 2010. *Asian Development Bank's Assistance for Rural Electrification in Bhutan—Does Electrification Improve the Quality of Rural Life?* Manila: ADB.

13. **Environmentally sustainable growth.** Environmental sustainability has been mainstreamed into ADB's infrastructure operations. Consistent with ADB's energy policy,[17] ADB's financing for clean and renewable energy was 11 times higher during 2008–2012 than in 2003–2007, while financing for energy efficiency and conservation operations rose six times. Supported by an operational plan focused on sustainable transport,[18] the share of financing for environment-friendly urban transport in total transport financing increased to 10% during 2008–

[17] ADB. 2009. *Energy Policy*. Manila.

[18] ADB. 2010. *Sustainable Transport Initiative.* Manila.

2012, up from 2% during 2003–2007. ADB financing for water, sanitation, and waste management interventions—also important from an environmental perspective—increased by about 70% during 2008–2012, compared with 2003–2007 levels. In addition, ADB financing for climate change increased significantly under Strategy 2020, particularly for mitigation. In 2012, this totaled $3.3 billion ($2.4 billion for climate change mitigation and $896 million for adaptation). Overall, ADB lent $6.2 billion for projects with environmentally sustainable growth as an objective in 2012.

14. With this assistance, ADB supported the achievement of environment-related MDGs, particularly those related to access to improved drinking water supply and reduction of carbon dioxide emissions. However, progress remained slow on the goal of improving access to sanitation. Only 51% of new households targeted to be served with ADB-assisted sanitation during 2009–2012 had been reached by the end of 2012.[19]

15. **Regional integration.** Led by its assistance for infrastructure development, ADB made progress toward Strategy 2020's goal of having at least 30% of its operations support RCI by 2020. RCI support accounted for 17% of overall ADB operations during 2008–2012, almost three times more than during 2003–2007. Most of this support was provided for road and rail transport connectivity projects, with regional energy and power trade projects accounting for a smaller share. To complement this emphasis on infrastructure, ADB established a regional trade finance program to support the expansion of regional trade. In addition, ADB supported, in a more limited way, related trade facilitation initiatives, including harmonization of regulations, procedures, and standards. These initiatives proved to be more complex, proceeded more slowly, and had mixed results. ADB's support for regional public goods to deal with the unintended consequences of cross-border infrastructure projects, such as the transmission of HIV/AIDS and other communicable diseases, also remained limited.

2. Contribution of Non-Infrastructure Core and Other Operational Areas to Strategy 2020's Agendas

16. **Limited support.** ADB's assistance in the non-infrastructure core and other operational areas also contributed to the three strategic agendas. However, the volume of support to such areas remained limited in the first 5 years of Strategy 2020. The combined share of financing for the core operational areas of education and finance in ADB's total financing declined to 11% during 2008–2012 from 17% during 2003–2007. The share of financing for the other operational areas of health and agriculture remained limited at 5%, the same as in 2003–2007 (Table 1).

17. **Education.** Strategy 2020 recognizes the need for investments in education and vocational training to help DMCs increase productivity, employability, and innovation. The education sector operational plan emphasizes inclusiveness, quality, and skills at all levels.[20] Sector assistance followed the operational plan: 42% of approved operations during 2008–2012 supported technical, vocational, and tertiary education. However, the share of education in ADB's total lending fell to 3% during 2008–2012 from 4% during 2003–2007 (Table 1). In addition, implementation in some education subsectors remained weak.

18. **Finance.** The key priorities under the financial sector operational plan, adopted in 2011 to align operations with Strategy 2020,[21] are financial inclusion and deepening of regional

[19] ADB. 2012. *Development Effectiveness Review 2012 Report*. Manila.
[20] ADB. 2010. *Education by 2020—A Sector Operations Plan*. Manila.
[21] ADB. 2011. *Financial Sector Operational Plan*. Manila.

capital markets to channel savings to productive investments, such as for infrastructure development. However, the commitment of new resources was not commensurate with these priorities, and ADB's support for financial sector operations fell to 8% of total lending during 2008–2012 from 13% during 2003–2007 (Table 1). The share of support for microfinance and finance for small and medium-sized enterprises (SMEs)—important from the standpoint of access to finance for inclusive growth—also remained small and unchanged after the adoption of Strategy 2020 at 2% of total assistance.[22] ADB's support for financial cooperation for regional integration was robust, although limited in scope to the Association of Southeast Asian Nations (ASEAN) region.

19. **Health.** ADB's assistance to the health sector fell to 2% of total financing during 2008–2012 from 3% during 2003–2007 (Table 1). ADB's support for health-related regional public goods also did not expand. The decline in ADB's assistance coincided with the end of an upward trend in global health financing that had been driven largely by support for the control and treatment of HIV/AIDS, which had plateaued by 2010. As a result, the external development assistance that Strategy 2020 expected would displace ADB's health sector support in the region did not materialize. ADB also had difficulty leveraging effective partnerships in the health sector because of its lack of visibility in the sector and its diminishing policy engagement and small operational portfolio. Nonetheless, the success rates of ADB's limited health sector project support improved and were generally better than those of other sectors during 2008–2012.

20. **Agriculture and food security.** The share of the agriculture and natural resources (ANR) in ADB's total assistance increased marginally to 3% during 2008–2012 from 2% during 2003–2007 (Table 1).[23] ADB invested $2.4 billion annually during 2010–2012 under its operational plan to mitigate food insecurity and promote inclusive growth, 76% of which was allocated to supporting infrastructure for food security.[24] The success ratings of ADB-assisted ANR investments steadily improved during 2008–2012. In a recent study, ADB's Economics and Research Department (ERD) reconfirmed that food security is essential for poverty reduction. The study highlighted the adverse impact of rising food prices on poverty, and the attendant negative effects of food price volatility on population and health.[25] A 2010 IED evaluation also underscored the importance of continued engagement in the sector to support inclusive growth, noting that ADB's investments in this area had generated jobs, raised rural incomes, and reduced poverty.[26]

21. **Social protection.** ADB's operational support for social protection, the third pillar of its inclusive economic growth framework, was mostly provided as part of broader assistance in the core and other operational areas of Strategy 2020, and remained small. A 2012 IED study noted that ADB's assistance for social protection was only 2.5% of the total portfolio during 2002–2011 and recommended that ADB "scale up its presence and experience in building social protection systems."[27]

[22] A 2012 IED study raised concern on the effectiveness of ADB-assisted interventions for microfinance. Independent Evaluation Department. 2012. *Microfinance Development Strategy 2000: Sector Performance and Client Welfare.* Manila: ADB.
[23] When support for irrigation, drainage, and flood protection is also included, the share of agriculture and natural resources in ADB's assistance was maintained at about 4.5% of total assistance across the two periods.
[24] ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.
[25] ADB. 2013. *Food Security in Asia and Pacific.* Manila.
[26] Independent Evaluation Department. 2010. *Evaluation Study: Sector Synthesis—Performance of ADB Assistance to Agriculture and Natural Resources: Evidence from Post-Completion Evaluations*. Manila: ADB.
[27] ADB. 2012. *Special Thematic Study: Asian Development Bank: Social Protection Strategy 2001.* Manila.

22. **Overall selectivity and focus of ADB operations.** Strategy 2020 stipulated that ADB's operations would be increasingly concentrated in the core areas of operations, which would account for 80% of total annual approvals by 2012. This target was exceeded. The core areas' share of total lending during 2008–2012 of 85% (Table 1) was almost identical to their 86% share during 2003–2007. In this way, the selectivity and focus of ADB's operational portfolio was maintained. However, in the other areas of operations, Strategy 2020's reliance on partnerships to deliver assistance was not effective. Cofinancing for these areas from other development partners remained limited as partners continued to seek collaboration with ADB mainly in areas of its perceived comparative advantages (i.e., the core areas), but ADB's pipeline of projects was lean in the other areas of operations, and its competencies and strengths were not as well recognized. Thus, with smaller resource allocations of its own and declining staff capacities, ADB became a less attractive development partner in the other operational areas of Strategy 2020.

B. Progress in Embedding Drivers of Change

23. **Mainstreaming in operations.** ADB operations increasingly reflected the emphasis on Strategy 2020's drivers of change. With regard to the first driver on PSD and PSOs, the share of PSD-themed sector operations grew from an average of 29% during 2003–2007 to an average of 38% during 2008–2012. This was a good start toward achieving Strategy 2020's target of scaling up PSD and PSO to 50% of ADB's annual operations by 2020. The share of loans that included a focus on GCD—the second driver of change—increased during 2008–2012 to 69% from 37% during the previous 5-year period. The 2012 targets in the corporate results framework for gender equity and mainstreaming—the third driver of change—were met and then surpassed. Gender was mainstreamed in 49% of all operations and 59% of Asian Development Fund (ADF) operations, exceeding the target of 40% of all projects and 50% of ADF operations by 2012, on a 3-year rolling average basis. Knowledge solutions—the fourth driver of change—were increasingly emphasized, resulting in the production and dissemination of more knowledge products and activities under Strategy 2020. Both financing and knowledge partnerships—the final driver of change—increased following Strategy 2020's adoption.

24. Despite this progress, stronger integration of the five drivers of change in operations remained constrained by specific challenges with each driver.

25. **Private sector development and private sector operations.** Institutional coordination between public sector operations and PSOs improved, particularly on the preparation of CPSs. However, it was still not systematic. The relevance and effectiveness of the upstream enabling environment continued to need improvement to support PSOs. Greater progress continued to be needed on public–private partnerships (PPPs) to meet the target of ADB's operational plan for supporting 50 PPPs by 2016.[28] Available resources and ADB's equity-to-loan ratio requirements constrained a further increase in the share of PSOs in ADB's ordinary capital resources (OCR) financing—from the current 15% approval average. The 10% ceiling (of ADB's equity base) for equity investment restricted equity operations. Risk management of PSOs continued to improve, although efforts still were needed to pursue more PSOs in ADF recipient countries to achieve greater development impact, while appropriately mitigating the associated higher risks.

[28] ADB. 2012. *Public–Private Partnership Operational Plan 2012–2020—Realizing the Vision for Strategy 2020: The Transformational Role of Public–Private Partnerships in Asian Development Bank Operations.* Manila.

26. **Good governance and capacity development.** Implementation of country-, sector-, and project-level plans to assess and manage governance risks was not uniform and continued to require systematic improvement. Capacity development was not well integrated in these plans, and the outcomes of ADB's capacity building strategies remained unclear. Overall, GCD needed to be more firmly anchored in operations, including in sector assessments and road maps.

27. **Gender equity.** Although gender assessments were routinely included in CPSs and sector diagnostics and road maps, the quality of gender strategies and their meaningful integration into country programs and overall results frameworks require more work. In addition, despite the steadily improving quality of project gender action plans, both the implementation of these plans and ADB's capacity to monitor and capture gender equity results remained weak, requiring further strengthening.

28. **Knowledge solutions.** Even with substantive improvement, stronger institutional coordination on knowledge solutions is needed. The DMCs consulted during the MTR pressed for a faster and better-coordinated response and delivery from ADB on their requests for knowledge solutions. Knowledge embedded in operations was not optimally captured. At the same time, knowledge did not flow systematically into operations. Therefore, stakeholders continued to view ADB more as a knowledge generation source rather than a knowledge sharing and best practice source. CoPs expanded knowledge sharing activities, but they varied in performance and lacked a clear mandate.

29. **Partnerships.** Although intermediate cofinancing partnership targets were achieved, ADB continued to lack a coordinated institution-wide approach to meet Strategy 2020's long-term objective of having annual cofinancing exceed the value of ADB's stand-alone project financing. In addition, the leveraging of ADB operations—in terms of additional amounts of public and private resources catalyzed through ADB's efforts—was not being adequately reflected in Strategy 2020's cofinancing targets. This would give a more complete picture of ADB's ability to mobilize resources for its DMCs. Further, cofinancing remained concentrated in ADB's core areas of operations, while attracting cofinancing in other areas of operations was more difficult (para. 22).

C. Quality of ADB's Operational Performance under Strategy 2020

30. **Project success rates.** The success rates of completed ADB-assisted projects improved during 2008–2012, but did not reach the target of 80% set in Strategy 2020's results framework.[29] The achievement of outcomes also improved during 2010–2012, but remained below the 80% threshold. Project success rates varied significantly between DMCs, pointing to country-specific determinants of project success. The quality of project design, readiness, and supervision were also found to be important factors for project performance. In the 2012 quality-at-entry assessment of new projects (footnote 13), an indicator for project success, 85% of projects approved in 2010 and 2011 were rated *satisfactory*. However, this assessment was still less positive than the one in 2010 that covered projects approved in 2008 and 2009.

[29] Project success is assessed after project completion based on the following four factors: relevance, effectiveness in achieving outcome, efficiency in delivering outputs and outcome, and preliminary assessment of sustainability.

31. **Trends in performance of ongoing sovereign projects.** The performance of ongoing sovereign projects improved on average from 2003–2007 to 2008–2012.[30] However, project performance, including disbursement performance, declined during 2011–2012, partly because of (i) the expanding sovereign portfolio, which stretched staff capacities; (ii) the more rigorous monitoring system adopted in 2012; and (iii) the weak capacity of executing agencies. Problems related to the complexity of project designs and delays in project start-up and implementation also continued to be reported. ADB's procurement processes remained prolonged, contributing to these delays.

32. **Actions to improve implementation performance.** ADB took steps to improve project readiness, procurement, and implementation. It placed stronger emphasis on strengthening staff skills and incentives in these areas. During 2010–2012, 111 new staff positions were created in the areas of procurement, project administration, and portfolio management. A procurement accreditation skills scheme for staff was launched. A risk-based approach was introduced in 2013 to streamline ADB's procurement processes and increase efficiency.[31] Measures to strengthen disbursement performance were initiated. To improve project readiness, more attention was paid to the need to prepare detailed engineering designs before project approval. However, the use of ADB's project design facility to support DMCs in preparing engineering design remained limited, because of institutional constraints in some DMCs and lack of familiarity with this modality.

D. Effectiveness of ADB's Institutional Arrangements

33. **Human resource reforms.** Important human resource reforms were implemented after the adoption of Strategy 2020. The staff competency framework was revised and a career development framework was implemented. The proportion of internationally recruited women on ADB's staff increased. Job grades and level banding for national and administrative staff positions were completed. Standards for key human resources services were announced. An ombudsperson function was implemented. New learning and development courses for staff were offered. However, staff concerns regarding performance management, career development, rewards and recognition, and work–life balance persisted.

34. **Staff skills**. A major staff expansion program during 2010–2012 added 500 new positions at ADB and strengthened ADB's capacity to implement Strategy 2020, particularly in the core areas of operations. More resources, including staff, were deployed at resident missions to bolster decentralization. This increased the share of resident mission staff to about 50% of the total regional departments' staff complement, strengthening ADB's field presence and visibility. However, it was unclear how much staff growth enhanced the level of skills at ADB, as skills shortages continued to be reported in specific technical capabilities and general project management. Meanwhile, ADB operations in infrastructure and other areas remained heavily dependent on external consultants instead of in-house skills.

35. **Business processes.** ADB streamlined its business processes for preparing CPSs and projects in 2009.[32] The new processes reduced processing time and documentation, and

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[30] "Ongoing" projects are those projects that are approved by the ADB Board and are under-implementation, but are not yet completed. They are collectively referred to as the sovereign portfolio. "Completed" projects refer to projects that are physically completed and their financial accounts are closed.

[31] ADB. 2013. *ADB Procurement Governance Review*. Manila.

[32] ADB. 2009. *Better and Faster Loan Delivery.* Manila; and ADB. 2009. *Country Partnership Strategy Responding to the New Aid Architecture.* Manila.

strengthened quality control. Processing of sovereign operations (from loan fact-finding to loan effectiveness) under the streamlined business processes in 2012 was completed on average in 11 months, compared with 37 months under the previous business processes. However, procedures and processes for project implementation (from loan effectiveness to project completion [footnote 30]) did not significantly improve, and delays continued to be encountered. The associated transaction costs for client DMCs remained high, and some stakeholders continued to view ADB as "bureaucratic", "inflexible" and "slow" according to ADB's latest external perception survey.[33] Some DMCs do not consider ADB's support timely or relevant. ADB also misses important opportunities to engage with them on knowledge work and mainstreaming of international good practices, including those on safeguards (paras. 98 and 130).

36. **Working arrangements.** Following the adoption of Strategy 2020, ADB realigned its organizational structure in important ways to improve its effectiveness. This included strengthening the role of independent evaluation, risk management, and integrity oversight; and improving portfolio functions and fiduciary standards. The greater diversification of ADB's lending instruments, including the introduction of the multitranche financing facility[34] and results-based lending for programs,[35] enhanced ADB's capacity to respond to client needs. However, the quality of the documentation of multitranche financing facility loans needs to be improved and the flexibility provided by this modality needs to be used better. Reforms introduced in 2008 improved ADB's technical assistance (TA) operations, although space for further strengthening remained. Good progress was made on the managing for development results agenda, assisted by quality DEfR reports. Progress was also made on decentralization by increasing the number of staff in resident missions (para. 34) and providing resident missions with greater budgetary resources. However, authority can be decentralized further and resident missions can be more empowered to improve ADB's responsiveness to its DMCs.

III. EMERGING DEVELOPMENT CHALLENGES

37. Strategy 2020 was formulated against a backdrop of 2 decades of record economic growth in Asia and a positive outlook for development. This section examines how the challenges and opportunities in Asia and the Pacific have evolved since then.[36]

A. Development Landscape after 2008

38. **Economic growth.** Asian economies have generally continued to grow since 2008, despite a slowdown in 2008–2009 because of the global financial crisis**.** However, this slowdown was less pronounced than in other regions of the world, followed by a strong rebound in 2010 (Figure 1). As the world economy grew at less than 3% a year, ADB DMCs averaged annual real growth of more than 6% during 2008–2013. However, small Pacific Island DMCs grew at an average real rate of only about 2.5% in this period, reflecting the economic constraints imposed by their size and fragility.

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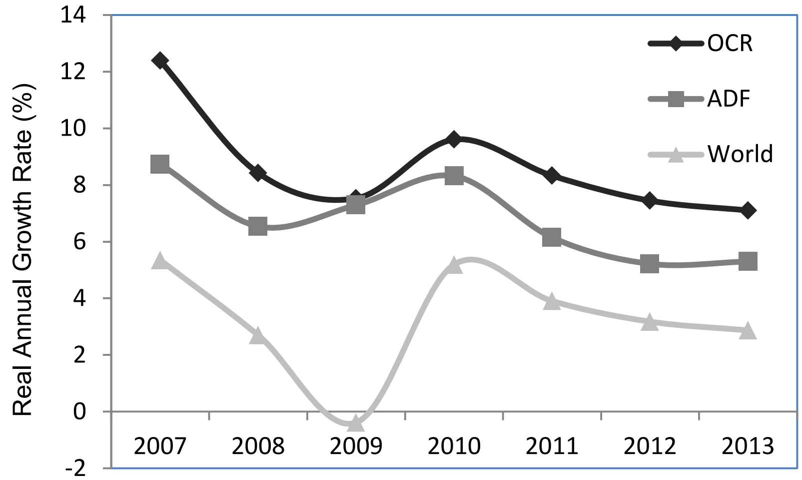
[33] ADB. 2013. *ADB Perceptions Survey: Multinational Survey of Stakeholders 2012*. Manila.

[34] Adopted by ADB on 11 July 2008, after being piloted. This modality provides long-term and flexible programmatic support to DMCs without the commitment costs associated with stand-alone projects.

[35] Approved on a pilot basis on 6 March 2013, this modality supports government-owned sector-development programs and links disbursements directly to the achievement of program results.

[36] The section is based on: ADB. 2013. *Changing Scenario in Asia and Pacific since Strategy 2020*. Manila. Available on request.

Figure 1: Real Growth in ADB Developing Member Countries, 2008–2013



ADB = Asian Development Bank, ADF = Asian Development Fund,
GDP = gross domestic product, OCR = ordinary capital resources.
Source: Real GDP-weighted growth for ADF and OCR countries computed from ADB. 2013. *Key Indicators for the Asia and Pacific.* Manila. The ADF and OCR classification used is as on 15 October 2013. Real annual growth rates for the world economy are from the International Monetary Fund's *World Economic Outlook*.

39. **Global growth environment.** A key challenge for the Asia and the Pacific in the remaining years of Strategy 2020 is to sustain growth to create jobs and further reduce poverty. Growth in the region is forecast to slow from 6.6% in 2011–2012 to 6.2% in 2013–2014, because of (i) the expected deceleration in the People's Republic of China (PRC) and India; and (ii) the gradual tightening of monetary policy in the United States, which has already imposed some destabilizing effects on financial markets in emerging economies.[37] However, regional economies are expected to continue to grow robustly, at an average of 6.4% per year during 2015–2020, helped by domestic demand and stronger supply capacity. However, downside risks for the region remain because of specific factors, including the continued uncertainties in advanced economies, the weak recovery of the euro area, increasing competition for export markets, and the potential resurgence of inflation.

40. **Progress on the Millennium Development Goals.** While DMCs as a group have met or are on target to meet several MDGs by 2015, more work is needed to achieve some other MDGs (Figure 2). The MDG target of halving poverty by 2015 has already been achieved in DMCs, on average. DMCs are also generally on track to meet the primary education-related MDG targets for enrollment and completion rates. However, the target for reducing the number of underweight children will not be achieved. Moreover, despite improvements in outcomes related to child health and maternal mortality, the corresponding MDGs will not be reached. DMCs are also off track on the environmental MDG related to access to basic sanitation, which is associated with weak health outcomes. While the MDG on gender parity in education is expected to be achieved, progress on women's empowerment is lagging.

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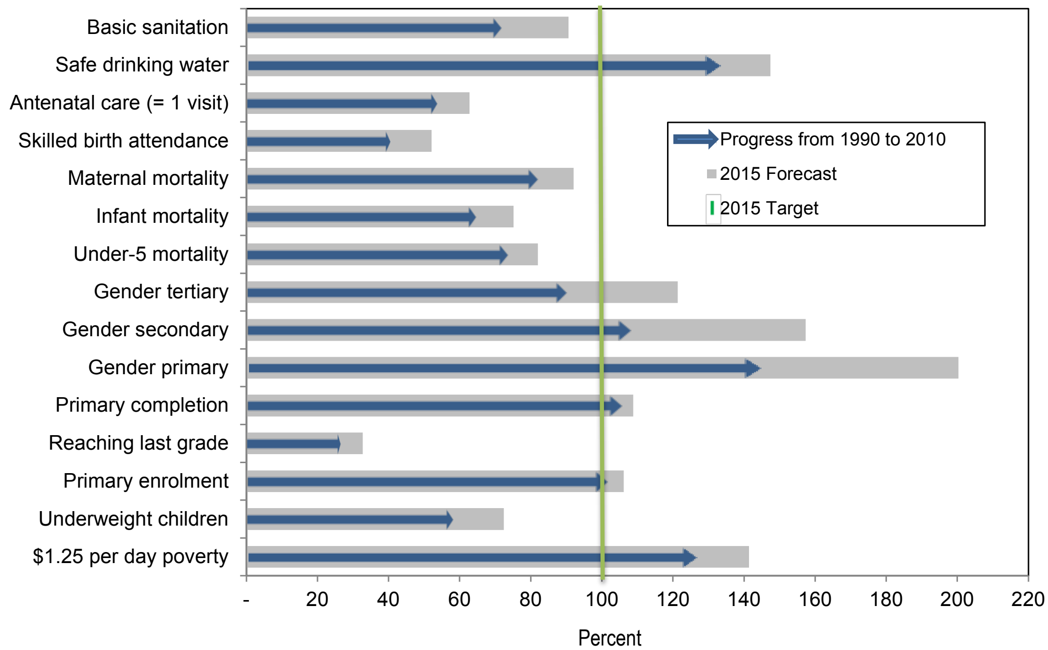
[37] ADB. 2013. *Asian Development Outlook 2013 Update. Governance and Public Service Delivery.* Manila. Efforts to forge a more balanced and sustainable growth path in the PRC than the recent one led by exports and investment will lead to moderation of growth. Inadequate infrastructure and a lack of structural reforms continue to weigh on industry and investment in India, hampering growth.

Figure 2: Progress on Selected Millennium Development Goal Indicators



Note: Figure shows the percentage progress achieved by selected indicators since 1990 relative to progress required to meet 2015 targets for the Millennium Development Goals. Latest progress for under-5 mortality is until 2011.
Source: Asian Development Bank Strategy and Policy Department.

41. **Growing number of middle-income countries.** Most of ADB's DMCs are already middle-income countries (MICs), aided by 2 decades of strong growth. As Table 2 shows, only 7 of 40 nongraduate DMCs are currently low-income countries (LICs).[38] While the remaining 33 DMCs are classified as MICs, 19 are lower middle-income countries (LMIC), many with per capita gross national incomes of less than $2,000 a year. By 2020, only Nepal and Afghanistan are expected to remain LICs. However, MICs differ significantly in their levels of socioeconomic development, capacities, and future prospects.

Table 2: Distribution of ADB Nongraduate Developing Member Countries by Income Category, 2012

LIC (Per Capita GNI <$1,036)	LMIC (Per Capita GNI $1,036–$4,085)	UMIC (Per Capita GNI $4,086–$12,615)
Afghanistan, Bangladesh, Cambodia, Kyrgyz Republic, Myanmar, Nepal, Tajikistan	Armenia, Bhutan, Georgia, India, Indonesia, Kiribati, Lao People's Democratic Republic, Federated States of Micronesia, Mongolia, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Uzbekistan, Vanuatu, Viet Nam	Azerbaijan, People's Republic of China, Cook Islands, Fiji, Kazakhstan, Malaysia, Maldives, Marshall Islands, Nauru, Palau, Thailand, Tonga, Turkmenistan, Tuvalu

DMC = developing member country, GNI = gross national income, LIC = low-income country, LMIC = lower middle-income country, UMIC = upper middle-income country.
Source: World Bank. World Development Indicators database. http://data.worldbank.org/data-catalog/world-development-indicators (accessed 21 January 2014).

[38] According to the World Bank, as a country crosses a (2012) per-capita gross national income threshold of $1,035, it moves from the category of low-income to lower middle-income. As it crosses $4,085, it is classified as upper middle-income. Finally, at $12,616, it crosses into the high-income group.

42. **Fragility and conflict.** Several DMCs—including some MICs—are characterized by fragility and conflict, which impose special constraints. All Pacific DMCs are MICs, but most face vulnerabilities and challenges that set them apart from continental Asia. These include their small size, low population density, remoteness, exposure to climate change risks, and a narrow economic base. Because of limited or no private credit ratings and impediments to doing business, these DMCs are unable to rely on the private sector. At the same time, governments in fragile countries are often unable to respond consistently and equitably to societal demands because of inadequate capacity. In 2013, 9 DMCs were categorized as fragile and conflict-affected situations (FCASs), of which 7 are MICs located in the Pacific.[39] ADB's support to FCAS countries needs to be based on a close understanding of the local context, long-term engagement, and broader ownership of its operations by DMC governments and civil society.

B. Evolving Development Challenges

43. **Poverty an unfinished agenda.** The share of the population in Asia and the Pacific living in extreme poverty (below $1.25 a day) fell from 26.9% in 2005 to 20.7% in 2010 (the latest year for which consistent data is available), as the number of extreme poor declined from 902 million to 733 million (Table 3). Despite their declining poverty, ADB DMCs are still home to more than 60% of the world's extreme poor. In some large countries such as India and Bangladesh, more than 30% of the population lives in extreme poverty. Therefore, eradication of extreme poverty remains a key challenge, even though it is now an achievable goal in Asia and the Pacific by the early 2020s. However, there is a growing concern that the current measure of extreme poverty of $1.25 a day is insufficient to provide even basic subsistence to poor populations in DMCs (Box 2). At the same time, a large proportion of people in the region still live on less than $2 a day and remain highly vulnerable to external shocks (paras. 44–45). Food security and nutrition are also concerns, as almost two-thirds of the world's hungry live in the region. Micronutrient deficiencies are high or extreme in all of South Asia and in many Southeast Asian countries.

Table 3: Poverty and Vulnerability in ADB Developing Member Countries

Year	Population (million)	$1.25/day poverty			$2.00/day poverty			Number of Vulnerable (million)
		Poverty Incidence (%)	Number of Poor (million)	Share of World Poor (%)	Poverty Incidence (%)	Number of Poor (million)	Share of World Poor (%)	
1999	3,119	39.4	1,229	70.6	67.9	2,118	72.6	889
2005	3,356	26.9	902	64.9	53.5	1,795	69.8	893
2008	3,462	23.9	828	63.6	49.3	1,708	69.4	880
2010	3,534	20.7	733	60.3	45.7	1,615	68.1	882

ADB = Asian Development Bank, DMC = developing member country.
Note: Based on data from 26 ADB DMCs excluding graduates.
Source: World Bank. Povcalnet Online Database. http://iresearch.worldbank.org/povcalnet/index.htm (accessed 30 January 2014)

[39] These include the Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Solomon Islands, Timor-Leste, and Tuvalu. Afghanistan and Nepal are the two LICs characterized as FCASs.

Box 2: Changing Nature of Poverty in Asia and the Pacific

The poverty incidence in Asia and the Pacific is projected to drop below 1.5% by 2024, as measured using the $1.25-a-day (in 2005 purchasing power parity) poverty line. Poverty is considered eliminated when the poverty rate drops below 3%, which is likely to happen in 2022 in developing Asia.

However, such a conclusion is misleading because the $1.25-a-day poverty line might not be appropriate for the region for several reasons.

First, the $1.25-a-day poverty line represents the average value of national poverty lines of 15 countries, most of which are from Africa and only two from Asia (Tajikistan and Nepal). This poverty line is lower than most national poverty lines set by developing countries in Asia and the Pacific. Of the 28 developing countries in Asia studied, only one has a poverty line below $1.25 ($1.24 for Afghanistan), while 19 set poverty lines at or above $1.50 a day and 12 have poverty lines at or above $2.00 a day.

Second, the consumption or expenditure data from which regional or global poverty lines are derived are from 1995–2000. When updated, the data would likely lead to a higher poverty line due to rises in the non-food share of total household expenditures.

Third, as a society becomes more advanced, more consumption items will become basic necessities. Examples include essential travel; mobile phones; and access to electricity, telecommunications, and the internet. These changes in consumption patterns are not reflected in the $1.25-a-day poverty line and would lead to a much higher poverty line if incorporated.

Fourth, the current poverty measurement does not consider vulnerability a contributing factor. As vulnerability increases in region (because of issues such as climate change and more frequent economic shocks), this factor becomes increasingly important and requires greater attention.

Finally, inequality in Asia has been rising considerably. In a more equal society, most people—including those close to the poverty line—may not feel poor. However, when some become very rich and many become affluent, those close to the poverty line, even if their living standard has been maintained or even improved, feel poor. Using an absolute poverty line such as $1.25 a day cannot capture this. One solution is to link the poverty line to the median income of a country, which would also result in a higher poverty line for the region.

Poverty in Asia and the Pacific has to be redefined in light of these issues. The Asian Development Bank will undertake further research on these issues and propose a more appropriate poverty threshold that reflects the development context and aspirations of people in the region.

44. **Vulnerability to slipping back into poverty.** The number of people with income between $1.25 a day and $2.00 a day has remained virtually the same between 1999 and 2010, even as poverty has declined dramatically (Table 3). Many people who were earlier living under $1.25 have graduated to this group. The 1.6 billion poor people living below the $2-a-day poverty line can all be considered vulnerable to downward fluctuations and volatility in their incomes. They are constantly at risk of being pushed back into extreme poverty through loss of employment, health problems, prolonged recession, inflation, crop failure, disasters, or social upheaval. High food prices are a major source of vulnerability, with the sharp increases in the past few years particularly affecting the poor who devote more than half of their income to food. Increasing urbanization, exposure to climate change effects and repeated disasters, and the aging of populations have also increased vulnerabilities.

45. The ability of the vulnerable to withstand destabilizing economic, financial, and environmental shocks is limited because of weak social security and risk mitigation systems in most DMCs. They are at risk of having their improved lives and livelihoods wiped away by such

shocks. Preventing the vulnerable from falling back into extreme poverty is a key development challenge.

46. **Widening inequalities.** Inequalities within and between DMCs have increased. Large inequalities in income, wealth, and access to economic and social opportunities are intrinsically unfair. They exclude the poor and the disadvantaged from the benefits of economic growth and may lead to social instability. In addition, large inequalities make it difficult to sustain economic growth and reduce the impact of economic growth on poverty reduction. The Gini coefficient for Asia increased from 39% in the mid-1990s to 46% in the late-2000s. Increasing inequalities in several MICs—including Bangladesh, PRC, Georgia, India, Indonesia, and Sri Lanka—have contributed to the higher inequality in Asia. The three factors that have fueled Asia's growth—globalization, technological innovations, and market reforms—seem to have exacerbated inequalities.[40] Inequalities between DMCs have also widened as OCR (generally middle-income) DMCs have grown faster than ADF (generally low-income) DMCs (Figure 1). Many DMCs have made reducing inequalities a policy priority. ADB support will need to focus on understanding the country-specific reasons for increasing inequalities and tailoring its operations to support inclusive growth.

47. **Environmental pressures.** Economic growth is leading to more pollution, environmental degradation, and biodiversity loss. The region is highly vulnerable to environmental hazards, with the Pacific islands being particularly exposed. The region is also more prone to natural hazards than other parts of the world: 45% of the world's disasters caused by natural hazards occurred in Asia and the Pacific from 1980 to 2009. Climate change (including changes in the frequency and intensity of climate-related natural hazards) has exacerbated vulnerability to disasters and exposed coastal populations and major urban areas to risks arising from frequent and unpredictable changes in weather conditions. The increase in global mean temperature also affects precipitation patterns, which, in turn, can reduce crop yields, threaten agricultural production, and impact on the livelihoods of the rural poor. Addressing the food–water–energy nexus is becoming a major challenge in the region. With their robust economic growth, DMCs' share of global greenhouse gas emissions rose from less than 20% in 1991 to 35% in 2008 and more than 40% in 2011. Similarly, per capita emissions of carbon dioxide have risen steadily in the region—from about 3.0 metric tons in 2008 to almost 3.6 metric tons in 2011.[41]

48. **Persistent gender disparities**. Although gender gaps in education, health, employment, and political participation have narrowed over the last decade, progress and achievements are not spread widely or evenly across the region. Gender disparities remain, especially in infant mortality, undernutrition, paid employment outside agriculture, wages, and representation in decision-making bodies. Targeted public policies and priority investments are required to tackle the multiple and mutually reinforcing factors contributing to gender-based vulnerabilities and discrimination. Investments in women and gender equality will deliver better development outcomes—higher growth rates, faster poverty reduction, and better education and health outcomes.

49. **Significant infrastructure constraints.** Infrastructure has continued to expand in the region, but significant gaps and considerable regional variations are evident. Financing gaps for

[40] ADB. 2012. *Asian Development Outlook 2012: Confronting Rising Inequality in Asia*. Manila.

[41] However, at this level, carbon dioxide emissions per capita are still much lower in Asia and the Pacific when compared with the 7.6 metric tons in the euro area and the 10.4 metric tons among the members of the Organisation for Economic Co-operation and Development in 2011.

infrastructure in the region are immense, estimated at more than $8 trillion from 2010 to 2020.[42] Investments in infrastructure, which were already low, declined further during the 2008–2009 global financial crisis and have not bounced back to pre-2008 levels. Policy and regulatory impediments, as well as weak governance, constrain infrastructure investments, especially by the private sector.

50. **Rapid urbanization.** More than 40% of the region's population resides in urban areas, and by 2050, two-thirds of Asia's population will be urban. While this presents opportunities for higher productivity and better living standards, several risks are also involved. About 523 million vulnerable people across the region are estimated to live in urban slums, with poor services and squalor. Severe disparities in living conditions in many Asian cities can affect social cohesion. Urban buildings and transport account for significant energy consumption and carbon emissions. Integrated and effective urban planning is needed, focusing on managing urban sprawl and providing sustainable and affordable infrastructure and basic services.

51. **Safeguarding financial stability**. Although the region is in a stronger position to weather global downturns than it was before the Asian financial crisis in 1997, DMCs will need to be more vigilant (footnote 37). Governments must guard against volatile capital flows and financial market disruption transmitted through developments in the advanced economies—as evidenced by the recent financial volatility in India and Indonesia. Moreover, stronger financial systems are needed to mobilize regional resources for development investments. In addition, even as financial systems in many DMCs continue to be dominated by banks, a large proportion of the population still does not have access to a bank. Developing Asia has fewer than 9 commercial bank branches per 100,000 adults, compared with more than 30 in Organisation for Economic Co-operation and Development (OECD) countries. The private sector's access to credit in the region is generally constrained by weak risk management, insufficient credit standards and internal control procedures, and nascent regional and domestic capital markets.

52. **Realizing the potential of regional cooperation and integration.** Economic growth in Asia and the Pacific faces risks from slow growth, volatility, and cautionary policies in advanced economies (paras. 39 and 51). RCI will help the region cement economic gains in the face of vulnerabilities to external shocks, as DMCs look to expand domestic and regional markets. More importantly, cooperative management of regional public goods and coordinated policy responses on global issues are essential for long-term development. Despite some encouraging progress in recent years, RCI opportunities have not been fully harnessed. Enhanced RCI offers potential for accelerating economic growth and poverty reduction in the region, reducing regional disparities, and addressing regional public goods. With the opening up of Myanmar, pan-Asian regional integration has become a realistic agenda. In addition, enhancing links between continental Asia and the remote Pacific DMCs will also help regional development.

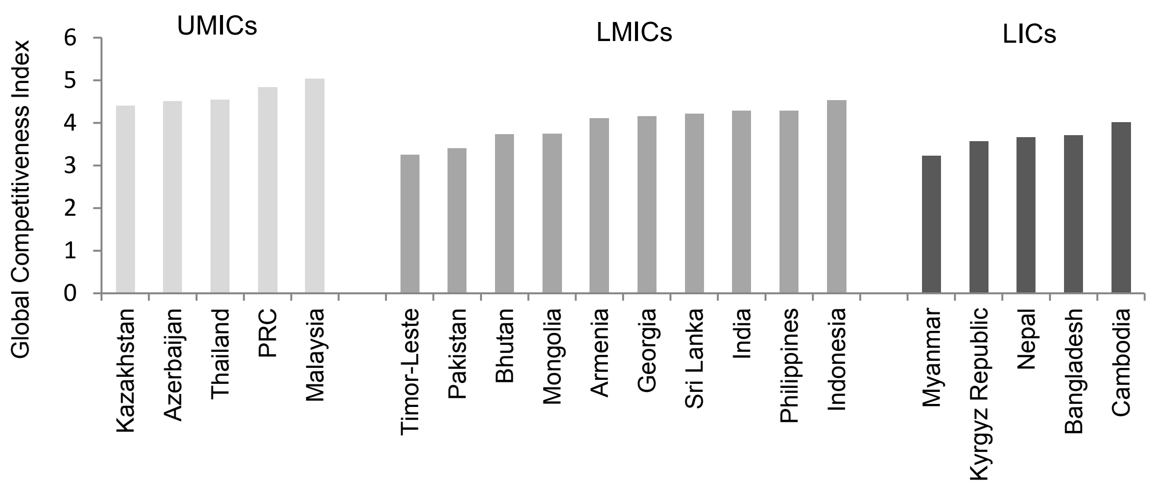
53. **Improving weak governance and institutional capacity.** Governance reforms will help sustain development momentum and ensure that the benefits of growth are widely shared. Control of corruption and improving other elements of the governance framework, including political stability, government effectiveness, regulatory quality, and the rule of law, are positively associated with economic growth (footnote 37). However, governance in Asia and the Pacific has lagged its economic achievements. Public service shortfalls mirror the region's lagging governance and undermine development outcomes. Corruption and lack of transparency are manifestations of weak governance that impede the effective delivery of basic services. Governance deficiencies can be addressed by a multipronged approach tailored to country

[42] ADB. 2009. *Infrastructure for a Seamless Asia*. Manila.

circumstances, including empowerment of citizens, enhancement of accountability, and engagement of local governments and the private sector in delivering services.

54. **Responding to the needs of middle-income countries.** MICs are a diverse group in terms of income and development levels (para. 41). They vary widely in terms of population, area, institutional capacity, fragility, and access to resources. LMICs, while enjoying relatively higher per capita incomes than LICs, share broad development challenges with them related to poverty, vulnerability, inclusive growth, infrastructure deficits, and governance bottlenecks. Upper middle-income countries (UMIC), on the other hand, generally demonstrate higher human development, better access to infrastructure, more developed financial markets, higher private sector participation in development, and the ability to tap diverse sources of finance. Overall, institutional capacities in MICs are usually higher than in LICs (Figure 3), presenting greater scope for the use of MICs' own systems and expertise. Environmental degradation as a cost of growth tends to present greater challenges in MICs. Recognizing differences across country groups, ADB needs to differentiate its strategic engagement with MICs—to help them meet their specific development goals, while utilizing their unique capacities and expertise.

Figure 3: Global Competitiveness Index Scores in Selected ADB Developing Member Countries, 2013–2014



ADB = Asian Development Bank, DMC = developing member country, LICs = low-income country, LMIC = lower middle-income country, PRC = People's Republic of China, UMICs = upper middle-income country.
Source: World Economic Forum. 2013. The Global Competitiveness Index (GCI) captures 12 key dimensions of institutional capacity. The GCI ranges from 0 to 6, with 6 denoting the highest institutional capacity. *Global Competitiveness Report 2013–2014.*

55. **Avoiding the middle-income trap.** Transitioning from middle-income to high-income status and avoiding the middle-income trap is difficult, although Hong Kong, China; Singapore; Republic of Korea; and Taipei,China, successfully completed this transition. Several DMCs show signs that they may already be in or at risk of the middle-income trap. To avoid the trap and become high-income countries, MICs need to improve the quality of their economic policies, improve governance and capacities, and successfully transform the structure of their economies

from agriculture to manufacturing and to high-value services to achieve higher income levels.[43] Productivity increases (para. 56) are essential to effect such structural transformations. In addition, MICs need to reduce structural inequalities and inequalities of opportunities. No country has developed beyond MIC status without addressing large inequalities.[44]

56. **Strengthening innovation, technology, and education.** Improving productivity requires bridging the knowledge and technology gaps that exist between DMCs and developed countries through more investment in innovation, technology, and education in DMCs.[45] Many MICs increasingly look to ADB for innovative approaches; some want to gain a better understanding of success stories in other countries.

C. Changing Environment for Development Cooperation

57. **Post-2015 development agenda.** With the MDG period drawing to a close, a post-2015 development agenda is being formulated. A clear consensus has emerged that the post-2015 agenda should integrate economic prosperity, social equity, and environmental sustainability. The perspectives gathered from consultations in Asia and the Pacific on the agenda highlight the importance of customizing targets to meet country-specific needs.[46] Overall, the challenges facing the region are consistent with the post-2015 development agenda, which focuses on five "global shifts." First, it is important to achieve the original promise of the MDGs, and move on to second generation MDGs with no one left behind. Second, given the environmental costs of recent progress, it is necessary to have sustainable development at the core. Third, economies have to be transformed for job creation and inclusive growth. Fourth, in view of the mixed achievement on institutional development and conflict situations in many developing countries, greater focus is needed on building peace and effective, open, and accountable institutions for all. Finally, as solid cross-country links can improve the scope for technology transfer, capacity building, and regional cooperation initiatives, it will be critical to forge a new global partnership.

58. **Global Partnership for Effective Development Cooperation**. Launched at the Fourth High Level Forum on Aid Effectiveness in November 2011, the Global Partnership for Effective Development Cooperation established ways to enable effective development cooperation in order to reduce poverty and facilitate growth through inclusive partnerships. This global partnership highlighted that, while earlier commitments made under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action remained important, the effectiveness of broad development cooperation was crucial to achieve greater development impact. In this connection, this partnership brought to the forefront the importance of supporting country systems, domestic resource mobilization, and leveraging of private sector resources for development. It also identified the need to (i) recognize development experiences of MICs, (ii) identify mechanisms for sharing knowledge and cooperation among developing countries, and (iii) strengthen transparency and inclusion.

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[43] ADB. 2013. *Key Indicators for Asia and the Pacific 2013.* Manila. Special Chapter: Asia's Economic Transformation: Where to, How, and How Fast.

[44] Ferreira F. and M. Ravallion. 2008. Global Poverty and Inequality—A Review of Evidence. *World Bank Policy Research Working Paper*. Washington, DC.

[45] H. Kohli, A. Sharma, and A. Sood, eds. 2011. *Asia 2050: Realizing the Asian Century*. Manila. Asian Development Bank / Sage Publications.

[46] United Nations. 2013. *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*. The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda. New York.

59. **Changing composition of development financing.** Net official development assistance to developing Asia fell from 0.93% of gross domestic product (GDP) in 1990 to 0.20% in 2012. At the same time, other types of development financing, including government resources, remittances, and foreign direct investment, have become significantly more important sources of foreign exchange than official development assistance. Personal remittances as a share of GDP in developing Asia have risen from less than 1.0% in 1990 to more than 2.5% in 2012. Likewise, foreign direct investment in developing Asia has risen from about 1.1% of GDP in 1990 to more than 2.5% in 2012. Trade, finance, and other links among emerging market and developing economies are also growing. In addition, philanthropic organizations and foundations have emerged as major sources of development financing. Domestic savings as a share of GDP has increased sharply in developing East and Southeast Asia, and moderately in South Asia, but has declined in parts of Central Asia. Stronger equity markets in some DMCs are helping to channel domestic resources for growth.

60. **Continuing need for development financing.** Financing by multilateral development banks and bilateral donors is still needed, despite the more diverse funding sources now available to DMCs. Sovereign credit ratings have improved in several DMCs since the approval of Strategy 2020, which has enhanced their capacity to borrow for their development needs.[47] However, LICs and most LMICs are still not considered investment grade. While the assistance from new and emerging development partners is rapidly increasing, it still remains significantly smaller than financial support provided by traditional development partners. Therefore, because of substantial variations in institutional and commercial borrowing capacities and DMC needs, the role of public development financing remains vital. Moreover, the serious liquidity crunch stemming from deleveraging in the aftermath of the 2008–2009 financial crisis, and the ongoing global financial instability, implies that public sector investments and finance will need to continue to be needed to sustain growth. Public finance, including from multilateral development banks, can serve as a buffer and safety net that provides contingency liquidity support and countercyclical financing during financial crises.

61. **Mobilizing resources**. As important as multilateral and bilateral financing is, these sources are too small to fully meet DMCs' development needs. Therefore, additional resources must be mobilized and existing resources must be used more creatively. Development financing has to be used more proactively to catalyze private resources and mitigate risks to enable longer-term finance for infrastructure development, as well as to support innovations, global and regional public goods, and knowledge transfer, including in investment grade DMCs. However, the private sector in many DMCs faces various constraints, including cumbersome and expensive business regulations, weak legal institutions, corruption, insufficient access to productive resources such as finance and skilled labor, poor social and physical infrastructure, and instability (both political and macroeconomic).[48] Therefore, easing constraints to private sector participation in development remains important.

[47] Excluding ADB's graduates, five DMCs (PRC, India, Kazakhstan, Malaysia, and Thailand) were rated investment grade by Standard & Poor's in 2008. By 2013, Azerbaijan and the Philippines were also added as investment grade countries. In addition, Indonesia was rated investment grade by Moody's and Fitch Ratings in 2012. Countries that have successfully issued sovereign bonds in international markets since 2007 include Georgia, Mongolia Pakistan, Sri Lanka, and Viet Nam.

[48] Among 189 countries worldwide, the 2013 Ease of Doing Business Rankings for ADB DMCs include top 20 rankings for Georgia, Malaysia, and Thailand, and bottom-third rankings for Bangladesh, Cambodia, India, Indonesia, Lao People's Democratic Republic, Pakistan, and the Philippines. http://www.doingbusiness.org/rankings.

62. **Increasing importance of knowledge solutions**. In addition to finance, the value-added of international development institutions includes the provision of up-to-date knowledge and cross-country experiences. In the current fragile economic environment, the demand for knowledge is increasing, enabled by an efficient and effective information and communication technology (ICT) infrastructure, which can facilitate entry into new markets and help competitive provision of innovative products and services. As countries seek to implement policies and develop institutions that facilitate structural transformation of their economies, the role of knowledge and lesson-learning from successful experiences will play an important role. Technical assistance, capacity building, and knowledge transfers are equally important for MICs, which still lag on institutional development and international competitiveness.

63. **Reforming multilateral financial institutions**. Several new development financing institutions have been proposed recently, including the BRICS Development Bank and the Asian Infrastructure Investment Bank. While these initiatives seek primarily to address the large development financing gaps, the trend also points to growing impatience of DMCs with the existing multilateral financial institutions. In particular, DMCs want to reduce the procedural bottlenecks and high transaction costs. Reforms are needed in multilateral financial institutions to ensure timely and effective solutions that address the needs of client DMCs. For ADB, this will include strengthening skills shortages in specific technical areas, as well as general project management, to provide cutting edge development services to its DMCs (para 34). In addition, ADB needs to significantly improve its project implementation procedures and processes to reduce transaction costs and delays that undermine project performance (para 35). ADB's institutional work arrangements need to be more streamlined for greater efficiency and effectiveness (para. 36). ADB's resident missions need to be further empowered to deliver better services to clients.

IV. ADB'S STRATEGIC PRIORITIES FOR 2014–2020

64. **Meeting the Challenges of a Transforming Asia and the Pacific.** Given the region's unfinished poverty agenda, increasing inequalities, severe environmental challenges, and the need for closer regional integration, Strategy 2020's broad strategic directions remain valid and relevant. However, the experience with its implementation and the nature of the evolving development challenges in the rapidly transforming region show that a sharpening and rebalancing of ADB's operational focus is required.

65. In particular, ADB needs to sustain its efforts to eradicate extreme poverty and strengthen its support for decreasing the number of people living on less than $2 a day, ensure inclusiveness of its operations to reduce inequalities, build up the resilience of vulnerable populations to economic downturns and environmental dangers, support climate change adaptation in addition to mitigation efforts in DMCs, deepen its regional cooperation support, and strengthen engagement with MICs on their broader development challenges. ADB also needs to improve its operations on the ground, build skills, and provide better service to client DMCs. In addition, ADB needs to position itself more effectively to promote the 3 "I's", that is, a more innovative, more inclusive, and more integrated Asia and the Pacific.

66. To meet the changing needs of its clients, ADB needs to mobilize greater resources, strengthen its knowledge work, and promote innovation to improve its delivery of services. ADB's resources, while important, will remain only a small part of development financing in the region. Therefore, ADB will need to use its resources creatively, maximize their catalytic effect, and use them for optimal demonstration impact. Greater attention will need to be paid to value for money and cost-effectiveness of administration and operations. ADB will also have to review

its organization to enhance its technical strengths, while maintaining country focus. ADB has identified 10 priorities, which together will determine its strategic focus leading up to 2020.

A. Sharpening ADB's Operational Focus

1. Poverty Reduction and Inclusive Economic Growth

67. Poverty remains an unfinished agenda in the region (para. 43), vulnerability to economic and natural shocks has increased (para. 44), and inequalities have widened (para. 46). Therefore, ADB will continue to pursue its vision of a region free of poverty—eradicating extreme poverty, decreasing the number of people living below $2 a day, and reducing vulnerability and inequality—by expanding its support for achieving and sustaining rapid and inclusive economic growth. In its approach to inclusive economic growth, ADB will strengthen country focus, build closer operational and sector links with the inclusive growth agenda, improve the enabling environment, and more effectively monitor and measure results.

a. Strengthening Country Focus

68. **Differentiated country approach.** DMCs face varying development challenges, which require tailored responses. Country focus will therefore remain the key principle in defining ADB's approach to poverty reduction, reducing vulnerabilities, and inclusive economic growth. ADB's approach at the country level, articulated in the CPS, will be built on a comprehensive assessment of poverty and vulnerabilities, rigorous analysis of inequalities and underlying causes, and a thorough understanding of binding constraints to inclusive growth. ADB has developed guidelines for clarifying its inclusive economic growth approach in CPSs (footnote 14), and will apply them rigorously. Country teams will be encouraged to adopt country-specific targets for inclusive economic growth indicators.

69. **Attention to low income countries and those in fragile and conflict-affected situations.** ADB will strengthen its approach to building greater resilience of poor and near-poor populations and DMCs to vulnerabilities, and increasing their capabilities to rebound quickly from internal and external shocks. ADB will pay special attention to LICs and vulnerable DMCs categorized as FCASs. ADF resources at the current or higher levels will be ensured to support the development of LICs. ADB will expand operations in FCAS DMCs by increasing their TA allocations and considering a minimum annual ADF allocation of $3 million to ensure that small FCAS countries receive a meaningful flow of assistance. ADB will also continue to expand PSOs in ADF-recipient DMCs to 40% of its annual PSO project approvals.

b. Linking Operations to Inclusive Growth

70. ADB's support in core operational areas—infrastructure, education and finance—and other areas—health, agriculture, and public sector management—will help to create and expand economic opportunities and promote broader access to these opportunities to support inclusive economic growth and reduce vulnerability and inequality.

71. **Making infrastructure more inclusive.** Infrastructure operations account for a large part of ADB's support for inclusive economic growth (para. 12). Continued investment in infrastructure projects, complemented by investments in education, finance, health, and agriculture sectors, will create jobs, promote economic opportunities, and reduce vulnerabilities by connecting the poor to markets and increasing their access to social services and productive

assets. ADB will also support infrastructure projects that benefit lagging areas and help achieve MDGs.

72. **Expanding education sector operations.** ADB will expand operations in the education sector to 6%–10% of its annual approvals, from its low of 3% during 2008–2012 (para. 17). In addition, ADB will improve leveraging of its assistance to attract additional financing for the sector, and will emphasize impact and results more. ADB will focus on post-basic education, technical and vocational education and training, and higher education. The objective will be to promote human capital development and the acquisition of the skills demanded by the market to improve employment prospects and the resilience of the DMC labor forces to economic shocks. ADB will also strengthen its capacity to support the use of ICT and PPPs in education to meet the needs of growing and modernizing economies.

73. **Expanding health sector operations.** ADB will expand operations in the health sector to 3%–5% of its annual approvals, from 2% during 2008–2012 (para. 19). Reviving assistance to the sector is necessary to support inclusiveness, reduce vulnerabilities, and improve the preparedness of DMCs to face epidemics and infectious diseases. A stronger health portfolio will also help ADB leverage its own limited resources more effectively for the sector. ADB will support DMCs in meeting the post-2015 goals for universal health coverage. This includes strengthening ADB capacity to assist in key areas such as health governance; health financing; expanded provision for health services, including by the private sector; and health care access for vulnerable groups. ADB will also continue to leverage health impacts by optimizing health outcomes from infrastructure projects, and will support improvements in health sector regional public goods. ADB will work in partnership with other development agencies, and in response to country demands, to support inclusive access to quality health services.

74. **Renewing emphasis on social protection.** To protect the most vulnerable members of society and build greater resilience among poor populations, ADB will increase its support for social protection under its new operational plan, which focuses on strengthening social assistance, social insurance, and labor market programs.[49] Priorities will include (i) supporting stand-alone social protection and safety net projects; (ii) integrating social protection components in health, education, and public management projects; (iii) expanding capacity building and knowledge work; and (iv) building effective partnerships on social protection, including among DMCs.

75. **Deepening financial inclusion.** Against the backdrop of declining financial sector operations during 2008–2012 (para. 18), ADB will emphasize financial inclusion by improving and expanding support for microfinance and SME finance, as well as through innovative use of ICT to improve access to finance. Consumer protection and financial literacy will be further promoted, especially among women. Financial institutions selected for support to expand access to finance for small entrepreneurs and poor households will be screened to ensure they have adopted effective business plans and outreach strategies. To strengthen social security and improve resilience to shocks, ADB may support the development of regulatory and supervisory frameworks, as well as investment and risk management policies, for extending pensions and insurance systems to unserved and underserved populations.

76. **Supporting inclusive business.** ADB will explore opportunities to provide more support to businesses that are financially viable and generate large social and poverty reduction impacts (inclusive business). It will build on its experiences with inclusive business, such as with

[49] ADB. 2013. *Social Protection Operational Plan, 2014–2020.* Manila.

agribusiness development that connects farmers to local and global food markets, and off-grid energy solutions that make available energy sources to underserved consumers. ADB will also replicate successful inclusive business models from other regions. More TA may be provided and the use of concessional ADF resources to support inclusive businesses will be explored. To promote greater inclusiveness and diversify, ADB will emphasize private sector operations in ADF-recipient countries (para. 69) and in underdeveloped regions of MICs.

77. **Emphasizing food security and agricultural productivity.** Given the critical contribution of food security to poverty reduction (para. 20), ADB will commit about $2 billion in new funding annually to remove country-specific and regional constraints to food security and reduce the vulnerability of poor populations to food price increases. With this assistance, ADB will aim to (i) increase the productivity of agriculture (including through investments in research and development, water infrastructure, and agribusiness) and strengthen links with global value chains and food systems; (ii) improve farm-to-market connectivity through transport and communication investments; (iii) promote food safety and quality standards; and (iv) improve the resilience of agriculture and natural resources to the impacts of disasters and climate change. Recognizing the multifaceted nature of food security, ADB will adopt a multisector approach that takes into account complementarities among economic and social sectors and rural–urban links.

78. **Bridging gender gaps.** In view of the lessons learned from supporting gender equity in recent years (para. 27), ADB will strengthen the implementation of the Gender Equality Operational Plan, in part by focusing more on monitoring for the delivery of better gender equality results.[50] This will enable effective gender mainstreaming across operations to reduce gender-based vulnerabilities and promote inclusion. However, mainstreaming alone will be insufficient to narrow persistent gender gaps and vulnerabilities, and entrenched gender inequalities. Therefore, ADB will invest directly in women and girls to narrow gender disparities in (i) secondary and tertiary education completion; (ii) vocational and technical skills training; (iii) access to productive assets, labor-saving technology, employment, and income-earning opportunities; (iv) business development services for entrepreneurs; and (v) financial services and access to credit.

c. Supporting Enabling Environment for Inclusive Growth

79. **Improving governance and building capacity.** Weak governance and institutional capacities continue to constrain development prospects of many DMCs (para. 53). ADB will expand its support for good governance and capacity building to strengthen the quality of public institutions in order to deliver inclusive growth. It will ensure that governance and capacity building interventions are built into country programs, sector road maps, and operational plans. Governance risk assessments at the country, sector, and project levels will be streamlined, their quality enhanced, and their implementation systematically monitored. ADB will review its approach to capacity building with the aim of (i) recognizing the need for long-term investment for institutional development and sustainability, (ii) strengthening capacities for stronger resilience to overcome vulnerabilities, and (iii) defining and achieving specific outcomes and results from its capacity building interventions. More effective, timely, and corruption-free delivery of public services will be emphasized through supply-side reforms and demand-driven initiatives to support greater public participation in and accountability for the services provided.

[50] ADB. 2013. *Gender Equality and Women's Empowerment Operational Plan, 2013–2020: Moving the Agenda Forward in Asia and the Pacific.* Manila.

80. **Supporting public management reforms and anticorruption efforts.** The creation of transparent and predictable policy and legal regimes for private sector investments will be promoted, as will stronger institutional frameworks and governance structures for the environment. In addition to remaining a driver of change, governance will be supported through public sector management programs that aim to strengthen the management of public revenues, enhance and streamline taxation systems, improve public expenditure management for better delivery of pro-poor services, and reduce corruption through the promotion of greater transparency and accountability as well as improvements in the quality of official statistics.

81. **Strengthening financial sector development**. A well-functioning financial market is essential for developing the private sector, mobilizing and allocating resources for potential areas of growth and innovation, and supporting inclusive growth. ADB will strengthen its support to broaden and deepen regional and national financial markets. It will support reforms needed to promote savings, develop longer-term sources of financing such as contractual savings, and liberalize markets. Besides emergency lending linked to a financial crisis, ADB's stronger support in this area will focus primarily on institutional development, market infrastructure development, and knowledge and capacity building.

d. Monitoring Results

82. ADB will place more emphasis on measuring progress and results toward reducing poverty, lowering vulnerabilities, and increasing inclusion. CPSs will include indicators in their results frameworks to assess progress on inclusive growth and achievement of the MDGs, especially in the context of the post-2015 development agenda (para. 68). Institutionally, ADB will monitor progress on inclusive growth in the region through its annual DEfR report. ADB will also work with DMCs to strengthen the measurement and estimation of poverty, inequality, and vulnerability trends, and to deepen the understanding of the implications of public policies on these trends.

2. Environment and Climate Change

83. ADB’s Environment Operational Directions, 2013–2020 articulate the strategic agenda for pursuing environmentally sustainable growth.[51] With the region facing critical environmental challenges (para. 47), ADB will provide greater financial and technical support to DMCs to reduce their vulnerabilities arising from environmental degradation and rising levels of water and air pollution, including greenhouse gas emissions, and enhance their resilience to climate change and natural hazards.

84. **Supporting clean energy investments.** ADB will continue to invest $2 billion annually in clean energy (including projects for energy efficiency,[52] renewable energy, and cleaner fuel utilization) to reduce local air pollution and mitigate the effects of climate change.[53] ADB will also increase the share of energy efficiency projects in its clean energy investments. ADB’s Urban Operational Plan, approved in 2013, will support integrated planning to catalyze climate-friendly, resilient, inclusive, and environmentally sustainable urban development.[54]

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[51] ADB. 2013. *Environmental Operational Directions 2013–2020: Promoting Transitions to Green Growth in Asia and the Pacific.* Manila.
[52] Energy efficiency is defined as delivered energy service per unit of energy supplied into a system.
[53] Clean energy projects are mainly in the energy (including hydropower, wind, and solar subsectors), transport, and water sectors, with some projects in the agriculture sector.
[54] ADB. 2013. *Urban Operational Plan*. Manila.

85. **Increasing assistance for sustainable transport.** ADB will invest $30 billion in transport from 2012 to 2021, focusing increasingly on sustainable transport.[55] The share of low-carbon and environmentally sound modes of transport in ADB's transport portfolio will increase by 2020 to 30% for urban transport (including public transport and nonmotorized transport) and 25% for railways—up from the average levels in 2000–2009 of 2% for urban transport and 17% for railways. ADB will also increase its support for inland waterways. ADB will incorporate sustainable transport principles in the formulation of transport priorities and pipelines in CPSs.

86. **Scaling up support for climate adaptation.** ADB will further mainstream adaptation and climate resilience in development planning, as well as in project design and implementation. This will be pursued, for instance, through systematic screening of infrastructure projects to identify those at risk of being adversely affected by climate change, and by "climate-proofing" vulnerable projects to make them resilient to climate change impacts. Additional grant financing will be sought for making projects more resilient to climate change, particularly in LICs and vulnerable sectors. Resources will be dedicated to allow climate risk management to be effectively built into project designs.

87. **Strengthening integrated disaster risk management.** To reduce vulnerability to natural hazards, ADB will expand its support for integrated disaster risk management and promote the integration of climate change adaptation with disaster risk management. ADB will invest in disaster and climate resilience through stand-alone projects (e.g., flood control and early warning systems). It will also support the development of disaster risk financing instruments (such as sovereign and household disaster insurance tools), and the design and implementation of comprehensive national disaster risk financing strategies. ADB will act as a regional conduit for sharing skills, knowledge, and expertise on disaster risk management among DMCs. A new operational plan for integrated disaster risk management capturing these key threads will be prepared and implemented.

88. **Promoting natural resource management.** ADB will continue to promote investments to protect, maintain, and improve the productive potential and performance of land, forests, and water resources. These will be pursued to support food, water, and energy security, as well as to maintain or sequester carbon in order to mitigate climate change. Protection and preservation of natural capital in this way would sustain economic and ecological benefits for poor and vulnerable communities that depend on it. ADB will also support regional cooperation initiatives for the management of large trans-boundary ecosystems and other public goods that sustain livelihoods in the region. It will help strengthen environmental policies and governance mechanisms to promote compliance and enforcement, and further integrate environmental considerations into the development process.

89. **Facilitating access to global and regional funds.** DMCs continue to need strong financial support to transition to an environmentally sustainable development path and to improve their resilience to climate change impacts. To provide this support, ADB has created innovative financing mechanisms such as the Clean Energy Financing Partnership Facility,[56] the

[55] ADB made this commitment at the United Nations Conference on Sustainable Development (Rio+20) in June 2012. ADB and seven other multilateral development banks committed themselves to investing more than $175 billion in loans and grants for developing countries that will help develop more sustainable transport systems.

[56] Established in April 2007 by the Government of Japan, the Clean Energy Financing Partnership Facility provides grants and concessional loans to DMCs to improve energy access and security, and to transition to low-carbon economies through cost-effective investments in technologies and practices that mitigate greenhouse gas emissions. As of 31 December 2013, financing partners had contributed $246.8 million to the facility.

Asia Pacific Carbon Fund, and the Future Carbon Fund. [57] In addition, ADB will help DMCs access other sources of environment and climate finance by increasing its engagement with international financing mechanisms, such as the Green Climate Fund, the Global Environmental Facility, new carbon market mechanisms, and innovative financing methods including payment for ecosystem services and bilateral sources. ADB will assist DMCs in developing a pipeline of relevant projects and in strengthening public financial management structures to enhance their readiness to receive, utilize, and monitor financial flows from such sources.

3. Regional Cooperation and Integration

90. Supporting RCI is a niche area and strength of ADB based on its unique position as a regional bank, its reputation as an honest broker and trusted partner of DMCs, and its accumulated and diverse experience working with and promoting RCI initiatives. Therefore, RCI—with its great promise for accelerating economic growth, raising productivity and employment, reducing economic disparities and vulnerabilities, and achieving closer policy coordination in support of regional and global public goods—will remain an important strategic agenda for ADB. ADB will vigorously implement its RCI strategy to achieve the target of at least 30% of its operations supporting RCI by 2020.[58]

91. **Support for second-generation RCI.** ADB's support for RCI has largely focused on increasing connectivity (para. 15). With the regional and global economic contexts now radically different, ADB will promote the drivers of second-generation RCI. Higher productivity and competitiveness of economies in all subregions, and concerted efforts to mitigate various forms of vulnerabilities (e.g., financial and those arising from natural hazards and communicable diseases) and address inequalities, will be the most critical drivers of second-generation RCI.

92. **Greater attention to trade facilitation and capacity building.** ADB will support the provision and implementation of regulations, procedures, and development services for RCI (e.g., trade facilitation, access to finance, skills development) in all subregions. This will complement the infrastructure that is being built and promote new growth centers for enhanced value chains. ADB will provide dedicated support for trade facilitation and harmonization of standards and practices to help boost competitiveness. To maintain and sustain growth in Asia and the Pacific, regional economies also need greater innovation and inclusiveness. Regional integration requires more momentum. At the same time, regional organizations need additional support. ADB will support capacity building, benchmarking, and results monitoring to help bridge the gap across subregional institutional arrangements.

93. **Expanding connectivity and extending value chains.** ADB will build on the connectivity within the Greater Mekong Subregion, the Central Asia Regional Economic Cooperation Subregion, and other subregions, as well as between subregions, to extend value chains. The opening up of Myanmar presents new opportunities and challenges for greater

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[57] The Asia Pacific Carbon Fund and the Future Carbon Fund provide additional financial resources for project development and implementation through the pre-purchase of emission reductions expected to be generated from Clean Development Mechanism projects hosted in ADB DMCs. The Asia Pacific Carbon Fund, which received funding commitments of $151.8 million, became operational in 2007 and focused on emission credits generated before the end of 2012. The Future Carbon Fund, which has funding commitments of $115 million, started operations in 2009 and contracts credits generated from 2013 to 2020. ADB serves as the trustee for both funds.

[58] ADB's RCI strategy identifies four pillars: (i) cross-border infrastructure and related regulations, procedures, and standards; (ii) trade and investment cooperation and integration; (iii) monetary and financial cooperation and integration; and (iv) cooperation in regional public goods. ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

connectivity between South Asia, East Asia, and Southeast Asia. ADB will undertake more innovative approaches to mobilize financial resources (including private resources) to address the unmet requirements and help build the missing RCI links. Upgrading transport corridors into economic corridors that connect economic hubs and generate trade, new businesses, and commercial opportunities will yield sustainable benefits within countries, between subregions, and across Asia and the Pacific. ADB will support the goal of the ASEAN Economic Community and other Asia-wide initiatives, and pursue the Asian Highway and the Trans-Asian Railway networks more vigorously. ADB will seek to develop a facility to help prepare regional projects. It will also increase its support for regional cooperation and trade in food and energy.

94. **Strengthening financial and monetary cooperation.** ADB will continue to facilitate financial and monetary cooperation in the various subregions by drawing on its experience in the ASEAN and ASEAN+3 subregions. To contribute to regional financial stability, ADB will continue its strong support to ASEAN+3 subregional initiatives, including Economic Review and Policy Dialogue, Asian Bond Markets Initiatives, and Chiang Mai Initiative Multilateralization. ADB will also assist other subregions in developing similar initiatives, and will help ensure greater overall financial, fiscal, and macroeconomic stability in the Asia and Pacific region.

95. **Supporting regional public goods.** ADB will also assist with regional public goods that support productivity and competitiveness, environmental protection, effective regional responses to climate change, control of communicable diseases, and disaster risk management to mitigate vulnerabilities and build resilience in and across subregions (para. 91).

4. Infrastructure Development

96. Given the huge financing needs for infrastructure (para. 49) and its critical role in building resilience to economic and environmental vulnerabilities, ADB will continue to focus on infrastructure investments to promote inclusive economic growth, improve access to services and opportunities, and strengthen regional integration. ADB support for infrastructure will constitute about two-thirds of its annual approvals.[59] However, ADB will reorient infrastructure investments during the remaining years of Strategy 2020 to achieve stronger results from these investments, as well as greater efficiency and effectiveness.

97. **Ensuring alignment with three strategic agendas.** ADB will seek to increase the impact and outcome of infrastructure operations by seeking to fully align infrastructure operations with Strategy 2020's three strategic agendas of inclusive economic growth, environmentally sustainable growth, and regional integration. Reducing vulnerability and improving the resilience of poor communities through infrastructure investments, particularly in lagging areas and regions, will be a specific objective.

98. **Improving implementation and sector engagement.** More attention will be given to project implementation to ensure that intended outcomes are delivered, and outputs are achieved in a timely and economic manner. Business processes will be streamlined to improve procurement and disbursement for more effective project implementation (para. 130). ADB's Safeguard Policy Statement, comprising environmental and social safeguards, will be applied appropriately. Infrastructure operations will be underpinned by long-term sector engagement

[59] The share of infrastructure development in ADB's annual approvals of assistance at this level supports the sharpening and rebalancing of operational focus, and is consistent with the planned support in other areas and sectors, including the proposed expansion in the share of assistance for education and health for the remaining years of Strategy 2020.

and stronger master plans and sector road maps to ensure that these investments address key development challenges and reflect strong government commitment to needed reforms.

99. **Emphasizing sustainability.** ADB will emphasize operational and financial sustainability of infrastructure projects. Operations and maintenance will be prioritized to support the effective delivery of services from infrastructure assets. Financial sustainability will be promoted through complementary investments to facilitate trade and promote economic activity in order to support income and revenue streams from infrastructure projects. Climate-resilience will be reflected in the design and implementation of projects.

100. **Project development and innovative financing.** ADB will improve leveraging of its own resources, and attract greater investments from the public sector, private sector, and other development partners. This will involve a combination of efforts including

- (i) using project preparation facilities and developing ones, such as the Asia Pacific Project Preparation Facility, to develop infrastructure projects on a scale larger than ADB's resources could finance—and at a level and quality that attracts private sector investment;
- (ii) linking bankable PPPs (Box 3) and other infrastructure projects to possible long-term financing sources, such as contractual savings and institutional investors, including pension, insurance, and equity funds;
- (iii) raising local currency financing in domestic capital markets for infrastructure development, and accelerating the use of credit enhancement products; and
- (iv) replicating innovative instruments for infrastructure financing, such as the ASEAN Infrastructure Fund, in other subregions of Asia and the Pacific.

101. **Policy reform and institutional strengthening.** ADB will support the broadening and deepening of policy, regulatory, tariff-related, and other governance reforms to promote the financial sustainability of infrastructure projects, enable the private sector and PPPs to support infrastructure, and improve the delivery of services from infrastructure assets. In addition, ADB will continue to invest in (i) institutional strengthening to improve public infrastructure management systems; and (ii) capacity development of executing and implementing agencies to strengthen construction, operation, and maintenance of infrastructure assets.

B. Responding to the New Business Environment

1. Middle-Income Countries

102. Asia and the Pacific is changing fast and so must ADB. As a large majority of its DMCs attain MIC status by 2020 (para. 41), ADB will sharpen its business model (paras. 103–107) to stay relevant and responsive to their development needs.

103. **Development challenges of middle-income countries.** Development needs do not end because a DMC attains MIC status. While MICs share some common characteristics, they differ widely in terms of their income and vulnerability levels, capacity, governance structures, and the range of development issues they face (paras. 54–56). MICs continue to encounter challenges in reducing poverty (about 90% of Asia's extreme poor lived in MICs in 2010) and vulnerability, especially in remote areas and with respect to marginal groups. Rising inequality is an increasing concern in most MICs. Environmental sustainability and building resilience to climate change impacts are also major challenges.

104. **Approach to lower middle-income countries.** LMICs continue to face issues similar to LICs (para 54). ADB will continue to focus on reducing poverty and vulnerability, achieving inclusive growth, and developing infrastructure; support innovative approaches to addressing development challenges; strengthen legal and regulatory frameworks and the quality of public institutions; and foster research into the causes of continuing deprivation, vulnerability, and inequality.

105. **Remaining challenges of upper middle-income countries.** UMICs, especially those in the middle-income trap, need to find ways to eradicate remaining poverty and tackle rising inequality, address the needs of aging populations including through improving social security systems, create decent jobs for youth, and mitigate environmental challenges. They also need to realize productivity gains, develop new products, promote greater labor market flexibility, and provide more sophisticated and complex services to reach and sustain rapid growth. To help address these challenges, UMICs expect ADB to have high levels of skills and knowledge, a diverse range of products and services, quick response times, and sophisticated idea exchanges, enabled by appropriate ICT. To remain relevant and supportive of UMICs, ADB will adopt a strategic approach that takes into account the diversity of their development challenges, needs, and expectations.

106. **ADB's support to upper middle-income countries.** ADB will help UMICs finance investment in sustainable infrastructure, address challenges arising from increased urbanization, promote trade development and facilitation, and facilitate knowledge transfers. Investment in human capital, especially higher education and skills development, is essential to productivity, innovation gains, and a reduction of inequality. ADB's education programs will support this goal (para. 72). ADB will assist in strengthening governance structures and promote world-class institutional capacities and frameworks in UMICs. In addition, ADB will ensure that UMICs actively participate in RCI and cooperate with other DMCs.

107. **Innovative partnership with upper middle-income countries.** ADB will pursue more innovative partnership with UMICs as a catalytic provider of solutions, a partner in finance, and a source of knowledge and technical skills relevant to their evolving challenges. ADB will upgrade and adapt itself to these needs. This may involve (i) reviewing and revising ADB's business processes to work with country systems and reduce response times; (ii) making more use of the results-based lending modality to ensure greater results orientation and flexibility; (ii) strengthening ADB's knowledge management, including through resident missions; (iii) recruiting and maintaining staff with the required skills; (iv) emphasizing and rewarding innovation in operations; and (v) increasing leveraging opportunities with private and philanthropic capital.

108. **Graduation from ADB assistance.** Under its existing graduation policy, ADB will help MICs progress towards graduating from its concessional to non-concessional financing, and then from non-concessional financing.[60] Graduation is based not only on reaching per capita gross national income thresholds, but also attaining adequate creditworthiness and realizing a certain level of development by key economic and social institutions. While continuing to address issues related to their graduation, ADB will work with MICs to focus on issues including regional public goods in trade, environment, climate change, health and financial stability. ADB will also facilitate a search for global best practices to address the remaining development challenges of MICs.

[60] ADB. 1998. *A Graduation Policy for the Bank's Developing Member Countries*. Manila; and ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank.* Manila.

2. Private Sector Development and Operations

109. More private investment is needed to address large infrastructure needs, support economic growth, create jobs, and reduce poverty. Building on the progress made during 2008–2012 to expand assistance for PSD and PSO (para. 23), ADB will systematically pursue Strategy 2020's target of scaling up ADB's PSD and PSOs to 50% of annual operations by 2020. ADB will increase the share of PSOs in OCR approvals from 15% to 25% by 2020.[61] It also needs to pursue opportunities in the private sector to support greater RCI and climate change and environment improvement. Therefore, PSOs will seek to add greater development value, while remaining consistent with the return requirements and risk–reward alignment inherent in private transactions.

110. **Improving internal coordination for private sector development.** While the investment climate in DMCs has improved, ADB needs to do more to help them attract needed private investment. ADB will strengthen its support for upstream work to improve business environments in DMCs, such as supporting key sector reforms. To increase the effectiveness of its growing support for PSD, including PPPs, ADB will promote seamless coordination and better alignment between regional departments and the Private Sector Operations Department (PSOD). To this end, "shadow" credits will be used to allow regional departments to take credit for PSOs, and for PSOD to take credit for supporting relevant public sector operations of regional departments, for which specific targets will be established.

111. **Transforming from project financier to project developer.** ADB will seek to transform itself from a project financier to a project developer and a resource mobilizer in order to raise financing from other development partners, including the private sector, for bankable PPP projects (Box 3). It will implement the PPP operational plan (footnote. 28), which will result in a substantial number of PPP transactions being awarded with implementation agreements signed by 2016. ADB will explore centralizing its PPP transaction advisory services team—with a clear mandate and targets—to oversee advocacy, the building of regulatory and institutional frameworks for PPPs, project development, and fostering viable financing of PPPs. ADB will also consider a dedicated TA facility on a cost-recovery basis for transaction advisory service mandates.

[61] ADB. 2011. *Work Program and Budget Framework, 2012–2014.* Manila.

Box 3: Preparing Bankable Projects for Public–Private Partnerships

For implementing public–private partnerships (PPPs), one major challenge is how to identify and prepare bankable projects. In addition to upstream work to improve the enabling environment, ADB is supporting a number of developing member countries through project preparation facilities and transaction advisory services.

In June 2011, for example, the Government of Mongolia selected ADB as its mandated advisor to structure the Combined Heat and Power Number 5 Project as a build-operate-transfer concession—a $1.2 billion investment. A multidisciplinary team with project finance and private sector legal skills was assembled to deliver this PPP advisory mandate. The prequalification process started in September 2011; 34 firms worldwide expressed interest in the project and 11 consortia made a submission. The four shortlisted consortia were asked to submit proposal documents in early 2012. Bids were received in May 2012 and the preferred bidder was announced in July 2012. After the project site was changed in December 2012, the government asked the final two bidders to submit their final offers in February 2013. The preferred bidder was announced in August 2013. ADB's advisory team is now assisting the government in its negotiations with the preferred bidder. The concession agreement is scheduled to be signed in the first quarter of 2014 with financial closure in 2015.

In November 2013, ADB was appointed as a transaction adviser to the state gas companies of Turkmenistan, Afghanistan, Pakistan, and India to help attract a private partner to lead the consortium that will build, own, and operate the planned 1,800-kilometer Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline. This project will aim to export up to 33 billion cubic meters of natural gas a year from Turkmenistan to critically unserved markets in South Asia, where energy needs are estimated to double by 2030. It will bring multiple benefits to the participants including access to new markets and greater energy security and job opportunities. The project will also help transform regional cooperation and boost other initiatives aimed at bringing peace and stability to the region. The implementation of the mandate is underway with the mobilization of the first batch of consultants who have started their due diligence. The recruitment of other consultants is ongoing.

ADB's work on these projects has demonstrated that by deploying the right skills mix, ADB can deliver quality advisory services to prepare bankable PPP projects.

112. **Promoting innovative financing solutions.** To increase the volume of PSOs, ADB will (i) promote greater use of credit enhancement products, (ii) improve ADB policies and practices with the objective of expanding external resource mobilization and balance sheet capacity, (iii) expand ADB's ability to provide local currency financing solutions, (iv) consider more fluid multiyear volume targets rather than fixed annual indicative planning figures, (v) increase TA for business development in key markets, and (vi) seek to expand the availability of capital to pursue more developmentally oriented debt and equity investments.

113. **Improving development impact and efficiencies.** ADB will seek to enhance its ability to undertake private sector projects with high development impact, particularly smaller transactions in ADF countries. To this end, ADB will

(i) streamline its business processes and decision-making for smaller deals, particularly those with potential for significant development impact that have higher up-front project risks and costs;

(ii) adopt more innovative financing approaches, including the blending of concessional resources from trust funds and ADF with OCR to enable the provision of more flexible debt, equity, and guarantee instruments. This will enable projects to demonstrate their viability, thereby enabling future financing on commercial terms;

(iii) explore opportunities to update country and sector limits for PSOs to increase capacity to undertake more developmental transactions;
(iv) upgrade risk management systems to support a greater risk appetite and an expansion of PSOs; and
(v) continue to explore opportunities to increase support for inclusive business in the private sector.

114. **Expanding regional cooperation.** To build on PSOs' successful support for RCI, ADB will launch a supply chain finance program for SMEs and intra-Asian trade, and will support cross-border infrastructure projects in close coordination with public sector projects. To mitigate climate change as part of the effort to promote regional public goods, ADB will continue to prioritize PSOs in clean and renewable energy.

3. Knowledge Solutions

115. Knowledge management is a driver of change under Strategy 2020 and an important element of ADB's finance++ approach, which integrates ADB's financing with leveraging of additional resources and support for knowledge solutions. DMCs increasingly seek ADB's knowledge to address complex challenges, improve the development impact of their operations, and develop into knowledge economies in today's integrated and interconnected global world.

116. **Strengthening knowledge management.** In view of lessons learned from ADB's past support for knowledge management (para. 28)—and to harness the potential of knowledge solutions more effectively—ADB is committed to improving knowledge management, especially knowledge sharing of best practices, by (i) enhancing internal coordination of knowledge management approaches; (ii) capturing knowledge embedded in investment operations; (iii) increasing resources for knowledge activities; and (iv) more effectively using ICT to facilitate easier access, sharing, and customized processing of knowledge.

117. **Adopting a "One ADB" approach to knowledge solutions.** All ADB departments and offices will work as "One ADB" in providing knowledge services. Knowledge operations will be integrated with ADB country programs, and knowledge management plans will be a required part of a CPS. Resident missions will seek knowledge partnership opportunities with DMCs, and coordinate ADB support. CoPs will become more actively involved in project processing and prepare high-quality best practice documents to support operations. Through its corporate results framework, ADB will regularly assess stakeholder perceptions of ADB as a source of knowledge, and the use of knowledge products through the ADB website.

118. **Expanding knowledge dialogue with DMCs.** Resident missions will work closely with the specialized knowledge departments, including the Economics and Research Department, Office of Regional Economic Integration, Regional and Sustainable Development Department, and Asian Development Bank Institute. Together, they will prioritize and undertake systematic and coordinated knowledge dialogue with DMCs on medium- and longer-term challenges. These include major challenges such as climate change, urbanization and migration, persistent vulnerabilities, widening inequality, the middle-income trap, aging populations, universal health service coverage, and food security. ADB will also support building statistical capacity to strengthen the evidence base for analysis and policy making in DMCs. ADB will expand its support for knowledge sharing among DMCs. It will also enhance its ability to assess emerging macroeconomic challenges in the region and devise means to respond effectively.

119. **Allocating resources for knowledge work.** Non-operations departments, such as the Treasury Department, Operations Services and Financial Management Department, Office of Risk Management, Office of Information Systems and Technology, and Office of the General Counsel, may allocate a proportion of staff and budgetary resources to policy development, capacity building, and advisory work. Regional TA of non-operations departments will be planned with the concurrence, active engagement, and support of regional departments to ensure that they meet DMC priorities. The allocation of TA resources will be aligned with the agreed CPS priorities, and their use and effectiveness will be strengthened. ADB will also strengthen assessment, recognition, and reward for knowledge work; resource allocations for knowledge functions will be adjusted to provide incentives for originality and innovation.

120. **Promoting stronger knowledge partnerships.** ADB will coordinate its knowledge work more effectively with other development partners, making use of its trusted partnership status with DMCs. It will seek to cement knowledge partnerships with multilateral development banks, the OECD, and other relevant institutions. All ADB databases on economic and social development in DMCs will be updated, integrated, and made available to stakeholders to support high-quality empirical research and analysis. ADB will also strengthen collaboration with policy and economic research institutions in DMCs and bilateral agencies on knowledge services.

C. Strengthening ADB's Capacity and Effectiveness

1. Financial Resources and Partnerships

121. The region continues to need large-scale development financing (para. 60). ADB cannot remain relevant without a certain scale of operations backed by adequate financial resources. Without sufficient financial resources, ADB will be unable to leverage other resources effectively. Without significant investment operations, DMCs will not appreciate ADB's knowledge work either. These critical concerns require placing capital mobilization, including through strengthening leveraging under its finance++ approach, at the center of ADB's strategy, business, and delivery model.

122. **Enhancing lending capacity.** ADB will enhance its lending capacity through various options including (i) controlling expenditures, (ii) increasing revenues, (iii) strategically reducing its loan exposure through various risk-mitigation measures and risk-transfer agreements, (iv) issuing special bonds,[62] and (v) exploring a capital increase once a consensus is reached. In addition, to ensure that ADF-recipient DMCs can benefit from enhanced levels of concessional resources, including those for private sector operations, ADB will consider combining ADF and OCR resources.

123. **Strengthening partnerships.** Strategy 2020 recognizes the value of partnerships in delivering ADB's agenda. ADB will strengthen its efforts to find strong multilateral and bilateral partners to complement its activities in the core areas of operations. The proposal to strengthen ADB's portfolios in other areas of operations will enhance its ability to engage with potential partners in them.

[62] Special bonds are a country-specific option for DMCs that want to increase their borrowing from ADB beyond the programmed levels. Special bonds would be bought entirely by one DMC at regular market terms and conditions. This would result in additional lending headroom for the particular DMC that buys the bonds. However, the bonds would include provisions that would allow ADB to stop making coupon payments on the bond if the loans and guarantees of that DMC were in arrears. In addition, the special bonds would automatically be rolled over as long as the arrears persist. ADB. 2013. *Enhancing ADB's Lending Capacity*. Manila.

124. **Deepening cofinancing partnerships.** ADB will seek to augment its financial resource base by (i) building new partnerships within and outside the region, including new private partners; and (ii) deepening and broadening existing partnerships by replenishing and expanding the size of partner commitments in framework cofinancing agreements. ADB will also aim to distribute or share risk with official and commercial cofinanciers to free up some lending headroom.

125. **Meeting the cofinancing target.** ADB will match its own resources with cofinancing to progress towards the long-term objective of having total annual direct cofinancing exceed the value of ADB's stand-alone project financing. To achieve this objective, institutional measures will be introduced, and staff and departmental incentives will be strengthened. Measures and incentives to be considered include

- (i) designing projects beyond ADB's lending capacity;
- (ii) designing and delivering CPSs and country operations business plans with substantive but credible cofinancing targets;
- (iii) increasing the cofinancing target in the results delivery scheme;
- (iv) linking the institutional cofinancing target with differentiated department targets;
- (v) providing incentives to departments that execute risk transfers, such as reducing capital and indicative resources' consumption of political risk guarantees (compared to loans and equity); and
- (vi) providing incremental resources to support cofinancing by allocating a portion of the earned administrative fees to project teams for the administration of cofinanced projects.

126. ADB will further examine measures to minimize transaction costs and procedural bottlenecks in areas such as procurement for both official and commercial cofinancing. An immediate priority will be resolving bottlenecks with cofinancing partners with a high potential for growth in the scale of contributions.

127. **Collaborating with civil society organizations**. ADB will attempt to work with a wide range of partners, including the private sector, civil society organizations (CSOs), and philanthropic agents. CSOs will be more actively involved in the design and implementation of projects, particularly those that use grassroots participatory approaches to development, and in the monitoring of project activities and outputs. Opportunities for direct engagement of CSOs (and international organizations) with ADB projects may be explored, while ensuring transparency and competition. CSO inputs and advice will be sought on the implementation of ADB's safeguard policies. They will also be proactively consulted on major policy reviews.

2. Delivering Value for Money in ADB

128. ADB is among the multilateral development banks that provide high value for money.[63] ADB will seek to increase institutional economy, efficiency, and effectiveness further. It will also

[63] Department for International Development. 2011. *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid through Multilateral Organizations.* https://www.gov.uk/government/publications/multilateral-aid-review. This review assesses multilateral institutions on their focus and impact on United Kingdom's development objectives, and the effectiveness of institutions in areas such as strategic and performance management, financial resource management, transparency and accountability, and cost and value consciousness.

ensure that its operations deliver results on the ground within the planned time frame, and at reasonable cost. ADB will strengthen the transparency of its assistance.

129. **Optimizing the use of ADB resources.** The performance of ongoing operations will be taken into consideration in allocating resources.[64] A prioritization mechanism to allocate TA resources more effectively will be developed. To ensure that projects deliver value for money through good designs and timely implementation, CPS and country programming will focus on comparative advantages. Longer-term sector engagement will be reflected in quality sector road maps. Project designs will continue to emphasize more accurate cost estimation, rigorous economic and financial viability, and least-cost analysis, together with considerations of relevance, efficiency, effectiveness, and sustainability.

130. **Implementing projects more effectively and reforming ADB's business processes**. To support better project implementation in light of the performance of completed and ongoing operations (paras. 30–31), ADB will

(i) emphasize total project readiness together with more strategic capacity development support to clients;
(ii) streamline business processes to reduce delays in project implementation and promote efficient and cost-efficient procurement;
(iii) implement ADB's new risk-based approach that seeks to reduce the time taken for procurement and drive better procurement outcomes (para. 32). Under this approach, ADB will focus its procurement supervision on contracts that are complex and critical to successful project implementation;
(iv) provide greater upstream procurement support during project preparation to improve procurement planning and executing agency readiness;
(v) use country systems, where feasible;
(vi) enhance portfolio management practices in regional departments;
(vii) optimize resident mission proximity to clients through better coordination with headquarters;
(viii) provide consultant services to complement and add value to staff resources, but discourage overdependence on consultants and manage their inputs better so they add more value for client DMCs; and
(ix) expand its work with a broad range of CSOs to improve project design and strengthen project monitoring (para. 127).

131. **Attaining higher cost-efficiency.** ADB will improve its administrative cost-efficiency. ADB is implementing business travel reforms and ensuring greater efficiency in the use of staff consultants, strengthening links between budget allocations and work programs, implementing cost-efficient outsourcing of administrative and noncore services, making greater use of resident mission staff capacity, and deploying staff flexibly across ADB.

132. **Improving service delivery through information and communication technology**. ADB will support greater use of ICT in developing more transparent and innovative development solutions, promoting greater efficiency in project implementation, and improving development outcomes. Staff capacity will be improved to integrate ICT solutions better. These solutions will be developed in close coordination with other partners to promote compatibility and develop

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[64] This is already done for ADF-financed projects through the performance-based allocation system.

local capacity and ownership. Lessons from ADB's ICT project components will be identified and incorporated to improve the design and implementation of future ICT interventions.

133. **Strengthening ADB's information and communication technology capacity.** ADB will pursue expanded and more effective use of ICT to help further simplify and streamline business processes, and reduce transaction costs for DMCs. ICT will support expanded access to ADB knowledge products and promote better communication. ADB will put ICT systems and platforms in place to provide seamless access to all key institutional and operational information, knowledge, and services regardless of location. Use of ICT, including social media, will lead to greater openness and transparency at all stages of ADB's project cycle.

134. **Monitoring outcomes.** ADB will more systematically apply results frameworks at the corporate, country, and project levels to measure and monitor performance from its operations and institutional measures. It will also more frequently monitor progress on outcomes and development effectiveness through operations review meetings. ADB's corporate results indicators will be better reflected into key results areas for individual departments and offices to track their performance and monitor their contribution to corporate results.

3. Organizing to Meet New Challenges

135. This MTR sets important new challenges for ADB, and calls for an organization that is dynamic, agile, innovative, and strongly focused on results. ADB will undertake comprehensive strengthening of its skills, incentives, and institutional arrangements to achieve this goal. The aspects that will be emphasized are discussed in paras. 136–143.

a. Strengthening Skills

136. **Addressing skills shortages.** As part of a talent management program initiated to increase organizational responsiveness and flexibility, ADB will adopt a structured workforce planning methodology to assess future resourcing and skill requirements, as well as identify organizational resource and skill gaps. Based on this exercise, a program of strategic and targeted recruitment will be undertaken to rapidly address critical staff shortages. This was identified as an important issue in the review of Strategy 2020 implementation (para. 34).

137. **Nurturing and retaining technical talent.** Maintaining and enhancing staff skills will be emphasized. Staff will be encouraged to undertake training programs, and enhancement of skills and qualifications will be recognized as a factor in promotion criteria. Where skill mismatches or performance issues are identified, staff exit options will be more regularly considered. To attract, motivate, and retain highly skilled technical staff, a career stream will be developed to allow them (on a selective basis) to progress to the highest grade levels without having to shift to general management positions. Additional measures will be adopted to further develop technical talent in the institution. Management may apply flexibility in the retirement age to retain required technical staff expertise.

138. **Preparing future leaders.** A managerial career stream will be developed, focusing on recognizing managerial potential of staff as the core criteria for managerial identification and development. Staff selected for management roles will be prepared through required participation in learning and development activities. Staff identified for such roles will be encouraged to undertake field assignments to strengthen their understanding of DMC systems and sharpen their relationship skills. To ensure high-quality leadership, ADB will consider

greater use of fixed-term tenures linked to appointments, in particular for management staff (starting with levels 9 and 10), and more systematic performance assessments, including 360 degree feedback. Succession planning for senior levels and key positions, and recruitment for important skills, will be undertaken at least 6 months in advance of known vacancies.

b. Aligning Goals and Incentives

139. A committed and motivated staff is essential to achieving ADB's goals. ADB will create an environment where staff are recognized and rewarded for achieving outcomes, effectively managing projects, using innovative and problem-solving approaches, and demonstrating strong client orientation—not only for processing loan and TA projects. The staff performance evaluation system will be revised accordingly to include greater emphasis on project implementation, client orientation, innovation and knowledge management, and leveraging of resources. Introducing a scorecard system for all departments for their key results areas will enhance results orientation and accountability. Good scores will result in departmental recognition, team awards, and career credits.

c. Strengthening the Institutional Setting

140. **Reviving sector focus**. ADB's institutional structure is centered on integrated regional departments, encompassing a wide range of staff skills. While improving country focus, this structure has also led to a dispersion and attrition of knowledge and technical skills across ADB. At the same time, the sector focus has been lost and less attention has been given in recent years to analytical work to advance understanding of sector challenges, opportunities, and prospects. Going forward, long-term sector engagement will be reemphasized, underpinned by sound sector analysis and the use of programmatic assistance. Furthermore, coordination and overlapping mandates between departments continue to be issues that will be addressed.

141. **Strengthening skills sharing and team approach**. ADB will strengthen the sharing of skills interdepartmentally and develop a critical mass of technical people in areas where staff numbers are limited in order to service all regional departments. Sharing of resources across departments will be made the norm rather than an exception. Mobilizing interdepartmental and interdisciplinary teams will be emphasized more to provide timely and effective services to client DMCs under the "One ADB" approach.

142. **Streamlining knowledge functions**. Knowledge functions will be executed more efficiently by clearly defining departmental responsibilities and mandates. To ensure that knowledge work is operationally relevant, staff from operations departments may be rotated through specialized knowledge departments and vice versa. Mobility across operations departments will also be encouraged. CoPs will be further motivated to undertake and disseminate relevant knowledge work.

143. **Empowering resident missions.** Greater decentralization and empowerment of resident missions are needed (para. 36). Recognizing the increasing complexity of country operations and the demand for quick and knowledgeable responses, ADB's resident missions will be provided with greater capacity, authority, and mandate. ADB will pursue further delegation of work and deployment of staff to resident missions for project administration, including procurement and safeguards, and for PPP work and knowledge management. Recognizing the crucial role of resident mission staff in client relations, highly rated and qualified staff will continue to be posted to them. Good performance in a resident mission—and the experience of working in more than one department—will be considered an additional

qualification for career advancement. National staff responsibilities will continue to be upgraded, commensurate with ability and experience.

V. REQUEST FOR BOARD GUIDANCE

144. The Board's guidance is sought on ADB's strategic priorities for 2014–2020 as described in Section IV (paras. 64–143). The Board's comments on Section IV and other sections of this working paper will be taken into consideration in formulating an R-paper.