In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgment as to the legal or other status of any territory or area.
OVERVIEW OF ADB’S SUITE OF ANNUAL CORPORATE PERFORMANCE REPORTS

The Asian Development Bank (ADB) prepares a suite of three complementary yet distinct corporate performance reports annually. All three reports share the common goals of learning, and accountability to ADB shareholders and other stakeholders. This overview summarizes the unique focus, purpose, and value addition of each report. It maps their common areas of focus to cross-refer the reader between the reports for information about common topics.

<table>
<thead>
<tr>
<th>FOCUS</th>
<th>PURPOSE AND VALUE ADDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Evaluation Review</td>
<td>The Board-required report of the Independent Evaluation Department (IED) is produced to promote accountability and learning. It focuses on the operational performance and results of ADB and provides a synthesis of the evaluations prepared by IED in the preceding year and an in-depth analysis of performance trends of completed operations. It includes a special topic to strengthen results, and reports on Management’s acceptance and implementation of IED recommendations.</td>
</tr>
<tr>
<td>Development Effectiveness Review</td>
<td>The review is Management’s flagship report on ADB’s performance in achieving the priorities of its corporate strategy, using indicators in the corporate results framework as the yardstick. Focusing on operations financed by ADB, it assesses ADB’s development effectiveness, highlights actions ADB has taken to improve, and identifies areas where ADB’s performance needs to be strengthened.</td>
</tr>
<tr>
<td>Annual Portfolio Performance Report</td>
<td>The report provides a strategic overview and analysis of the performance trends, size, composition, and quality of ADB’s active portfolio based on key indicators. It includes all operations and projects, including those funded by special funds and cofinancing fully administered by ADB. It identifies key issues, actions taken by departments to support improvement, and lessons for future ADB interventions, and makes recommendations for improvement to ADB Management.</td>
</tr>
</tbody>
</table>
ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
ALB – abnormally low bids
APA – alternative procurement arrangement
APPR – annual portfolio performance report
CAR – contract award ratio
CDF – contingent disaster financing
CRF – Corporate Results Framework, 2019–2024
CWRD – Central and West Asia Department
DMC – developing member country
EARD – East Asia Department
FAST – faster approach to small nonsovereign transactions
FCAS – fragile and conflict-affected situations
FIL – financial intermediary loan
HIC – high income country
IRR – internal rate of return
IT – information technology
LIC – low-income country
LMIC – lower middle-income country
MFF – multitranche financing facility
MFI – microfinance institution
MFP – Microfinance Risk Participation and Guarantee Program
NPF – 2017 procurement framework
NSO – nonsovereign operations
OCR – ordinary capital resources
ORM – Office of Risk Management
PARD – Pacific Department
PBL – policy-based loan
PCR – project completion report
PPFD – Procurement, Portfolio and Financial Management Department
PPR – project performance rating
PRC – People’s Republic of China
PRF – project readiness financing
PSOD – Private Sector Operations Department
Q – quarter
S2030 – Strategy 2030
SARD – South Asia Department
SCFP – Supply Chain Finance Program
SEFF – small expenditure financing facility
SERD – Southeast Asia Department
SIDS – small island developing states
SME – small and medium-sized enterprise
SPP – strategic procurement planning
TA – technical assistance
TCR – technical assistance completion report
TFP – Trade Finance Program
UMIC – upper middle-income country
VFM – value for money
WARR – weighted average risk rating

NOTES
(i) In this report, “$” refers to United States dollars.
(ii) Totals may not sum precisely because of rounding.
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**Director General**
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Luz N. Vargas, Portfolio Management Officer (Systems Support), PFPM, PPFD
Eiko Wataya, Project Management Specialist (Capacity Building), PFPM, PPFD
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# SOVEREIGN PORTFOLIO

A. Composition and Trend  
B. Key Findings  
C. Recommendations

# NONSOVEREIGN PORTFOLIO

A. Portfolio Movement  
B. Portfolio Concentration  
C. Other Key Findings  
D. Financial Performance  
E. Portfolio Quality  
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1. 2019 Sovereign Portfolio: Key Indicators  
2. 2019 Nonsovereign Portfolio: Financial Statement  
3. Status of the Portfolio Performance Actions Recommended in 2018  
4. Update on 2019 Committed Actions by Regional Departments  
5. Sovereign Operations Glossary  
6. Nonsovereign Operations Glossary
ADB’s combined portfolio surpassed $100 billion in 2019.

2019 Sovereign Portfolio
$88.8 billion

2019 Nonsovereign Portfolio
$13.9 billion

2019 Overall Portfolio
$102.6 billion

$79.1 billion loans (no. = 703)
$7.4 billion grants (no. = 351)
$1.6 billion TA projects (no. = 835)
$0.5 billion guarantee (no. = 1)
$0.2 billion equity (no. = 1)

685 projects were funded by loans and grants

2019 Nonsovereign Portfolio
$13.9 billion

$10.3 billion loans and other debt securities
$0.1 billion TA projects
$1.7 billion guarantees
$1.8 billion equities

207 projects

ADB’s combined portfolio surpassed $100 billion in 2019.

2019 Overall Portfolio
$102.6 billion

685 projects were funded by loans and grants

ADB = Asian Development Bank; ANR = agriculture, natural resources, and rural development; BAN = Bangladesh; EDU = education; ENE = energy; FIN = finance; IND = India; no. = number; PAK = Pakistan; PRC = People’s Republic of China; TA = technical assistance; TRA = transport; VIE = Viet Nam; WUS = water and other urban infrastructure and services.

Note: Figures may not sum precisely because of rounding.

Source: Asian Development Bank data.
EXECUTIVE SUMMARY

Introduction

The annual portfolio performance report (APPR) provides the Asian Development Bank (ADB) Board and Management with a strategic overview of ADB’s active portfolio with regard to portfolio trends, size, composition, and quality. The report identifies key issues and makes recommendations. It builds on ADB project implementation reports and project information databases. The APPR includes lessons for future ADB interventions.

The 2019 APPR covers both the sovereign and nonsovereign portfolios. In 2018, ADB switched sovereign and nonsovereign portfolio reporting from approvals to commitment based. The active sovereign committed portfolio comprises loans, grants, technical assistance (TA), guarantees, and equities based on commitments.\(^1\) The nonsovereign portfolio has historically included commitments in its analysis of loans and other debt securities, guarantees, and equities, and hence the approach to nonsovereign portfolio reporting remains unchanged.

2019 Overall Portfolio

**Portfolio quality as major focus.** The 2019 Planning Directions emphasized focusing on quality operations.\(^2\) Achieving volume targets remains important for reaching the intended development outcome, but it is also essential to maintain a high quality portfolio. A quality portfolio of both sovereign and nonsovereign operations requires aligning strategy, strengthening collaboration between the sector and thematic groups and resident missions, and improving implementation efficiency. A strong focus on project and procurement readiness is essential, while quality supervision by ADB is a key contributor to the quality of project implementation. A quality portfolio is a precursor to delivering on Strategy 2030 (S2030) targets and outcomes.\(^3\) Delivering on S2030 also requires stronger collaboration between sovereign and nonsovereign operations in the context of One ADB. ADB will be monitoring closely the impact of the recent Covid-19 outbreak on overall portfolio performance.

**The sovereign portfolio grew by $3.7 billion compared to 2018.** The active portfolio was $88.8 billion at the end of 2019, consisting of 1,891 loans, grants, TA, a guarantee, and an equity investment. The portfolio consists of 685 active loan and grant projects with an average project size of $126.3 million, compared with $121.8 million in 2018. Total new commitments in 2019 were $19.4 billion, loan closures $12.9 billion, and cancellations $2.7 billion. The investment lending modality accounted for more than 90% of the overall portfolio. Of the projects approved

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\(^1\) The portfolio covers operations funded by regular ordinary capital resources (OCR), concessional OCR lending (COL), Asian Development Fund (ADF), other special funds, and cofinancing fully administered by ADB. The Development Effectiveness Review report covers only operations funded by ADF, COL and OCR.


in 2019, 82.8% were design-ready and 50.0% were procurement-ready at approval; these are both improvements with respect to 2018, although procurement-ready at approval projects remained below the target of 60.0%. The average corporate end-to-end procurement time improved from 269 days in 2018 to 265 days in 2019.

Nonsovereign committed portfolio surpassed $13 billion. The total committed portfolio increased by 11.0% to $13.8 billion at the end of 2019 (14.5% growth in 2018). Total new commitments in 2019 were $3.0 billion, closures $0.8 billion, and cancellation or write offs $0.8 billion. The number of commitments in 2019 reached 38, exceeding the planning target of 32, and accounted for 24% of total ADB commitments, marking progress toward the S2030 target of 33% by 2024. In 2019 disbursements increased by 15.7% to $2.3 billion, and the outstanding portfolio increased by 15.2% to $10.1 billion. During 2015–2019, both the committed and outstanding portfolio increased by over 70%.

Portfolio quality of sovereign operations mixed. The quality of the portfolio quality considers key performance metric related to project readiness, project performance during implementation, supervision quality, output quality, and overall implementation efficiency. Contract awards reached $10.6 billion in 2019, for an overall ADB contract award ratio of 25.5%. However, time from signing to first contract increased by 0.7 months year-on-year, to 10.8 months. The contract award ratio performance in fragile and conflict-affected situations (FCAS) developing member countries (DMCs) averaged 8.7%, compared to 27.2% across small island developing states (SIDS). The 2019 bank-wide disbursement ratio of 19.6% was lower than the 21.1% achieved in 2018, despite achieving $9.5 billion of disbursements, or 93.1% of ADB’s 2019 target. Starting in 2020, disbursement targets will reflect a differentiated approach that considers historical performance across country groupings to align to S2030. Project implementation will become increasingly challenging given that the gap between commitments and contract awards has risen steadily since 2016, widening in 2018 and narrowing somewhat in 2019. Regional departments’ access to TA and trust fund resources enhances portfolio quality and provides critical support for project implementation. Challenges persist with respect to weak capacity, and allocating adequate TA resources to address institutional strengthening, an operational priority of S2030, is critical.

Project implementation time did not improve. The average implementation period for sovereign loan and grant projects in 2019 from signing date to financial closure was 7.1 years, up from 6.5 years in 2018. Perennial challenges such as land acquisition, contractor performance, weak capacity, and lack of counterpart funding persist in sovereign operations. It is common for an active portfolio to have its share of outlier projects that take exceptionally long to implement which distorts portfolio quality. A water resources project in Afghanistan, an information and communication technology project in Nepal, an energy project in Pakistan, and an agrarian reforms project in the Philippines had a combined average an implementation period of 12 years. Two projects in Afghanistan with an average grant amount of $10 million had an implementation period of 13.3 years suggesting that project size and implementation progress are independent. Removing outlier projects from the computation reduces the average implementation period to 6.8 years, still longer than the 6.5 years for all projects in 2018.

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4 Total committed portfolio is defined as (i) committed loan, other debt security and equity (carrying or fair value) portfolio, which consists of outstanding balances plus undisbursed balances; and (ii) the committed guarantee portfolio, which consists of outstanding balances on executed guarantees plus non-executed commitments.
### Performance of Key Sovereign Portfolio Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018</th>
<th>2019</th>
<th>Target</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design-ready (%)</td>
<td>80</td>
<td>83</td>
<td>80</td>
<td>▲ 3%</td>
</tr>
<tr>
<td>Procurement-ready (%)</td>
<td>46</td>
<td>50</td>
<td>60</td>
<td>▲ 4%</td>
</tr>
<tr>
<td>Procurement processing time (%)</td>
<td>67</td>
<td>67</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>End-to-end procurement time (days)</td>
<td>269</td>
<td>265</td>
<td>-</td>
<td>▲ 4 days</td>
</tr>
<tr>
<td>Signing to first contract (months)</td>
<td>10.1</td>
<td>10.8</td>
<td>-</td>
<td>▼ 0.7 months</td>
</tr>
<tr>
<td>Contract awards age &lt; 2 years ($ billion)</td>
<td>5.4</td>
<td>6.0</td>
<td>-</td>
<td>▲ $0.6 billion</td>
</tr>
<tr>
<td>Contract awards ($ billion)</td>
<td>10.2</td>
<td>10.6</td>
<td>-</td>
<td>▲ $0.4 billion</td>
</tr>
<tr>
<td>Contract award ratio (%)</td>
<td>25.7</td>
<td>25.5</td>
<td>-</td>
<td>▼ 0.2%</td>
</tr>
<tr>
<td>Uncontracted (%)</td>
<td>39.4</td>
<td>40.3</td>
<td>-</td>
<td>▼ 1.0%</td>
</tr>
<tr>
<td>Disbursements ($ billion)</td>
<td>9.2</td>
<td>9.5</td>
<td>10.2</td>
<td>▲ $0.3 billion</td>
</tr>
<tr>
<td>Disbursement ratio (%)</td>
<td>21.1</td>
<td>19.6</td>
<td>-</td>
<td>▼ 1.5%</td>
</tr>
<tr>
<td>Undisbursed (%)</td>
<td>59.7</td>
<td>60.8</td>
<td>-</td>
<td>▼ 1.1%</td>
</tr>
<tr>
<td>Project performance rating (on track) (%)</td>
<td>75</td>
<td>74</td>
<td>-</td>
<td>▼ 0.8%</td>
</tr>
<tr>
<td>Implementation period (years)</td>
<td>6.5</td>
<td>7.1</td>
<td>-</td>
<td>▼ 0.7 years</td>
</tr>
</tbody>
</table>

▲ = improvement from 2018, ▼ = decline from 2018, ⇔ = no change, - = no target.

Sources: Asian Development Bank data.

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**The 2017 procurement framework is in full implementation.** Further to the efforts on the rollout of the 2017 framework in 2018, other activities in 2019 further supported the implementation of the framework with the launch of 17 videos and an e-learning course made accessible to both internal and external clients. Over 54 workshops and seminars were held to address capacity building and knowledge sharing. There were 114 approved projects at the end of 2019 using the new framework. A number of ongoing projects under the prior 2015 guidelines have adopted some new features introduced in the 2017 framework including strategic procurement planning, value for money, life-cycle cost, abnormally low bids, and electronic procurement.

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

**New sovereign project performance rating system to be effective in 2020.** Three existing project performance rating (PPR) system indicators (technical, financial management, and safeguards) were strengthened to better reflect project performance, while the other two indicators (contract awards and disbursements) remain unchanged. The PPR system is a valuable project management tool to help project teams focus implementation risk mitigation efforts at an early stage.
Implementation Progress of 2018 APPR Recommendations in 2019

**Sovereign Operations**

**Recommendation 1:** Further strengthen project implementation to narrow the gaps between annual commitments and contract awards, and disbursements.

**Progress:** The gap between commitments and disbursements narrowed to $4.5 billion but this was because of higher cancellations for $2.7 billion, and not because disbursements increased against the annual target.

**Recommendation 2:** At the project design stage, set a realistic implementation period.

**Progress:** The average implementation period at design averaged 4.8 years in 2019, compared to an actual implementation time of 7.1 years for projects which closed in the same year.

**Recommendation 3:** Adopt a revised approach to setting annual disbursement targets to accurately reflect country capacity and situation.

**Progress:** 2020 disbursement target-setting adopted a differentiated approach aligned to S2030 to reflect the country situation and institutional capacity.

**Recommendation 4:** Further strengthen the guidelines on preparing and monitoring project completion reports (PCR) to ensure timely circulation.

**Progress:** The PCR circulation guidelines were strengthened, relevant project administration instructions revised and disclosed, and an automatic alert system launched.

**Lessons Learned and Issues**

**Sovereign Operations**

1. Portfolio quality has been uneven in 2019 and needs to be improved, considering the increasing level of commitments, and implementation of S2030.
2. The portfolio’s age profile is showing little improvement, indicating that projects may take longer to achieve the development objectives.
3. With more projects shifting to the 2017 procurement framework, project teams need to ensure procurement objectives meet the criteria of value for money and quality.
4. The PPR system is frequently used as a project team performance assessment tool rather than a project implementation feedback tool to better direct project team efforts.
5. The project supervision capacity of DMCs is constrained by limited resources and weak project management skills.

**Nonsovereign Operations**

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Key Recommendations from the 2019 Portfolio Highlights

SOVEREIGN

1. Sector and country teams to focus on enhancing the quality of the active portfolio through quality project design, strong project implementation performance, and high quality ADB supervision.

2. Leverage the use of the project readiness financing (PRF) and small expenditure financing facility (SEFF) modalities across all sectors to reduce project implementation time and age profile of the portfolio.

3. Prior to approval, each investment project, except for emergency assistance loans, should complete a robust strategic procurement planning with well-defined performance indicators to capture value for money.

4. Use the revised PPR system effectively as a project management tool (not as a project team performance assessment tool) to track implementation risks and identify appropriate mitigation measures early.

5. Adopt tailored programs addressing country and regional specific interventions, training requirements and priorities that can be integrated into the local institutional development strategies.

NONSOVEREIGN

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]
SOVEREIGN PORTFOLIO
Figure 2: Sovereign Operations

Portfolio quality improved from project design

Key project implementation indicators generally strong

Projects taking longer than planned

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*a* Percentage of procurement contract transactions of $10 million and above processed within 40 days or less. Source: Asian Development bank data.
ADF = Asian Development Fund; AFG = Afghanistan; ANR = agriculture, natural resources, and rural development; AZE = Azerbaijan; BAN = Bangladesh; COL = concessional OCR lending; CWRD = Central and West Asia Department; EARD = East Asia Department; EDU = education; ENE = energy; FIN = finance; GEO = Georgia; IND = India; INO = Indonesia; KMSD = knowledge management and sustainable development departments; OCR = ordinary capital resources; OSF = other special funds; PAK = Pakistan; PARD = Pacific Department; PHI = Philippines; PRC = People’s Republic of China; SARD = South Asia Department; SERD = Southeast Asia Department; SRI = Sri Lanka; TRA = transport; VIE = Viet Nam; WUS = water and other urban infrastructure and services.

Source: Asian Development Bank data.
SOVEREIGN PORTFOLIO

A. Composition and Trend

1. **Active sovereign portfolio is growing both in volume and number of projects.** The active portfolio increased by 28.4% since 2015. The 5-year annual portfolio growth (Figure 4) has been positive by both size and project count, confirming the role of the Asian Development Bank (ADB) as a multilateral institution responding to the development needs of Asia and the Pacific. Splitting the portfolio by country groupings shows substantial growth in both the fragile and conflict-affected situations (FCAS) portfolio (54.1%), and small island developing states (SIDS) portfolio (68.2%). In FCAS developing member countries (DMCs), volume in terms of amount has grown, but the number of projects has declined, reflecting project closures and the entry of larger projects into the portfolio. In SIDS, however, the number of projects has been relatively constant despite a substantial increase in the portfolio, indicating larger projects are being prepared.

![Figure 4: ADB Overall Portfolio, 2015–2019 ($ billion)]

<table>
<thead>
<tr>
<th>Year</th>
<th>Products</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,789 products</td>
<td>69.1</td>
<td>71.3</td>
<td>77.6</td>
<td>85.0</td>
<td>88.8</td>
</tr>
</tbody>
</table>

Note: Products consist of loans, grants, technical assistance, equity investment, and sovereign guarantee. Source: Asian Development Bank data.

![Figure 5: Sovereign Portfolio at a Glance]

1 January 2019

**$85.0 billion**

- $75.4 billion loans (no. = 684)
- $7.5 billion grants (no. = 353)
- $1.5 billion TA projects (no. = 825)
- $0.5 billion guarantee (no. = 1)
- $0.2 billion equity (no. = 1)

681 projects were funded by loans and grants

31 December 2019

**$88.8 billion**

- $79.1 billion loans (no. = 703)
- $7.4 billion grants (no. = 351)
- $1.6 billion TA projects (no. = 835)
- $0.5 billion guarantee (no. = 1)
- $0.2 billion equity (no. = 1)

685 projects were funded by loans and grants

**NET CHANGE $3.7 billion**

**COMMENTS**

- **$19.4 billion**
- **$2.7 billion CANCELLATIONS**
- **$12.9 billion CLOSURES**

**$2.7 billion**

no. = number, TA = technical assistance. Source: Asian Development Bank data.

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5 ADB’s 10 developing member countries affected by fragility and conflict are Afghanistan, Federated States of Micronesia, Kiribati, Marshall Islands, Myanmar, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu.

2. **Strategy 2030 and a differentiated approach.** Strategy 2030 (S2030) prioritizes support for the region’s poorest and most vulnerable countries (footnote 3). Analysis of portfolio composition by segregation into country groups helps in visualizing ADB assistance across the (i) FCAS DMCs, (ii) SIDS, (iii) low-income countries (LICs), (iv) lower middle-income countries (LMICs), (v) upper middle-income countries (UMICs), and (vi) high-income countries (HICs).

3. **Lower middle-income countries have the highest share of the active portfolio.** The LMIC group of developing member countries (DMCs) is a mix of Group A (concessional assistance only), Group B (ordinary capital resources [OCR] blend countries) and Group C (regular OCR only). Considering that the FCAS countries, SIDS, and LICs are recipients of concessional assistance (except for Palau, Papua New Guinea, Cook Islands, Fiji, and Timor-Leste) because of their size and lower absorptive capacity, the portfolio distribution reflects the annual resources available for commitment (Figure 6).

4. **Growth in fragile and conflict-affected situations and small island developing states portfolio.** The FCAS and SIDS combined active portfolio has grown by 55.9% in 5 years. ADB has adopted the multilateral development bank harmonized approach for classifying FCAS. The approach uses an average of ADB’s country performance assessment and the World Bank’s country policy and institutional assessment. Countries rated below 3.2 on a scale of 0–6 are classified as FCAS. The presence of a United Nations peacekeeping or peace-building mission during the previous 3 years also categorizes a country as a FCAS.
5. The FCAS portfolio grew from $4.5 billion in 2015 to $6.9 billion in 2019. SIDS portfolio growth was more modest from $1.8 billion to $3.1 billion over the same period. Aligned to S2030, ADB constantly seeks ways to boost support in FCAS countries and to further enhance its effectiveness. The combined portfolio of both groupings by the end of 2019 was $7.7 billion (Figure 7).  

6. ADB’s special support is required for the vast developmental needs of Afghanistan and Myanmar, where it has adopted a conflict sensitive approach. In SIDS, the portfolio focuses on regional cooperation and connectivity, with investments in quality infrastructure, institutional capacity building, and private sector development. ADB increased its overall allocations to FCAS DMCs in the Asian Development Fund (ADF) 12th replenishment by more than 40% compared to ADF 11. Of this, about $1.1 billion was in grants (an increase of 23.0%), with about $1.9 billion in concessional OCR loans (an increase of 56.0%), including a continuation of the special allocation for re-engaging in Myanmar. ADB also increased the performance-based allocation and special allocation for Afghanistan.

7. Lower middle-income countries. Four of the five largest portfolios are in the LMICs. India held the largest share with 15.4% of the portfolio, followed by the People’s Republic of China (PRC) at 13.9%, Bangladesh with 11.1%, Pakistan at 8.9%, and Viet Nam at 6.0%. These five DMCs accounted for 55.3% of the portfolio (Figure 11), versus 56.5% in 2018. The LMICs and UMICs have larger portfolios, reflective of their higher absorptive capacity. In aggregate, the portfolio movement for the top five DMCs increased by $1.0 billion despite the decline in Viet Nam’s portfolio as a result of stricter conditions on the use of development assistance.

8. Half of ADB’s overall lending assistance supports the transport and energy sectors. The high share is attributed to ADB’s support for investments in larger infrastructure projects to expand transport connectivity and promote economic growth. The combined share of energy and transport was $49.4 billion, or about 55.7% of the total committed portfolio. This is understandable considering developing Asia needs to spend at least $1.7 trillion annually to maintain sound growth. The two sectors combined have grown by 18.3% since 2015, compared with growth of more than 28.4% across all other sectors. Energy and transport sector concentration is also high in both FCAS DMCs and SIDS (Figure 12).

9. Investment lending remains primary lending modality. Of the 685 active loan and grant projects, more than 90% (645 projects for $77.3 billion) were investment projects. Results-based lending increased by $149.9 million from 2018; the 18 projects accounted for 2.6% by number, and a 5.7% ($4.9 billion) share in terms of volume. Policy-based lending was used for 29 projects, or 4.2% in terms of number, accounting for 4.9% ($4.2 billion) in terms of value. There were a total of 132 multitranche financing facility (MFF) projects in 2019, accounting for 19.3% of projects by number and $19.8 billion by value, a slight drop from 149 MFF projects ($20.9 billion) in 2018.

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11 For DMCs classified as both FCAS and SIDS, the portfolio numbers present the net amount, with no double counting.
Figure 7: ADB Portfolio, Fragile and Conflict-Afflicted Situations, 2015–2019 ($ billion)

Note: Products consist of loans, grants, technical assistance, equity investment, and sovereign guarantee. Source: Asian Development Bank data.

Figure 8: ADB Portfolio, Small Island Developing States, 2015–2019 ($ billion)

Note: Products consist of loans, grants, technical assistance, equity investment, and sovereign guarantee. Source: Asian Development Bank data.

Figure 9: Portfolio Composition ($ billion)

FCAS = fragile and conflict-affected situations, HIC = high-income country, LIC = low-income country, LMIC = lower middle-income country, SIDS = small island developing states, UMIC = upper middle-income country. Source: Asian Development Bank data.

Figure 10: Portfolio Composition by Department (number)

CWRD = Central and West Asia Department, EARD = East Asia Department, KMSD = knowledge management and sustainable development departments, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department, TA = technical assistance. Source: Asian Development Bank data.

Figure 11: Country Concentration


Figure 12: Portfolio Distribution by Sector, FCAS, and SIDS ($ billion)

ANR = agriculture, natural resources, and rural development; EDU = education; ENE = energy; FCAS = fragile and conflict-affected situations; FIN = finance; HLT = health; ICT = information and communication technology; IND = industry and trade; PSM = public sector management; SIDS = small island developing states; TRA = transport; WUS = water and other urban infrastructure and services. Source: Asian Development Bank data.
New project readiness modalities gaining traction. Project readiness financing (PRF) and the small expenditure financing facility (SEFF) were introduced in 2018 with streamlined business processes. Since 2018, 11 PRFs amounting to $109.4 million and 1 SEFF for $10.0 million have been approved; the Central and West Asia Department (CWRD) leads with 5 PRFs and 1 SEFF for $59.2 million (Figure 13), or 49.5% of the total. The Southeast Asia Department (SERD) and East Asia Department (EARD) have none to date (Table 1). The real impact of PRF remains to be assessed as some projects are not yet effective. The high rate of readiness modalities in Central Asia and the Pacific results from the higher concentration of DMCs classified as FCAS and SIDS, reflecting weaker borrower capacity. SIDS alone have a 14.6% share of PRF approvals. Use of the readiness modalities has been concentrated in the water supply sector, likely for historical reasons, such as poor governance, inadequate regulatory frameworks, and weak institutional capacity. The use of the PRF and SEFF modalities should be expanded to other sectors.

**Table 1: Project Readiness Financing and Small Expenditure Financing**

<table>
<thead>
<tr>
<th>Approval No.</th>
<th>Product</th>
<th>Country</th>
<th>Dept</th>
<th>Title</th>
<th>Sector</th>
<th>Net Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Readiness Financing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1</td>
<td>6014</td>
<td>Grant</td>
<td>SOL</td>
<td>PARD</td>
<td>Preparing the Urban Water Supply and Sanitation Sector</td>
<td>WUS</td>
</tr>
<tr>
<td>2</td>
<td>6015</td>
<td>Loan</td>
<td>PAK</td>
<td>CWRD</td>
<td>Khyber Pakhtunkhwa Cities Improvement</td>
<td>WUS</td>
</tr>
<tr>
<td>3</td>
<td>6016</td>
<td>Grant</td>
<td>PAK</td>
<td>CWRD</td>
<td>Khyber Pakhtunkhwa Cities Improvement</td>
<td>WUS</td>
</tr>
<tr>
<td>4</td>
<td>6018</td>
<td>Grant</td>
<td>TON</td>
<td>PARD</td>
<td>Transport Project Development Facility</td>
<td>TRA</td>
</tr>
<tr>
<td>5</td>
<td>6019</td>
<td>Loan</td>
<td>BAN</td>
<td>SARD</td>
<td>Urban Infrastructure Improvement Preparatory Facility</td>
<td>WUS</td>
</tr>
<tr>
<td>6</td>
<td>6020</td>
<td>Loan</td>
<td>UZB</td>
<td>CWRD</td>
<td>Project Readiness Financing for Urban Services</td>
<td>WUS</td>
</tr>
<tr>
<td>7</td>
<td>6022</td>
<td>Grant</td>
<td>TAJ</td>
<td>CWRD</td>
<td>Tourism Development</td>
<td>WUS</td>
</tr>
<tr>
<td>8</td>
<td>6023</td>
<td>Loan</td>
<td>BAN</td>
<td>SARD</td>
<td>Dhaka Mass Rapid Transit Development Project Readiness Financing (Line 5, Southern Route)</td>
<td>TRA</td>
</tr>
<tr>
<td>9</td>
<td>6024</td>
<td>Loan</td>
<td>GEO</td>
<td>CWRD</td>
<td>Livable Cities Investment Program</td>
<td>WUS</td>
</tr>
<tr>
<td>10</td>
<td>6025</td>
<td>Grant</td>
<td>VAN</td>
<td>PARD</td>
<td>Luganville Urban Water Supply and Sanitation</td>
<td>WUS</td>
</tr>
<tr>
<td>11</td>
<td>6026</td>
<td>Grant</td>
<td>FSM</td>
<td>PARD</td>
<td>Chuuk Water Supply and Sanitation</td>
<td>WUS</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>109.4</strong></td>
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</tbody>
</table>

**Small Expenditure Financing Facility**

<table>
<thead>
<tr>
<th>Approval No.</th>
<th>Product</th>
<th>Country</th>
<th>Dept</th>
<th>Title</th>
<th>Sector</th>
<th>Net Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0001</td>
<td>Grant</td>
<td>KGZ</td>
<td>CWRD</td>
<td>Multisector Activities Support Facility</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>10.0</strong></td>
</tr>
</tbody>
</table>

BAN = Bangladesh, CWRD = Central and West Asia Department, Dept. = department, FSM = Federated States of Micronesia, GEO = Georgia, KGZ = Kyrgyz Republic, No. = number, PAK = Pakistan, PARD = Pacific Department, SARD = South Asia Department, SOL = Solomon Islands, TAJ = Tajikistan, TON = Tonga, TRA = transport, UZB = Uzbekistan, VAN = Vanuatu, WUS = water and other urban infrastructure and services.

* Figures may not sum precisely because of rounding.

Source: Asian Development Bank data.
11. **Financial intermediary loan modality increasingly attractive.** In 2019, over $3.1 billion of financial intermediary loans (FILs) were active. The FIL is attractive as it offers the flexibility to identify new subprojects during implementation if the proposed subprojects meet technical, financial and safeguards due diligence testing. In addition, FILs tend to disburse much more rapidly than traditional project loans, adding to the increased demand for FILs, and their contribution to portfolio quality.

12. **Contingent disaster financing introduced in 2019.** Unlike the emergency assistance lending modality, which occurs only after a disaster event, and has a processing time of up to 12 weeks, contingent disaster financing (CDF) supports DMCs in strengthening disaster preparedness and providing rapid-disbursing budget support following natural disasters. Two CDF projects were approved in 2019: (i) $24.0 million in financing for the second phase of the Pacific Disaster Resilience Program to help strengthen and boost disaster resilience efforts in the Federated States of Micronesia, the Marshall Islands, Solomon Islands, and Tonga; and (ii) a $10.0 million policy-based loan facility to support the second phase of the Cook Islands’ Disaster Resilience Program using the CDF option.

13. **A $1 billion special policy-based loan for Pakistan.** The quick disbursing loan complemented a comprehensive multi-donor economic reform program led by the International Monetary Fund to stabilize the country’s economy. The International Monetary Fund program aims to catalyze total financing of about $38.6 billion over 3 years from Pakistan’s international partners, including ADB, World Bank, Islamic Development Bank and other bilateral partners. Pakistan became the first country to avail of the special policy-based loan modality offered by ADB.

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12 ADB. Regional. *Pacific Disaster Resilience Program (Phase 2).*
13 ADB. Cook Islands. *Disaster Resilience Program (Phase 2).*
Box 1: Experience in Using New Modalities

### Central and West Asia Department
ADB’s first SEFF was approved in 2019 for the Kyrgyz Republic. PRF modalities used to assist in project preparation (e.g., design, safeguards and procurement) were approved and signed in 2019, with several more PRFs in the pipeline.

### East Asia Department
TA facilities for project processing, are useful in improving project processing efficiency and simplifying TA administration. This allows for preparing several projects with the same theme (e.g., the Yangtze River economic belt and for the Beijing–Tianjin–Hebei air pollution reduction projects), and for early engagement of consultants.

### Pacific Department
PARD continues to improve project readiness, making use of PRF to prepare large investment projects for ports in Nauru and Samoa, a road project in Solomon Islands, and a road and port project in Tonga, as well as water sector investments in Kiribati, Solomon Islands, and Vanuatu. In 2019, PARD committed four PRF loans.

### South Asia Department
PRF is used to ensure procurement readiness after approval. In 2019, SARD processed two large PRF loans in Bangladesh for the transport ($33.3 million) and urban ($11.0 million) sectors. SARD also uses the transaction TA facility to speed up project readiness of pipeline projects. In 2019, SARD processed 10 transaction TA facilities.

### Southeast Asia Department
SERD has used the TA loan modality, a predecessor of PRF, in Indonesia, Viet Nam, and the Philippines to enhance the design readiness of pipeline projects. Presentations on the PRF and SEFF modalities were conducted and SERD will continue working closely with DMCs to help them understand the benefits. The use of transaction TA facilities is being expanded for more rapid response to client needs for project preparation and for due diligence of proposed projects.

**ADB = Asian Development Bank, PARD = Pacific Department, PRF = project readiness financing, SARD = South Asia Department, SEFF = small expenditure financing facility, SERD = Southeast Asia Department, TA = technical assistance.**

**Source:** Asian Development Bank, regional departments.

### B. Key Findings

#### 1. Portfolio Age

**Age profile of the portfolio became longer.** In 2019, 43.1% of the active committed portfolio was 2 years or less in age,\(^{14}\) compared to 48.2% in 2015. Similarly, in 2019, 7.4% of projects were aged 8 years or more (Figure 14) compared to only 5.0% in 2015. There is no obvious trend in the portfolio age among country groupings, except for LICs, where the average age is 4.8 years, well above the combined average age for FCAS and SIDS DMCs of 3.8 years (Figures 17 and 18). While new commitments have increased in recent years, the composition of projects with aged 8 years or more has also increased. This implies that project teams need to further address quality at entry and project readiness to improve portfolio age. Expanding the use of PRF and SEFF is critical to boosting project readiness and reducing the age of the portfolio to deliver the intended development objectives.

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\(^{14}\) Refers to the average time from commitment to the end of the reporting period for active products.
Figure 14: Project Portfolio by Number, 2019

Source: Asian Development Bank data.

Figure 15: Project Portfolio by Amount, 2019 ($ billion)

Source: Asian Development Bank data.

Figure 16: Average Age of Project Portfolio, 2015–2019 (years)

Source: Asian Development Bank data.

Figure 17: Portfolio Age, FCAS and SIDS (years)

FCAS = fragile and conflict-affected situations, SIDS = small island developing states.

Source: Asian Development Bank data.
2. Implementation Readiness

15. **ADB has taken strong actions to address readiness.** Considerable steps have been taken to improve both project and procurement readiness. Expanding the use of both PRF and SEFF modalities provides much-needed flexibility to enhance project start-up activities. Of all projects approved in 2019, 82.8% were design-ready, up from 80.0% in 2018, and 50.0% were procurement-ready, up from 45.7%.

16. Time from project signing to first contract award was 10.8 months, longer than the 2018 achievement of 10.1 months. Taking advance actions such as advance contracting—which facilitates higher project readiness at project approval and signing—may be challenging for some DMCs. Therefore, departments must continuously address bottlenecks through policy dialogue and technical assistance (TA).

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15 Project start-up is when the loan is made effective and works can proceed.
Box 2: Design and Procurement-Readiness

Central and West Asia Department

Of a total of 11 approved CWRD projects in 2019, 9 (82%) were design-ready.

East Asia Department

In 2019, EARD was able to process several design-ready and procurement-ready projects in both the PRC and Mongolia only for additional-financing projects. An amendment of the procurement law in Mongolia allows advance actions. In Mongolia, EARD will start using PRF to the extent possible in 2020 to achieve full project readiness in 2022. In the PRC, although there is no legal restriction on advance actions, some implementing agencies are reluctant to conduct advance actions until the on-lending agreements are signed, which happens only after the signing of loan agreement between ADB and the PRC.

Pacific Department

PARD is actively pursuing project readiness. In 2019, the share of procurement ready projects was 22%, and of design-ready projects 78%. PARD processed five PRF loans in 2019, of which four were committed; one was approved and slated for commitment in 2020. Five more PRF loans are planned for processing in 2020.

South Asia Department

SARD uses TA and project readiness facilities for project preparation. Portfolio and project implementation TAs help serve to build the capacity of executing and implementing agencies and address specific implementation issues. Project readiness reviews form part of project concept papers and project categorization meetings.

Southeast Asia Department

In 2019, 88% of SERD’s projects were design-ready. SERD worked to improve project readiness by involving procurement and safeguards specialists much earlier in project design to ensure efficient contract packaging and advance procurement, considering environmental and social safeguards compliance requirements. Project readiness was also enhanced through effective use of TA facilities and a TA loan, and coordination with development partners for the advance preparation of engineering designs and procurement documents. In addition, SERD’s Project Readiness Improvement Trust Fund supported the design and project readiness of two infrastructure projects approved in 2019. Additional support is expected in 2020.

ADB = Asian Development Bank, CWRD = Central and West Asia Department, EARD = East Asia Department, PARD = Pacific Department, PRC = People’s Republic of China, PRF = project readiness financing, SARD = South Asia Department, SERD = Southeast Asia Department, TA = technical assistance.

Source: Asian Development Bank, regional departments.
3. **Procurement**

17. **End-to-end procurement time improved.** The definition of “average end-to-end procurement time” was updated and made consistent with ADB’s Corporate Results Framework, 2019–2024 (CRF).starting in 2019, it is defined as the period from advertisement to contract signing to better capture the time dedicated to the procurement transaction itself. This applies to contracts with a value of $10 million and above. The end-to-end procurement time improved from 269 days in 2018 to 265 days in 2019 (Figure 19). CWRD averaged 307 days for 13 transactions while SERD averaged 142 days for 3 transactions (Figure 20). In both cases delays were attributed to the need to meet safeguards requirements and the poor quality of bid evaluation reports.

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### Figure 19: End-to-End Procurement Time by Approving Authority, 2017–2019
($10 million and above prior review contracts)

<table>
<thead>
<tr>
<th>Year</th>
<th>RD</th>
<th>RD + PPFD</th>
<th>PC</th>
<th>ADB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>170</td>
<td>104</td>
<td>98</td>
<td>207</td>
</tr>
<tr>
<td>2018</td>
<td>185</td>
<td>35</td>
<td>18</td>
<td>218</td>
</tr>
<tr>
<td>2019</td>
<td>189</td>
<td>57</td>
<td>27</td>
<td>252</td>
</tr>
<tr>
<td>2017</td>
<td>175</td>
<td>52</td>
<td>203</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>218</td>
<td>35</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>275</td>
<td>27</td>
<td>269</td>
<td></td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank; EA = executing agency; No. = number; PC = Procurement Committee; PPFD = Procurement, Portfolio and Financial Management Department; RD = regional department.

Source: Asian Development Bank data.

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### Figure 20: End-to-End Procurement Time by Department, 2017–2019
($10 million and above prior review contracts)

<table>
<thead>
<tr>
<th>Year</th>
<th>CWRD</th>
<th>EARD</th>
<th>PARD</th>
<th>SARD</th>
<th>SERD</th>
<th>ADB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>199</td>
<td>134</td>
<td>134</td>
<td>172</td>
<td>172</td>
<td>436</td>
</tr>
<tr>
<td>2018</td>
<td>247</td>
<td>141</td>
<td>141</td>
<td>273</td>
<td>273</td>
<td>340</td>
</tr>
<tr>
<td>2019</td>
<td>238</td>
<td>174</td>
<td>174</td>
<td>254</td>
<td>254</td>
<td>299</td>
</tr>
<tr>
<td>2017</td>
<td>264</td>
<td>198</td>
<td>198</td>
<td>276</td>
<td>276</td>
<td>274</td>
</tr>
<tr>
<td>2018</td>
<td>187</td>
<td>210</td>
<td>210</td>
<td>268</td>
<td>268</td>
<td>241</td>
</tr>
<tr>
<td>2019</td>
<td>160</td>
<td>229</td>
<td>229</td>
<td>299</td>
<td>299</td>
<td>229</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, CWRD = Central and West Asia Department, EA = executing agency, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.

Source: Asian Development Bank data.

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18. The procurement processing time is the period from receipt of the bid evaluation report to ADB’s approval of the executing agency’s recommendation. The CRF does not define an annual target for the percentage of bids with a processing time of 40 days or less but sets a target of reaching 80% by 2024. The percentage of bid evaluation reports, regardless of fund sources, processed within 40 days was 67%, unchanged from 2018 (Figure 21). However, 71% of transactions financed by concessional OCR loans and ADF grants were processed within 40 days in 2019, up from 60% in 2018. To reach the 2024 CRF target ADB needs to continue working closely with borrowers to improve the quality of bid evaluation reports, and thereby minimize the need for extensive requests for clarifications.

19. **Consulting services recruitment time improved for ADB-administered contracts.** The average recruitment time for firms hired under quality- and cost-based selection for technical assistance (TA) projects averaged 163 days in 2019, down from 178 days in 2018. For loan consulting services administered by the borrower, the total average review time for the three submissions related to the request for proposal declined by 3.5 days to 18.5 days in 2019, from 22 days in 2015.

20. ADB’s individual consulting services unit has reduced the overall time between clearance of documents to contract offer from 4 days in 2015 to 2 days in 2019. For TA contracts, the period from clearance of documents to contract offer has been reduced from 5 days in 2015 to 3 days in 2019.

21. The average time taken by user units to process contract variations improved from 7.25 days in 2015 to 3.5 days in 2019 as a result of training to improve the standard of submissions. The average turnaround time improved from 1.1 days in 2015 to 1 day in 2019.
4. Implementation of the 2017 Procurement Framework

22. The 2017 procurement framework is in full implementation. In 2018, 24 guidance notes, 8 standard bidding documents, 9 user guides, and 4 staff instructions were released to guide implementation of the 2017 procurement framework (NPF), which was also the focus of over 33 training and capacity building activities for borrowers and staff. These activities supported full implementation of the NPF in 2019; 17 videos—including a video on major changes to ADB’s procurement framework and 16 videos on guidance notes—were launched highlighting the guidance notes, and an NPF e-learning course was developed and made accessible to both internal and external clients. Over 54 workshops and seminars were held to address capacity building and knowledge sharing.

23. The number of projects using the 2017 procurement framework is increasing. The NPF has been applied to (i) projects with concept paper approved on or after 1 July 2017, (ii) projects under preparation with quality assurance meetings scheduled on or after 1 October 2017, and (iii) ongoing projects with procurement transactions commencing on or after 1 October 2017. The number of approved projects using the NPF is presented in Table 2. A number of ongoing projects under the previous guidelines of 2015 have adopted some features covered under the NPF, including strategic procurement planning (SPP), value for money (VFM), life-cycle cost, abnormally low bids (ALBs), and electronic procurement (e-procurement).

Table 2: Status of Approved Projects, 2017–2019

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th></th>
<th>2018</th>
<th></th>
<th>2019</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Projects</td>
<td>%</td>
<td>No. of Projects</td>
<td>%</td>
<td>No. of Projects</td>
<td>%</td>
</tr>
<tr>
<td>Using NPF</td>
<td>2</td>
<td>3</td>
<td>39</td>
<td>34</td>
<td>69</td>
<td>61</td>
</tr>
<tr>
<td>Using old guidelines</td>
<td>60</td>
<td>83</td>
<td>61</td>
<td>53</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Not applicable(a)</td>
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<td>14</td>
<td>16</td>
<td>14</td>
<td>20</td>
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<td>Total</td>
<td>72</td>
<td>100</td>
<td>116</td>
<td>100</td>
<td>114</td>
<td>100</td>
</tr>
</tbody>
</table>

No. = number. NPF = 2017 procurement framework.
\(a\) Policy-based and results-based loans and grants are not applicable.
Source: Asian Development Bank data.

24. Project teams are taking steps to use key 2017 procurement framework features. Alternative procurement arrangements (APAs), VFM, SPP, ALBs, open competitive bidding, high-level technology, and procurement in FCAS are being used by borrowers as they strive for quality procurement. Mainstreaming SPP into each ADB-financed investment project, except for emergency loans, is gathering pace, with 15 projects using this feature in 2019.

25. Second alternative procurement arrangement signed. In December 2019, ADB signed a second agreement with the European Bank for Reconstruction and Development on APA allowing cofinanced projects to follow a single procurement framework. ADB signed a similar agreement with the World Bank in 2018. Under the NPF, the APAs allow one bank to be the lead cofinancier on a project, with the procurement of all or a portion of the contracts under the project to follow the lead cofinancier’s procurement policies and procedures. This arrangement allows cofinanced projects to be implemented more efficiently by applying a single framework to the entire project, thereby reducing transactional costs for ADB’s clients. ADB is negotiating similar arrangements with other multilateral agencies. Expanding their use will further reduce the burden on executing and implementing agencies that have traditionally used multiple procurement frameworks on a single cofinanced project.
26. **Standard bidding documents.** A provision on ALBs was introduced in the standard bidding documents, which provides guidance for determining and treating ALBs during evaluation, including possible rejection of such bids if the evidence provided by the bidder does not satisfactorily justify the low bid price. The provisions introduced in the bidding documents are already having an effect in ADB-financed projects. In 2019, five bids were identified as potentially abnormally low with a total value in excess of $1.2 billion. In three instances, bids were rejected. In another case, the borrower's commercial protections were increased against nonperformance, and in the last case, evidence was requested and produced to substantiate the bid price. This validates the need for such provisions to decrease the risk of poor implementation performance, and thereby increase value-for-money in ADB-financed procurement.

27. **Maximizing value-for-money in ADB-financed procurement.** The NPF defines VFM as a core procurement principle, which is the first time this has been done by ADB. The key principle is for the borrower to obtain optimal benefits through effective, efficient, and economic use of resources by applying, as appropriate, the core procurement principles and related considerations, which may include life cycle costs and socioeconomic and environmental development objectives of the borrower. Price alone may not sufficiently represent VFM. For example, a review of high-value power generation subsector contracts awarded in 2019 established that 60% were awarded based on life-cycle costs and not price alone.

28. **Tracking the delivery of value for money.** Several indicators are used to track the delivery of increased VFM, balancing quality with cost. These indicators will be used during project preparation and implementation, with periodic reporting to track progress in achieving greater VFM. During the procurement stage, it is important that ADB project teams ensure that borrowers select a combination that meets procurement objectives and is most beneficial with respect to cost.

(i) The Procurement, Portfolio and Financial Management Department (PPFD) developed indicators to be used at the project procurement planning stage:
(a) SPP completed for 100% of sovereign investment projects (excluding emergency loans) that have their fact-finding mission in a given year; and
(b) rate the quality of SPPs on a scale of 1 to 5, reworking those with a score of 3 or below.

(ii) The SPPs will be reviewed and evaluated using the following criteria:
(a) the SPP identifies a clear VFM proposition through appropriate procurement arrangements (packaging, evaluation criteria and contract forms), with the VFM proposition reflected in the report and recommendation of the President;
(b) existence of clear linkages between the SPP analysis (capacity, risk, external, market), the VFM proposition, and the procurement plan in project documentation;
(c) quality and relevance of the analysis regarding the strengths and weaknesses of the procuring entity;
(d) procurement risk identification (quality, comprehensiveness and relevance), and implementation of mitigating measures;
(e) quality and relevance of the analysis of the external environment affecting procurement, including stakeholder management; and
(f) quality and relevance of the supply market analysis.
At the bidding and contract award stage, the following indicators directly related to VFM and quality will be used:

(a) number of contracts using merit point and quality (such as social, environmental, others) scoring system (for contracts $20 million and above);

(b) number of contracts using lowest evaluated life cycle cost (for contracts $20 million and above);

(c) number of contracts using high level technology; and

(d) number of contracts where bids were either rejected or required higher bid securities to secure performance on the grounds in the case of abnormally low bids (for contracts $20 million and above).

At the project completion stage, assessments will be made by project teams as to whether the procurement undertakings contributed to achieving VFM as intended.

### Box 3: Increasing Value for Money and Quality

An investment program led by the South Asia Regional Department and implemented by the Government of Rajasthan aims to improve the state’s road transport performance to facilitate more efficient, safe, and sustainable movement of people and goods. It includes constructing or rehabilitating about 2,000 kilometers of state highways. The borrower proposed an innovative hybrid annuity contracting model that differs significantly from international standard contract forms. Under the model about 50% of the costs are paid against milestones to the contractor during construction, with the balance paid over the useful life of the asset, typically 7 to 15 years. This creates a common incentive to ensure the asset's long-term performance. Early results from application of the model are positive. Most of the construction for ADB-financed contracts has been completed on time or earlier; as a result, the asset is available on time or 9 months before it would be under traditional contracts. There have been no cost overruns, compared to an average of 23% cost overruns under traditional contracts. The design flexibility granted to contractors gives them the scope to innovate in pursuit of efficient pricing. These factors contribute to achievement of value for money and the expected quality of the asset.

The Malolos-Clark Railway Project in the Philippines is constructing an elevated railway line, with a maximum train speed of 160 kilometers per hour. Once operational, the line is expected to ease chronic road congestion in and around Metro Manila; reduce air pollution, and transport and logistics costs; and boost economic growth. Procurement under this project introduced a point-scoring system for the evaluation of technical bids by considering non-price elements such as quality of overall project management, work implementation, programming and project administration. This will contribute to achieving better value for money, as the contract award decision will be based not only on the bid price but the quality of the technical bid, which presupposes timely contract implementation.

ADB = Asian Development Bank.

ADB. Philippines. Malolos-Clark Railway Project.

Source: Asian Development Bank, Procurement, Portfolio and Financial Management Department.
29. **The procurement complaints tracking system was launched in May 2019.** This SharePoint-based system is a central database for all operations procurement and consulting services complaints received by ADB, which covers complaint submission, assignment, processing, tracking, responding, and closing. The system also provides insights for analytics, reporting and strategic responses, leading to better projects and strengthening of country systems. The operation of this system marks a significant improvement by ADB in managing procurement-related complaints. The number of complaints received in 2019 is in Table 3. The NPF stipulates that procurement complaints should be addressed objectively and in a timely way, with transparency and fairness.

### Table 3: Status of Procurement Complaints

<table>
<thead>
<tr>
<th>Procurement of goods, works, and non-consulting services-related complaints</th>
<th>Total Received (1 Jan–31 Dec 2019)</th>
<th>Open (as of 31 Dec 2019)</th>
<th>Closed (as of 31 Dec 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant recruitment-related complaints</td>
<td>30</td>
<td>0</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank data.

30. **National e-procurement platforms.** ADB continues to promote the use of national e-procurement platforms under sovereign operations; using e-procurement promotes efficiency through faster procurement review processes and better alignment with national procurement systems. ADB has promoted e-procurement as a key component of procurement reforms in DMCs. Mainstreaming e-procurement has the potential to enhance procurement transparency and provide wider access to information and markets. ADB has provided $3.5 million in technical resources to strengthen the Asia Pacific Public Electronic Procurement Network. The value of ADB funding of all contracts indicated in all procurement plans to be advertised in 2019 and to be procured using e-procurement was approximately $4.5 billion.

31. **Capacity building.** Full NPF implementation must be backed up by vigorous capacity building of borrowers and staff. In 2019, 31 workshops were completed, with 1,080 participants; 25 targeted borrowers, and 6 were held for regional departments. Furthermore, 23 outreach activities for 788 participants were completed—these included 22 NPF-related activities for government staff, sector divisions, and operations focal points, with 1 training activity for ADB’s national procurement officers. Over 1,800 government staff and procurement practitioners benefited from a combination of training and outreach activities. E-learning to gain practical working knowledge on NPF application is now available. Ten e-learning modules have been introduced, with over 550 registered users as of the end of 2019.

32. Other activities include (i) creation of a procurement website that contains information on institutional procurement, business opportunities, ADB operations procurement and links to resources—e.g., ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time), guidance notes, staff instructions, standard bidding documents and user’s guides, standard request for proposals and user’s guides, e-learning modules, multimedia videos, and procurement complaints tracking system); and (ii) the launch of 17 videos to showcase the purpose of the related guidance notes.
33. Progress in implementing the framework is monitored, with monthly reporting during the NPF implementation supervision committee meetings, quarterly reporting through memorandums to the Vice President (Administration and Corporate Management), and annual reporting through an Across the Board Seminar to ADB’s Board of Directors. An evaluation of the NPF by the Independent Evaluation Department is tentatively scheduled for 2022.

34. ADB is committed to improving procurement efficiency. Measures are already in place and others are being reviewed to improve the quality and efficiency of procurement transactions (Figure 23). Procurement staff continue to be either strategically placed in sector divisions or outposted to resident missions to support the project cycle from country partnership strategy preparation to project completion.

**Figure 23: Stronger, Better, Faster Procurement**

- **Reducing transaction costs for the DMCs** using alternative procurement arrangements by means of corporate framework agreements signed with the World Bank and the European Bank for Reconstruction and Development.
- **Capturing value-for-money** in project procurement at project processing and throughout the project cycle.
- **Modernizing business processes and improving operational efficiency** with Procurement Committee threshold revised from $40 million to $50 million and Consulting Selection Committee threshold from $600,000 to $750,000.
- **Strengthening governance** with the launch of an online procurement complaint tracking system and financial management action plan to strengthen DMC financial management capacities.
- **Maintaining a strong country presence** with outposted and strategically placed procurement specialists.

DMC = developing member country.
Source: Asian Development Bank, Procurement, Portfolio and Financial Management Department.

### 5. Contract Award and Disbursement Performance Overview

35. **Disbursement targets to be linked to Strategy 2030.** As of 2018, ADB stopped setting targets for contract awards and focused only on disbursement targets, which more accurately reflect the progress of project implementation. A revised methodology was adopted for setting the 2020 target and aligning it to S2030. This was determined using a differentiated approach considering the 3-year historical disbursement ratio performance of each country group, volatility, portfolio size, and striking a balance between corporate- and department-level targets. Special consideration was given to Afghanistan. This balance is needed to sustain ADB’s overall portfolio health and to establish a target that strikes a balance between realism and ambition. For 2020, the 3-year average of disbursement ratios from 2017–2019 were grouped by FCAS countries, SIDS, LICs, LMICs, UMICs, and HICs.
Box 4: Fragile and Conflict-Affected Situations and Small Island Developing States

Central and West Asia Department

(i) ADF 12 has been the most important financing source of ADB operations in Afghanistan, and this will continue through ADF 13
(ii) Strict project readiness filters are in place for Afghanistan through an enhanced project delivery approach and by ensuring safeguards compliance.
(iii) Strengthening the procurement capacity of procurement authorities and implementing agencies.
(iv) Optimizing the size of procurement packages to achieve more competitive bidding.
(v) Using pre-bid site visits for contractors to assess security costs.
(vi) Conducting training on contract management.
(vii) Including security management included as a responsibility of the contractor.

Pacific Department

(i) PARD applies a differentiated approach to SIDS and FCAS DMCs in overall strategic planning, country strategy formulation and in design and implementation of projects.
(ii) The Pacific islands are among the most vulnerable to natural hazards and climate change and twice used the new CDF modality to provide rapid access to resources to enable the government to initiate disaster response and early recovery efforts.
(iii) PARD conducted a fragility assessment in Papua New Guinea that will be an input to the country partnership strategy, 2021–2025 to ensure infrastructure, operational, and maintenance arrangements respond to challenges facing SIDS and FCAS DMCs.
(iv) ADB approved regional TA to assist SIDS to adopt longer-term planning horizons, promote cross-sectoral synergies, and support more programmatic approaches.
(v) Throughout 2019, ADB fostered the use of One-Project-One-Consultant throughout Pacific SIDS, which encourages the use of a single consultant from pre-feasibility and/or feasibility stage of a project through to implementation.

Southeast Asia Department

(i) ADB stepped up efforts to engage with CSOs and to strengthen overall consultation and participation approaches.
(ii) SERD resident missions maintain regular communication and consultation with a wide range of CSOs, including those operating in highly sensitive conflict-affected areas.
(iii) Building the capacity of executing and implementing agencies to effectively engage with CSOs.
(iv) Project teams ensure CSOs are consulted extensively throughout project design and implementation, especially for operations in or near conflict-affected areas.

ADB = Asian Development Bank, ADF = Asian Development Fund, CDF = contingent disaster financing, CSO = civil society organization, DMC = developing member country, FCAS = fragile and conflict-affected situations, PARD = Pacific Department, SERD = Southeast Asia Department, SIDS = small island developing states, TA = technical assistance.
Source: Asian Development Bank data.
36. **Contract awards and disbursements trending upwards.** Contract awards and disbursements are leading indicators of progress toward achieving a project’s expected outputs and outcome. In 2019, contract awards reached a high of $10.6 billion—a 3.8% increase from 2018 and a 29.8% increase from 2015. Project disbursements, excluding policy-based loans (PBLs), reached $9.5 billion—a 3.3% increase ($301.4 million) from 2018 and a 34.1% increase from 2015 (Figure 24). Project disbursements achieved 93.1% of the 2019 target of $10.2 billion.

37. **Record policy-based loan disbursements in 2019.** The total annual disbursement through the PBL modality was $5.0 billion versus a target of $2.0 billion—an achievement of 252.0%. A $1 billion special policy-based loan to Pakistan was provided in response to the government’s request; this was not in the 2019 program but further boosted disbursements. Factoring in PBLs, sovereign disbursements rose to $14.5 billion, for a disbursement ratio of 29.1%.

38. **A decrease in contract award and disbursement ratios.** The contract award ratio (CAR) was 25.5%—lower by 0.2 percentage points than the 25.7% in 2018. The disbursement ratio was also marginally lower at 19.6%, down from 21.1% in 2018. These declines are attributed to the recent increase in commitments.

39. **Contract award ratio historically constant.** The average CAR for 2015–2019 averaged 26.9%. South Asia Deparment (SARD) consistently exceeded the ADB-wide target of 26.0% with an average CAR of 37.4%, followed by Pacific Department (PARD) with an average of 30.8%. CWRD averaged 24.1%, EARD 21.6%, and SERD 19.4%.

*Source: Asian Development Bank data.*
40. Notable contract award levels were seen in India ($2.6 billion), Bangladesh ($1.9 billion), and the PRC ($1.3 billion), equating to CARs of 46.6% (India), 41.3% (Bangladesh), and 19.8% (PRC). The combined CAR for the top three performers was 34.5%, well above ADB’s average of 25.5%, and up 5.1 percentage points from the 2018 combined CAR (Figure 25). India’s significantly higher CAR is due to the practice of making projects as ready as possible prior to ADB approval.

41. The uncontracted beginning balance at the start of 2019 was $41.8 billion, $10.4 billion (33.3%) higher than the 2015 level of $31.3 billion as a result of higher commitments added to the portfolio since 2015. The PRC had the largest uncontracted beginning balance ($6.8 billion), followed by India ($5.7 billion) and Bangladesh ($4.6 billion). These three DMCs alone accounted for 40.8% of the total uncontracted beginning balance.

42. The uncontracted balance at the end of 2019 was $31.3 billion (40.3%), an increase of $1.4 billion (4.8%) from 2018. Countries with the largest increase were the Philippines ($1.5 billion, or 137.5%), India ($359.4 million, or 13.2%), and the PRC ($302.6 million, or 5.9%) (Figure 26).

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17 Includes new commitments during the year.
43. **Fragile and conflict-affected situations, and small island developing states.** Contract awards in FCAS DMCs were significantly lower than the $626.4 million awarded in 2018. The uncontracted balance in the FCAS was $2.8 billion, more than twice the uncontracted balance of $1.2 billion in 2015. The uncontracted balance increased from $2.7 billion in 2018 to $2.8 billion in 2019, an increase of 3.0%. The total uncontracted balance in the FCAS DMCs was 9.0% of the total uncontracted balance of $31.3 billion. The 5-year average CAR in the FCAS DMCs was 21.1%. In SIDS, contract awards were $293.4 million in 2019 (Figure 29), an increase of 37.3% from 2015. The SIDS’ 5-year CAR averaged 31.2%, with a high of 40.4% in 2018, and higher than ADB’s average CAR of 25.5% (Table 4). In both FCAS and SIDS DMCs, projects less than 2 years old accounted for more than 40% of their 2019 contract awards.

### Table 4: Contract Award Ratio and Disbursement Ratio by Country Group

<table>
<thead>
<tr>
<th>Country Group</th>
<th>Contract Award Ratio</th>
<th>Disbursement Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessional assistance only (Group A)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015 19% 2016 30% 2017 29% 2018 19% 2019 13%</td>
<td>2015 13% 2016 15% 2017 15% 2018 17% 2019 13%</td>
<td></td>
</tr>
<tr>
<td>OCR blend (Group B)</td>
<td>31% 37% 31% 32% 35%</td>
<td>19% 22% 24% 23% 22%</td>
</tr>
<tr>
<td>Regular OCR only (Group C)</td>
<td>24% 24% 23% 22% 21%</td>
<td>21% 21% 22% 20% 20%</td>
</tr>
<tr>
<td>FCAS</td>
<td>25% 28% 24% 19% 9%</td>
<td>13% 16% 13% 15% 11%</td>
</tr>
<tr>
<td>SIDS</td>
<td>27% 32% 30% 40% 27%</td>
<td>19% 24% 27% 17% 21%</td>
</tr>
<tr>
<td>LICs</td>
<td>16% 32% 33% 21% 14%</td>
<td>12% 15% 15% 17% 14%</td>
</tr>
<tr>
<td>LMICs</td>
<td>28% 30% 28% 27% 27%</td>
<td>19% 20% 21% 21% 20%</td>
</tr>
<tr>
<td>UMICs</td>
<td>25% 27% 25% 24% 23%</td>
<td>23% 23% 25% 23% 22%</td>
</tr>
<tr>
<td>HICs</td>
<td>8% 65% 79% 17% 57%</td>
<td>5% 27% 38% 38% 30%</td>
</tr>
<tr>
<td>Asian Development Bank</td>
<td>26% 30% 28% 26% 25%</td>
<td>19% 20% 22% 21% 20%</td>
</tr>
</tbody>
</table>

FCAS = fragile and conflict-affected situations, HIC = high-income country, LIC = low-income country, LMIC = lower middle-income country, OCR = ordinary capital resources, SIDS = small island developing states, UMIC = upper middle-income country.

Source: Asian Development Bank data.
Among the sectors with the largest project portfolios, energy and transport combined had an uncontracted balance of $15.2 billion (48.5%). The transport sector CAR (30.3%) exceeded ADB’s overall ratio of 25.5%, while the energy sector was lower (24.4%). Despite achieving a high level of contract awards of $5.9 billion (55.3%) in 2019, there is room to further reduce uncontracted balances across energy and transport.

44.
45. Project readiness efforts are evident in the contribution of projects less than 2 years old to achievement of annual contract awards. An age analysis of contract award for 2019 shows the highest level of contract awards were from age-1 projects (29.2%, or $3.1 billion); contract awards for all projects less than 2 years old collectively contributed 56.6% ($6.0 billion) of the annual contract awards ($10.6 billion) (Figure 32). However, 10% of projects had the first contract awards at age 2 or more in 2018 and 2019; this figure could be reduced by improving project readiness and awarding the first contracts early. The uncontracted percentage in age-0 (less than 1 year after loan signing) projects rose to 81.8% in 2019 as new commitments entered the portfolio (Figure 33). Closer monitoring is essential for older projects with substantial uncontracted balances.

46. **Steady concessional fund disbursement ratio.** An analysis of the three funding sources shows that the ADF performance declined slightly from a low disbursement ratio of 14.7% in 2015 to 14.5% in 2019. ADB’s use of concessional resources and the development results they have contributed to since they their introduction have been significant. The challenge of lower disbursement ratios in FCAS and in some years also in SIDS DMCs was recognized by ADB in S2030. However, portfolio performance is improving in the Pacific in part because of ADB’s increasing field presence, with more staff posted in resident missions, supported by institutional strengthening efforts.
Box 5: Why Increasing Disbursement is Important

Disbursement is a proxy indicator of a project’s implementation progress. The financial benefits of increasing disbursements should not be neglected. A commitment charge of 0.15% is levied on the undisbursed balance on OCR-funded projects from 60 days after loan signing. For example, a project with an undisbursed balance of $300 million for 1 year will be levied a $0.5 million commitment charge for that year. Commitment charges will be aggregated every year as a function of the undisbursed balance. Therefore, it is important to increase disbursement without compromising the quality of the intended outcome to decrease the overall project cost. To increase disbursements, project teams need to focus on (i) project readiness at the time of approval and signing, (ii) efficient project implementation and management, and (iii) timely cancellation of surplus loan proceeds.

Disbursement targets need to be ambitious and trend upward each year. ADB has achieved an average disbursement ratio of 20.8% from 2017-2019 and needs to maintain a positive trend of disbursements against an increase in commitments. Recognizing the policy and institutional challenges facing developing member countries, Management must continue raising the awareness of borrower and ADB staff regarding the importance of disbursement performance to demonstrate efficient use of shareholder contributions and ensure that target project beneficiaries receive the intended support. More importantly, disbursements should be clearly linked to outputs that meet the quality and standards agreed with the borrower. Increasing disbursement targets without compromising outcome quality will require realistic disbursement projections and an increase of ADB support to borrowers for implementation readiness through more targeted use of advance accounts, new modalities such as project readiness financing and the small expenditure financing facility, and an increased focus on procurement planning during project design. The gap between annual commitments and disbursements should be minimized as much as possible. Setting disbursement targets that are ambitious but realistic is essential.

The following measures will further increase disbursement:

(i) increasing the use by borrower PMUs of the Client Portal for Disbursement online submission system for withdrawal applications;
(ii) encouraging PMU officials involved in the disbursement process to receive disbursement training and use the e-learning disbursement course available on ADB’s website;
(iii) promoting, for projects with PMUs that have adequate capacity, the use of advance account and statement of expenditure procedures for more efficient disbursement processing; and
(iv) considering the removal of advance account and statement of expenditure ceilings for those PMUs with adequate capacity as recommended in the midterm review of Strategy 2020.a

ADB = Asian Development Bank, OCR = ordinary capital resources, PMU = project management unit.
Source: Asian Development Bank, Procurement, Portfolio and Financial Management Division.
Project disbursement ratio varies across country groups. The overall 2019 corporate disbursement ratio of 19.6% is lower than the 21.1% achieved in 2018. Including PBLs, the disbursement ratio was 29.1%, well above the 2018 achievement of 27.7%. The overall disbursement ratio of FCAS DMCs was low as expected because of recurrent challenges with the Afghanistan portfolio, where the security situation shows no signs of improvement in the near term. The LMICs had the highest disbursement by volume but had a low disbursement ratio because of high undisbursed balances in projects in SERD. A notable achievement is for SIDS, which posted an impressive achievement of 21.0%.

The total undisbursed balance of active project loans and grants at the end of 2019 was $50.0 billion, an increase of 3.6% from the 2018 ending balance of $48.3 billion. The three countries with the largest project portfolios also had the largest undisbursed balances—India at $7.9 billion, the PRC at $6.8 billion, and Bangladesh at $5.4 billion—which when combined totaled $20.0 billion, or 40.0% of the overall undisbursed ending balance.

The undisbursed percentage of the active committed portfolio was 59.6% ($43.4 billion) as of 2017, and 59.7% ($48.3 billion) as of 2018. The 2019 total included $2.2 billion from results-based lending.
in 2019. Philippines had the largest increase in undisbursed balance (from $1.4 billion in 2018 to $2.8 billion in 2019) because of the recently committed Malolos-Clark Railway project\(^\text{19}\) (Figure 38).

49. By sector, the highest undisbursed percentage was in information and communication technology (78.3%, up from 56.5% in 2018), while the two highest undisbursed balances in core sectors were in transport (60.5%, or $17.9 billion) and energy (55.7%, or $10.3 billion). This is attributed to the high volume of committed projects in 2019—$6.3 billion in transport and $1.7 billion in energy. The agriculture, natural resources, and rural development sector had the highest undisbursed balance of $7.4 billion (71.2% undisbursed). In Viet Nam, the delays in overseas development assistance budget approval and its insufficient allocation were the main reasons for low disbursements.

\[^{19}\text{ADB. Philippines: Malolos-Clark Railway Project.}\]
50. The 2019 disbursement age analysis shows that age-2 projects had the highest disbursement at $2.2 billion (23.6% of the year’s achievement and 84.2% higher than in 2018, when age-1 projects had the largest share). This confirms that projects are increasingly ready at loan signing. The disbursement trends across ages 3 to 5 were steady.

51. **Portfolio performance needs proactive Management support.** Annual disbursements remain a perennial challenge for all development institutions, ADB included. Project teams—from start of concept phase into implementation—need to ensure there will be sufficient technical support at both the sector and resident mission level throughout the project cycle. Management needs to be proactively engaged at every stage and enhance oversight where the likelihood of a delay in implementation is expected. Projects moving slowly should be supplemented with rigorous oversight and an increased frequency of review missions.

52. **Over 10% of projects have less than 30% disbursement after 3 years of implementation.** The time taken from project signing to the first 30% disbursement is a useful red flag for potential implementation delays. Out of 469 loan and grant products, 54 (11.5%) have yet to reach the 30% disbursement 4 years into implementation (Figure 42). This calls for discussions with executing and implementing agencies on possible project restructuring, considering that projects already in their fourth year should theoretically be nearing completion. Increasing project readiness using PRF and SEFF is a worthwhile step.
53. **Narrowing commitment-disbursement gap.** The gap between commitments and contract awards was $3.3 billion at the end of 2019, while the commitment and project disbursement gap was $4.5 billion (Figure 43). The gap narrowed because of a decline in new commitments, which witnessed a high share of cancellations and terminations of $2.8 billion in 2019. Disbursements maintained a slight upward trajectory, although several large single disbursements would help narrow the gap.

54. **Net resource transfer remains steady.** The annual net disbursements against scheduled repayments during 2015–2019 have been steady at an average of $3.1 billion (Figure 45). The four countries with the largest share of the overall portfolio—India, Bangladesh, the PRC, and Pakistan—had a combined net resource transfer of $1.4 billion, or 51.4% of the total in 2019 (Figure 46).
6. **Partially Administered Projects**

55. **ADB partially administers a $1.3 billion portfolio of loans and grants.** Under partial administration, funds provided by the financing partner are not transferred to ADB. However, ADB may oversee the: (i) procurement of goods, works, and non-consulting and consulting services required for the project; (ii) disbursement review; and (iii) reporting through the provision of progress reports submitted by borrower or recipient during project implementation. Partial administration applies to cofinanced loans and grants for project-specific cofinancing only. Partial administration does not apply to TA. Disbursements on partially administered projects do not recognize the efforts of ADB staff as they are credited to the cofinancier.
7. Financial Management

56. Implementation of the Financial Management Strengthening Action Plan is progressing.20 The Action Plan approved by the President in December 2018 has been under implementation since early 2019. While steady progress was made in all five focus areas of the Action Plan (para. 57), the most critical achievement was the increased recognition across ADB that financial management fulfills one of ADB’s key fiduciary responsibilities of ensuring accountability for ADB funds provided to DMCs. There is also broad recognition that increased attention to financial management aligns with a key operational priority of S2030: to strengthen governance and institutional capacity of its DMCs and their ability to plan, design, finance, and implement ADB-funded projects and programs, which will contribute to more successful project outcomes and adherence to the highest standards of transparency and accountability.

57. Key achievements for each of the five focus areas include the following:

(i) Increasing the number of staff dedicated to financial management:
   (a) launch of the Experienced Professional Program to identify candidates with the requisite financial management skills and experience to recruit designated financial management positions; and
   (b) each operational department and PPFD took steps to strengthen their financial management capacity.

(ii) Enhancing ADB business processes to mainstream financial management throughout the project cycle:
   (a) revision of the financial management project performance rating methodology;

20 The Action Plan is based on a comprehensive review in 2018 of ADB’s financial management function for sovereign operations, which concluded that ADB needs to enhance its financial management practices to better support DMCs in strengthening their institutional capacity and ensuring accountability for ADB funds.
(b) enhancement of eOperations functionality to allow better tracking and reporting of financial management indicators, including at the quarterly operations review meetings; and
(c) development of the Financial Management Information Dashboard, a dynamic reporting tool that provides “live” data on the financial management performance of projects, which will allow all staff to readily access financial management data, reports and analytics. The dashboard is expected to go live in early 2020.

(iii) Strengthening ADB financial management capacity and knowledge sharing:
(a) development of consistent financial management job descriptions and/or terms of reference, and inclusion of PPFD staff as technical specialists in all panel interviews for financial management staff selections;
(b) publication of the Financial Evaluation and Analysis technical guidance note to guide staff in carrying out financial due diligence; and
(c) showcasing of financial management issues and lessons from project implementation in various sectors, countries and lending modalities in six “Financial Management in Action” events that were attended by nearly 300 participants.

(iv) Centralizing financial management oversight and monitoring by PPFD:
(a) initiation on 1 August 2019 of the “pilot” of a functionally consolidated financial management model between PPFD and SERD (Box 6).

(v) Strengthening DMCs’ financial management capacity:
(a) delivery of financial management training to over 600 staff in more than 10 DMCs; and
(b) organization of two workshops (in coordination with the International Organization of Supreme Audit Institutions for 16 regional supreme audit institutions and Institute of Chartered Accountants in England and Wales) to strengthen private auditing firms in six DMCs.

### Box 6: Piloting a Functionally Consolidated Financial Management Model

The Financial Management Strengthening Action Plan, approved by the President in December 2018, included an action for PPFD to work with one regional department in piloting a functionally consolidated financial management model that would align ADB’s financial management function with comparator MDBs, in which financial management staff are centralized and/or consolidated in one department separate from operations.

The survey of comparator MDBs found this structure enhanced independence of the financial management function, which plays a critical fiduciary role for a financial institution. In addition, the structure contributes to: (i) improved quality of project and/or portfolio financial management performance; (ii) enhanced financial management capacity of ADB staff; (iii) improved knowledge sharing across departments; and (iv) mainstreaming of financial management throughout the project cycle. In addition, a consolidated model enhances resource management flexibility and the ability to target resources as regional department needs change. This model is also followed by ADB’s procurement and legal functions.

Given SERD’s proactive engagement in strengthening ADB financial management practices and openness to innovative ideas to strengthen the quality of project performance, it agreed with PPFD to pilot the functionally consolidated financial management model. The pilot period commenced on 1 August 2019 and will end on 31 December 2020.

The arrangement includes placement of selected SERD financial management staff that meet minimum qualification criteria to PPFD as strategic staff. The pilot is expected to provide sufficient time to: (i) fully assess the benefits and/or outcomes of consolidating the financial management function; (ii) resolve any issues that may arise; and (iii) allow affected staff to adjust to the new arrangement. During the pilot period, staff under strategic staff placement will exclusively support SERD operations, including: (i) during project processing and implementation; (ii) review of SERD sovereign portfolio financial management performance and/or compliance; and (iii) quality assurance of project documents. At the end of the pilot period, an assessment of the consolidated model will be carried out.

**Source:** Asian Development Bank, PPFD.
8. Project Performance Ratings

58. **Revision of the project performance rating system completed in 2019.** The 2017 annual portfolio performance report (APPR) recommended a review of the project performance rating (PPR) methodology to strengthen three of its five indicators, i.e., the technical, financial management, and safeguards indicators. Since the introduction of the PPR system in 2011, contract awards and disbursements, have consistently driven the results of the overall project rating. Some gaps in the rating system were identified and needed to be reviewed to ensure that the PPR (i) continues to be reflective of the actual project implementation status, (ii) remains an effective performance measure, and (iii) serves as an early warning tool for proactive steps to be taken in resolving potential project implementation issues.

59. An assessment of progress made towards achieving project outputs has replaced the current technical indicator in the PPR. Output progress tracking will be based on the achievement of output indicator targets defined in the project’s design and monitoring framework. The revised financial management indicator assesses the quality and timeliness of audited project financial statements, audited entity financial statements if required, and compliance with time-bound financial covenants, again if required. The revised safeguards indicator now tracks project compliance with safeguards by capturing key milestones in safeguards planning, implementation, monitoring, and grievance resolution.

60. The new PPR ratings based on the revised methodology will be applied to all active projects as of 1 January 2020, with the results reported effective from the first quarter (Q1) of 2020 onwards. They will be reported in the 2020 Development Effectiveness Review Report, the 2020 APPR, and other portfolio-related reports shared with the Board and Management. It is also proposed that the description of the indicators under the revised system be changed—amber to *for attention* and red to *at risk*—to make them more meaningful.

61. **The project performance rating is strictly a risk and project management tool.** The PPR is to be used in an effective and constructive manner to measure the progress of outputs and compliance with financial and safeguards covenants. The objective of the PPR is to identify risks and issues early in project implementation and take corrective actions to address them. The PPR should not be used as a tool to assess the performance of project teams.

62. **Projects rated in 2019 use existing methodology.** The percentage of projects rated *on track* decreased by 1.0 percentage point (22 projects) in 2019,\(^\text{21}\) whereas the percentage of actual problem projects increased by 1.2 percentage point (6 projects) (Figure 50). The percentage of projects with implementation risk also declined by 1.0 percentage point (one project). Project ratings are reported quarterly and are designed to constantly direct project teams to focus their efforts on the more problematic issues affecting overall implementation. Most sectors were well on track, and the ADB-wide average for projects rated *on track* was 74.5% (Figure 51). PPR ratings are independent of project completion ratings and the two have their own distinct definitions.

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9. Terminations and Cancellations

63. **Tripling of terminations and cancellations.** Terminations and cancellations more than tripled from 2015 to 2019 but account for less than 4% of the active committed portfolio. In 2019, $2.7 billion was cancelled after effectivity from 177 loans and grants. In terms of value, $778.7 million was savings from unutilized loan proceeds and actual cost lower than estimates, $621.7 million due to changes in government priorities or at government’s request, and $396.3 million due to implementation issues. Figures 52 and 53 show the trend of cancellations since 2015 and the DMCs that had significant cancellations in 2019. Surplus loan funds and the reasons for the surplus can be segregated into reasons (i) within ADB control and (ii) outside ADB control (Table 5).

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22 Includes terminations and cancellations from policy-based loans and grants.
CWRD’s efforts to cancel loan savings have contributed to cancellations reaching a record high of $1,209.1 million, almost double the 2018 cancellations of $625.9 million. The largest cancellations came from energy and transport projects in Afghanistan, India, Pakistan, Uzbekistan and Viet Nam; the largest was in Uzbekistan, for full cancellation of the fourth phase of the advanced electricity metering project for $300 million.

### Table 5: Recurring Reasons for Cancellation of Loan Funds

<table>
<thead>
<tr>
<th>Within ADB Control</th>
<th>Outside ADB Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor cost estimates</td>
<td>Currency fluctuation</td>
</tr>
<tr>
<td>Poor project design</td>
<td>Weak project management by executing and/or implementing agency</td>
</tr>
<tr>
<td>Weak project management by ADB</td>
<td>Changing government priorities</td>
</tr>
<tr>
<td></td>
<td>Government preference to use local funds over ADB funds</td>
</tr>
<tr>
<td></td>
<td>Cumbersome government process to request additional budget</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank.
Source: Asian Development Bank data.
10. Implementation Time and Extensions

Figure 55: Implementation Period (Closed Project Loans and Grants) by Department (years)

CWRD = Central and West Asia Department, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

Figure 56: Implementation Period (Closed Project Loans and Grants), FCAS and SIDS (years)

FCAS = fragile and conflict-affected situations, SIDS = small island developing states.
Source: Asian Development Bank data.

Figure 57: Implementation Period (Closed Project Loans and Grants) by Country Group (Years)

HIC = high-income country, LIC = low-income country, LMIC = lower middle-income country, UMIC = upper middle-income country.
Source: Asian Development Bank data.

65. **Average implementation period increased in 2019.** The average implementation period in 2019 increased to 7.1 years from 6.5 years in 2018, while the average implementation period at approval was 4.8 years, implying the need for more stringent checks at quality-at-entry stage. Removing “outlier” projects (those 10 years or more into implementation) lowers the average implementation period only to 6.8 years, still above the 6.5 years in 2018. A few of the longer projects are in Afghanistan and delays there are due to the country situation. Start-up delays of civil works and extreme

Figure 58: Loans and Grants with Age ≥ 8 Years

No extension but past original closing date, 5, 1%

Extended and within revised closing date, 37, 3%

Extended but past revised closing date, 33, 3%

weather events delayed implementation. There are 75 loans and grants (7.1% of the portfolio) that are 8 years or more into implementation, sending a strong signal on the need for additional implementation support and oversight. A review of these older projects highlights recurring issues that cut across regions and executing and implementing agencies.

66. For projects that are well past their closing date but that have yet to be financially closed, measures need to be agreed with the borrowers as soon as possible to achieve financial closure.

<table>
<thead>
<tr>
<th>Box 7: Causes for Delay</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Poor quality of detailed design requiring numerous contract variations during construction works.</td>
</tr>
<tr>
<td>(ii) Untimely restructuring of projects.</td>
</tr>
<tr>
<td>(iii) Weak implementation and institutional capacity of the borrower, and in some cases of the developing member country.</td>
</tr>
<tr>
<td>(iv) Delays in hiring implementation consultants.</td>
</tr>
<tr>
<td>(v) Poor performance of implementation consultants.</td>
</tr>
<tr>
<td>(vi) Difficulties faced by borrowers in liquidating advance accounts and/or processing of refunds.</td>
</tr>
<tr>
<td>(vii) Poor contractor performance.</td>
</tr>
<tr>
<td>(viii) Implementation extended because of the country security situation.</td>
</tr>
<tr>
<td>(ix) Challenging geographical and topographical conditions.</td>
</tr>
<tr>
<td>(x) Land acquisition and resettlement issues.</td>
</tr>
<tr>
<td>(xi) Limited financial management capacity and poor maintenance of account records.</td>
</tr>
<tr>
<td>(xii) Insufficient counterpart funding that delays project-related payments.</td>
</tr>
<tr>
<td>(xiii) Lengthy borrower approval process (e.g., for procurement and design changes).</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank data.

67. Project administration and good portfolio management require that completed projects past their loan or grant closing date either have their closing extended or their account financially closed. It is likely that financial closure of projects may at times take more than 1 year after physical completion; financial closure of projects is equal in importance to other stages of the project cycle, and early and timely preparation is critical. This includes early discussions with the government regarding remaining unspent funds, handing-over of the project assets, settlement of outstanding claims, liquidation of advance accounts, closing of the project accounts, preparing the final project accounts, and submission of the financial audit.

![Figure 59: Loans and Grants Past Closing Date, by Number](source: Asian Development Bank data.)

![Figure 60: Loans and Grants Past Closing Date, by Amount ($ billion)](source: Asian Development Bank data.)
68. **S-curves provide useful analysis for new projects.** A review of the actual implementation period of 448 project loans and grants closed in 2015–2019 found that they averaged 6.2 years from effectiveness, or 6.4 years from commitment. Within the sample, agriculture and water projects took the longest from commitment to implementation (6.9 years), followed by education (6.7 years) and health (6.7 years) projects. Among the larger sectors, transport took 6.5 years and energy 6.4 years. The S-curves from commitment show projects extending beyond 8 years when both contract awards and disbursements have reached more than 95% (Figure 61). Attention is needed to monitor the cancellation of unutilized funds and promptly close the account. Past performance, challenges, and implementation periods in each sector of a country are powerful references when designing new projects.

![Figure 61: Contract Award and Disbursement Profile](closed loans and grants, 2015–2019)

Source: Asian Development Bank data.
11. Project Cost Analysis

69. **Gaps between approval cost estimates and actual cost at completion.** To identify the gaps between the estimated cost at approval and actual cost at completion, 161 project completion reports (PCRs) circulated from 2017 to 2019 were examined out of the broader portfolio of projects, including fully cofinanced loans and grants. Of the 161 projects, 26 projects were excluded: 24 were projects that had reduced the number of outputs, while 2 had increased the number. Out of the remaining 135 projects in which the number of outputs remained unchanged, the final cost at completion was within 10.0% of the original project estimate proposed at approval for about 41.5% of projects, and within 20.0% of original cost estimates for the 2017–2019 period for 68.1% of projects. Costs for about 9.6% of the projects was over 20.0% above the original cost estimates. Robust cost estimates at project design and proper procurement packaging are some of the factors behind the 41.5% achievement. The higher share of projects (22.2%) with cost underruns, compared to those with cost overruns, is at times due to reduced project scope, favorable currency fluctuations, and abnormally low bids, which are increasingly frequent due to tighter competition among goods and works contractors. Having most projects fall within a 20.0% variance is consistent with other portfolio indicators.

![Figure 62: Original versus Actual Project Cost—Share of Project Cost Overrun and Cost Underrun](image)

**Note:** Excludes policy-based lending, financial intermediary loans, results-based lending, and emergency loans. Percentages in red are negative.

**Source:** Asian Development Bank data.

12. Project Completion Report

70. **Project completion reports help measure the outcome and identify lessons learned.** Delays in preparing PCRs raise the broader issue that lessons may not be available when designing a similar future project. Project Implementation Instruction 6.07A\(^2\) was revised in June 2019 to set the timeline for PCR circulation to 12 months after a project’s financial closing date. Eighty-seven PCRs were circulated in 2019 compared with 81 in 2018.

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Box 8: Regional Departments’ Internal Project Completion Report Monitoring Set-Up

Central and West Asia Department

CWRD has taken steps to enhance its preparation of PCRs by establishing a systematic way of ensuring compliance and timeliness of PCR circulation. The enhanced PCR monitoring report tracks progress of PCR preparation for all closed projects due for circulation by closely tracking delivery of important milestones. It discloses whether a PCR is being prepared on time and provides reasons in case of delay based on project administration instruction-specific timelines.

East Asia Department

EARD’s PCR monitoring system comprises the following.
(i) A database of all completed projects, with corresponding PCR details; completed projects without PCR details should indicate the status of preparation of the PCR, including a timeline. This database makes it easy to identify if there is an overdue PCR.
(ii) Database of ongoing projects with a closing date within the year. These projects are closely monitored; once a project is financially closed, it is scheduled for PCR preparation.

Pacific Department

PARD has established an Excel-based tracking system to ensure timely monitoring and to alert staff regarding timely preparation, submission, approval, and circulation of PCRs. It will be shifted to the next generation of the sovereign operations IT system once it has been rolled out.

South Asia Department

SARD has (i) established a reverse clock for each PCR to spread out milestones, avoid bunching and enhance monitoring; (ii) delegated some PCRs from resident missions to sector divisions to balance the workload and to share implementation experience and lessons for future projects; and (iii) increased coordination between the front office and divisions and/or resident missions to enable ongoing monitoring of PCR timing and preparation.

Southeast Asia Department

In 2019, SERD established an integrated portfolio program monitoring system, which includes data on planning, preparation, circulation, and ratings of PCRs, and that also covers scheduled project financial closures, PCR missions, and PCR milestone activities. The monitoring system is updated monthly and serves as reference during Portfolio Management Action Plan meetings, which are chaired by SERD Management.

71. Automated alerts for project teams to prepare PCRs in a timely manner were introduced in eOperations in October 2019 to minimize delays in circulation. This is to promote and facilitate timely knowledge sharing among project teams on lessons and to apply the knowledge in future projects. Currently, eOperations sends out alerts to relevant project teams before a project is financially closed, and after the project is financially closed until the PCR is prepared and circulated.
13. **Technical Assistance Portfolio**

72. **Increased technical assistance portfolio.** The technical assistance portfolio increased in both number and amount. In 2019, 213 TA projects totaling $263.5 million closed financially, compared with 194 TA projects ($300.3 million) in 2018. The TA reforms of 2018 also encouraged a programmatic approach to TA delivery using TA facilities. TA projects are to play an increasingly important role in the S2030 implementation, knowledge generation and sharing, and innovative project preparation and implementation. Resources will be shifted to lower income, FCAS, and SIDS DMCs to address issues that include capacity building, vulnerabilities, policy reforms, and debt sustainability. Allocation for UMICs will be more selective and focused (e.g., TA grants for knowledge sharing among DMCs). TA efficiency can be further enhanced by reducing the number of TA projects and strengthening the coordination and focus of country knowledge work by different departments.

73. The average age of the committed TA portfolio since 2015 was 2.2 years (Figure 65). The average TA amount for all active TA projects in 2019 was $1.9 million compared to $1.8 million in 2018. The average implementation period of TA projects closed during 2015–2019 was 3.7 years, versus a targeted design average of 2.0 years, which translates into an average delay of 1.7 years. However, this is also caused by extensions and changes in scope needed to meet evolving needs and changed circumstances.

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24 Excludes nonsovereign TA projects.
There are 46 TA projects aged 5 years or more with an aggregate uncontracted balance of $28.9 million, which is equal to an average uncontracted amount of more than $0.6 million per TA project, compared with an average TA project size of $1.9 million. TA projects require the same level of rigor in design and implementation as loan and grant projects; implementation of TAs that are 5 years or older is discouraged.

KSTA = knowledge and support technical assistance, TA = technical assistance, TRTA = transaction technical assistance.
Note: Others include capacity development TA, policy and advisory TA, project preparatory TA, research and development TA, and regional TA.
Source: Asian Development Bank data.

74. There are 46 TA projects aged 5 years or more with an aggregate uncontracted balance of $28.9 million, which is equal to an average uncontracted amount of more than $0.6 million per TA project, compared with an average TA project size of $1.9 million. TA projects require the same level of rigor in design and implementation as loan and grant projects; implementation of TAs that are 5 years or older is discouraged.

FCAS = fragile and conflict-affected situations, SIDS = small island developing states.
Source: Asian Development Bank data.
75. **Strategic use of technical assistance funds.** Donors continue to emphasize the importance of TA to implement S2030. At the recent ADF 13 replenishment sessions, ADB clarified that a substantially higher share of TA Special Fund 7 resources will be allocated to FCAS and SIDS DMCs and should prioritize debt sustainability. They also suggested that ADB provide a higher net income transfer for TA Special Fund 7 allocations to Group A and B countries and consider reimbursable TA for Group C countries.

14. **Technical Assistance Completion Reports**

76. **Improving technical assistance operations.** Technical assistance completion reports (TCRs) are important in improving TA operations. Recognizing that TA has a strong role in the implementation of S2030, scarce TA resources need to be channeled for (i) knowledge generation and sharing, and innovation; (ii) project preparation and implementation; and (iii) institutional strengthening. The circulation of a timely and well written TCR is essential in improving the quality of TA operations by (i) evaluating the performance of TA operations to enhance transparency and accountability; and (ii) benefiting from the experience gained to improve TA planning, design, and implementation. The TCR circulation period was shortened to 6 months from the TA financial closing date for more timely submissions. The TCR template was also revised to improve the quality of TCRs in anticipation of the introduction of the TCR validation system by the Independent Evaluation Department.

15. **Capacity Building**

77. **Institutional strengthening for developing member countries increased in 2019.** Greater attention to capacity building activities follows operational priority 6 of S2030 on strengthening the governance and institutional capacity of DMCs. In Asia and the Pacific, where development remains uneven across countries owing to specific geographic and socioeconomic conditions, PPFD expanded capacity building activities in response to a needs assessment, and delivered more focused and customized training tailored to specific needs. These initiatives were essential in the implementation of the 2017 procurement framework, project design and implementation, and financial management. In 2019, PPFD’s capacity building portfolio addressed a broader and more relevant set of topics—the number of programs doubled, from 129 in 2018 to 242 in 2019, while the number of participants increased by 61.7%, from 6,803 in 2018 to 11,018 in 2019. TA resources allocated to DMCs with weaker capacity should consider designing tailored programs that address country-specific interventions and training requirements.

78. **Loan allocation for institutional strengthening.** The LICs had a larger share of the project amount allocated to capacity development. Strengthening capacity is critical to improving the quality of projects, enhancing project implementation efficiency, reaching quality outcomes, and sustainability. A pool of 144 PCRs circulated from 2017 to 2019, excluding PBLs, was reviewed to compare actual capacity development component financing with the project cost estimates. When segregated by country grouping, capacity development costs account for 8.8% of the total project cost in LICs, 4.6% in LMICs and 1.8% in UMICs (Figure 70). By department, PARD (9.8%) and SERD (7.5%) countries have higher amounts allocated to capacity building (Figure 71). Infrastructure sectors have relatively lower shares of capacity components (Figure 72) because the cost of goods and works can be substantial. These data on capacity development will be useful as a benchmark in processing new projects.
79. **Procurement Accreditation Skills Scheme.** The Procurement Accreditation Skills Scheme now has 293 accredited staff for consultant recruitment and 274 for procurement. The number of newly accredited staff grew by 9% from 2018 for consultant recruitment, and by 61% for procurement. Support for regional departments and resident missions will continue to help staff in implementing the 2017 procurement framework. Procurement training for DMCs covered a broad range of topics that responded to the specific needs of resident missions and executing agencies. Financial management accelerated capacity building efforts as part of its Financial Management Action Plan, a timebound corporate-level action plan, with focused training for ADB staff and DMCs.
80. Flexible learning approaches are becoming increasingly important. To strengthen its role as a knowledge provider, ADB will continue to work closely with DMCs to develop customized programs to strengthen the capacity of executing agencies, implementing agencies, and contractors in planning and implementing ADB-financed projects. To improve the sustainability of its capacity building efforts, ADB will expand its collaboration and partnerships in countries and regions for a more effective response to development issues and better knowledge generation and exchange among countries.

81. Outreach programs recorded strong participation. The 10th edition of the Annual Business Opportunities Fair in March 2019 attracted more than 1,000 delegates, while the Fifth Forum on Successful Project Design and Implementation in October 2019 drew over 100 participants from 37 countries.

16. The Role of Information Technology in Portfolio Management

82. Stand-alone information technology systems. The current corporate systems (eOperations, Procurement Review System, and Consultant Management System) do not fully support all business and reporting needs. The regional departments have over 200 Excel spreadsheets, local management information systems, and about 100 Lotus Notes applications. In addition, corporate systems require staff to enter the same information multiple times, leading to inconsistencies and delays in obtaining useful and reliable data and reports.

83. To address the business needs and achieve desired outcomes, the next generation of a sovereign operations information technology (IT) system will be initiated in 2020 as part of Digital Agenda 2030 Stage 1.

### Box 9: Information Technology Initiatives

ADB has made significant strides to accelerate project implementation through IT initiatives such as:

- alerting project teams to:
  - input contract award and disbursement projection data upon approval,
  - financially close projects in a timely manner, and
  - prepare and circulate project completion reports in a timely manner;
- removing repetitive validations on technical assistance special fund availability by regional departments and PPFD, and replacing these with more reliable, automatic system checking;
- connecting data from different systems (such as eOperations and eTrip) to facilitate accurate data inputting and collection, and links to the mission code; and
- empowering users with new viable IT capabilities, such as:
  - effective workflow to allow selection team to select approvers, and to cancel their own selections in the CMS; and
  - allowing executing agencies to use the CMS to input shortlisted consultants.

ADB-wide initiatives on data governance will facilitate project implementations through portfolio performance reporting and monitoring:

- ADB Data Dictionary on data definitions
- Exception reports between or among ADB’s IT systems
- Expansion of ADB’s Management Dashboard

ADB = Asian Development Bank, CMS = Consultant Management System, IT = information technology, PPFD = Procurement, Portfolio and Financial Management Department.
C. Recommendations

Figure 73: 2019 Sovereign Portfolio Performance ($ billion)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract Awards</strong></td>
<td>$10.2 (Projection, $9.4)</td>
<td>$10.6 (Projection, $9.6)</td>
</tr>
<tr>
<td><strong>Disbursements</strong></td>
<td>$9.5 (Target, $9.2)</td>
<td>$9.5 (Target, $9.2)</td>
</tr>
<tr>
<td><strong>Projects with Implementation Risk</strong></td>
<td>26% (2019)</td>
<td>25% (2018)</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank data.

1. Actions to be Taken in 2020

Regional departments proposed a set of actions to be taken in 2020 to improve portfolio performance (Box 10).
Box 10: Actions to be Taken in 2020

Central and West Asia Department
- Expand the use of the financial intermediation loan modalities to more countries and sectors.
- Continue to expand the use of PRF, which is expected to contribute significantly to reduced project start up delays by assisting executing agencies with limited capacity to prepare detailed designs, bidding documents, requests for proposals, and compliant safeguards reports.
- Increase the share of projects delegated to resident missions from 49% in 2019 to reach the 50% target.
- Explore outposting of staff where feasible.

East Asia Department
- On a pilot basis, process two design-ready and procurement-ready projects in the PRC and introduce the PRF modality in Mongolia.
- Continue quarterly portfolio review in Mongolia and a focused review of two slow-moving projects and one provincial portfolio review in the PRC.
- Select projects for early delegation immediately after approval.

Pacific Department
- Continue efforts to improve project readiness through effective use of seven existing PRFs, process five additional PRFs in 2020, and work on the possibility of using a small expenditure financing facility and cofinanced grants. The project readiness checklist will be strengthened to monitor the readiness of projects at all stages of processing.
- The differentiated approach will be discussed and agreed upon in the ongoing preparation of the Pacific approach and country partnership strategy for Papua New Guinea. The differentiated approach in project implementation will be incorporated in the design and reflected in the strategic procurement planning of the Pacific projects. In coordination with development partners efforts will continue to initiate, develop and pilot differentiated approaches in the Pacific.
- Continue to work on capacity supplementation for executing and implementing agencies to improve project implementation and develop and implement sustainable capacity building measures in the Pacific.
- In line with S2030 operational priorities, rigorously monitor the quality of project design and implementation, work to improve projects’ quality ratings, and reduce uncontracted and undisbursed balances.

South Asia Department
- Achieve high project readiness through continued efforts that focus on the stringent project readiness review process of advance procurement actions, including actions on safeguards compliance and monitoring, executing and implementing agencies staff resources, and risk management.
- Optimize the end-to-end procurement time, especially for complex procurement cases, and reduce the turnaround period for review of bid documents and bid evaluation reports for critical contract packages.
- Strengthen the capacity of executing and implementing agencies on procurement processes, and further improve performance through a systematic program with dedicated capacity development resource centers in resident missions.
- Improve the quality of financial management in projects by further increasing financial management resources in the department. Financial management staff will provide support during processing as part of the project teams to ensure robust financial management arrangements are in place from project effectiveness.
- Provide additional support for preparation of project and technical assistance completion reports, given the increased volume of completion reports in 2020.

Southeast Asia Department
- Continue efforts to improve project implementation quality, achieve 2020 operational targets, and to increase the number of design- and procurement-ready projects.
- Continue to conduct tripartite country and sector portfolio performance review meetings.
- Pilot a joint country portfolio review arrangement by Viet Nam Resident Mission and Private Sector Operations Department under the One ADB/One SERD approach.
- Continue capacity development activities through tailored training courses for executing and implementing agencies to strengthen procurement, disbursement, financial management, safeguards, and project management capacity during processing and implementation.

ADB = Asian Development Bank, PRC = People’s Republic of China, PRF = project readiness financing, S2030 = Strategy 2030, SERD = Southeast Asia Department.

Source: Asian Development Bank, regional departments.
2. Issues and Recommendations

85. Discussions with regional departments and analysis of the active committed portfolio has identified the following issues and recommendations to enhance project implementation.

<table>
<thead>
<tr>
<th>Issues</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio quality has been uneven in 2019 and needs improvement considering increasing level of commitments and for the implementation of S2030.</td>
<td>Sector and country teams to focus on enhancing the quality of the active portfolio through quality project design, strong project implementation performance, and high quality ADB supervision.</td>
</tr>
<tr>
<td>The age profile of the portfolio is not improving indicating that projects may take longer to achieve the development objectives.</td>
<td>Leverage the use of PRF and SEFF modalities across all sectors to reduce project implementation time and age profile of the portfolio.</td>
</tr>
<tr>
<td>With more projects shifting to the 2017 procurement framework, project teams need to ensure procurement objectives meet the criteria of value for money and quality.</td>
<td>Prior to approval, each investment project, except for emergency assistance loans, should complete a robust strategic procurement planning with well-defined performance indicators to capture value for money.</td>
</tr>
<tr>
<td>The PPR system is frequently used as a project team performance assessment tool instead of as a project implementation feedback tool to better direct project team efforts.</td>
<td>Use the revised PPR system effectively as a project management tool (not as a project team performance assessment tool) to track implementation risks and identify appropriate mitigation measures early.</td>
</tr>
<tr>
<td>Project supervision capacity of DMCs constrained by limited resources and weak project management skills.</td>
<td>Adopt tailored programs addressing country and regional specific interventions, training requirements and priorities that can be integrated into the local institutional development strategies.</td>
</tr>
</tbody>
</table>

ADB = Asian Development Bank, DMC = developing member country, PPR = project performance rating, PRF = project readiness financing, S2030 = Strategy 2030, SEFF = small expenditure financing facility.

Source: Asian Development Bank, Procurement Portfolio and Financial Management Department.
NONSOVEREIGN PORTFOLIO
This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.
A. Portfolio Movement

86. **Total committed portfolio.** The total committed nonsovereign portfolio continued expanding rapidly, growing 11.0% during 2019. As of the end of 2019, the committed portfolio totaled $13.8 billion ($12.4 billion in 2018), and consisted of 207 projects (184 at the end of 2018), with loans and other debt securities constituting the largest share in dollar terms at 74.4% (75.0% in 2018). In addition, nonsovereign portfolio also included the active TA portfolio of $74.8 million. Nonsovereign committed loans and other debt securities totaled $10.3 billion ($9.3 billion in 2018), committed guarantees totaled $1.7 billion ($1.6 billion in 2018), and committed equities totaled $1.8 billion (up from $1.5 billion in 2018) (Figure 75). Committed portfolio growth over 2015–2019 is 74.9% (Figure 76).

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**Figure 75: Nonsovereign Portfolio at a Glance**

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25 The Committed Portfolio is defined as (i) committed loan, other debt security and equity (carrying or fair value) portfolio, which consists of outstanding balances plus undisbursed balances; and (ii) the committed guarantee portfolio, which consists of outstanding balances on executed guarantees plus non-executed commitments. The figures are based on Controller’s Department reports.
Commitments (amount). Commitments in 2019 decreased by 4.3% from 2018, to $3.0 billion. Loan and other debt security commitments totaled $2,669.7 million, or 89.0% of total commitments; guarantee commitments totaled $175.4 million, or 5.8% of total commitments; and equity commitments totaled $155.0 million, or 5.2% of total commitments. In 2019, nonsovereign commitments as a percentage of regular OCR commitments decreased to 17.5% from 19.3% in 2018, and below the work program and budget framework projections of 19.1% (Figure 77).

During 2019, the performance target was shifted to the number of deals rather than volume to introduce more granularity through smaller average deal sizes and greater diversification in the portfolio, in line with the S2030.

Commitments (number). Project commitments reached 38 in 2019, up from 32 in 2018, and higher than the 2019 planning target of 32. There were 29 loans and guarantees (28 in 2018), 7 debt securities (4 in 2018) and 8 equity investments (10 in 2018). The number of nonsovereign projects committed in 2019 was 24.4% of ADB’s total committed projects (Figure 78). The nonsovereign operations S2030 target by number is one-third (33%) of ADB’s operations by 2024. The average committed investment size was $100.4 million for loans and guarantees ($114.8 million in 2018) and $22.1 million for equities ($27.4 million in 2018).

89. **Disbursements and disbursement ratio.** Disbursements in 2019 reached a record high, increasing by 15.7% to $2,259.8 million compared to $1,952.7 million in 2018. Loan and other debt security disbursements totaled $2,125.0 million, or 94.0% of total disbursements, and equity disbursements totaled $135.0 million, or 6.0% of total disbursements. The disbursement ratio continued to be strong and reached 39.0% at the end of the year. Figure 79 provides an overview of the growth in commitments, disbursements, and disbursement ratio since 2015.

90. **Committed and outstanding portfolio (excluding guarantees) continued to increase.** The committed portfolio continued to increase during 2015‒2019 due to increased annual commitments (Figure 80). However, the gap between committed and outstanding portfolio has also continued to increase since 2016, as disbursements did not achieve the same momentum as commitments until 2019. By the end of 2019, the total outstanding portfolio increased by 18.5% to $8.6 billion, from $7.2 billion at the end of 2018, and the total undisbursed portfolio marginally decreased to $3.5 billion from $3.6 billion at the end of 2018.

91. **Cofinancing.** In 2019, commercial cofinancing totaled $6.8 billion, similar to 2018. Long-term cofinancing totaled $3,225.2 million ($2,954.0 in 2018) and short-term cofinancing totaled $3,555.6 million ($3,854.8 million in 2018). Parallel loans totaled $1,671.7 million, down from $2,042.1 million in 2018. Parallel equities totaled $584.6 million, increasing from $505.0 million in 2018. The amount of B loans totaled $181.5 million, up from $135.0 million in 2018. Risk transfer cofinancing totaled $649.3 million, up from $135.1 million in 2018. [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

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27 The ratio of total disbursements during the year to the balance available for disbursements at the beginning of the year plus commitments during the year minus cancellations during the year.

28 The total outstanding portfolio in this aspect excludes executed guarantees.

29 Short-term cofinancing includes TFP and supply chain finance program cofinancing.
Droppages and cancellations. Droppages and cancellations totaled $1,194.9 million in 2019, up from $815.6 million in 2018. Droppages totaled $343.3 million ($426.8 million in 2018). Cancellations totaled $851.6 million ($388.7 million in 2018) (Figure 81). In 2019, droppages were 20.9% of approvals and cancellations were 28.4% of commitments by value. Both droppages and cancellations were higher than the 10%–15% the guidance limit established in the 2015 APPR.30 [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.] Of the $851.6 million in cancellations, $762.5 million were full cancellations. During 2015–2019, loan and other debt securities droppages averaged 11.6% of all approvals, equity droppages averaged 8.4%, and guarantee droppages averaged 44.2%.31 Loan and other debt securities cancellations averaged 19.6% of commitments, equity cancellations averaged 18.6%, and guarantee cancellations averaged 24.9%.32

92. Figure 81: Droppages, Cancellations and Prepayment ($ million)

Source: Asian Development Bank data.

93. Loan prepayments. Loan prepayments from 11 loans in 2019 totaled $177.2 million ($287.9 million in 2018);33 [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.] Eight of the loans were full prepayments and amounted to $146.8 million ($157.0 million in 2018), while the three partial prepayments totaled $30.4 million ($130.9 million in 2018). [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

30 Droppages and cancellations in NSO can be higher—unlike sovereign operations, where the loan documentation has already been negotiated with the DMC, in NSO projects usually only the term sheet is agreed by the time of Board consideration. Some transactions approved by the Board may not be finalized due to market conditions at the time of loan negotiations and borrower’s non-compliance with conditions precedent to disbursements within the availability period.

31 Droppage percentages are the sum of droppages during 2015–2019 over the sum of approvals during 2014–2018.

32 Cancellation percentages are the sum of cancellations during 2015–2019 over the sum of commitments during 2014–2018.

33 A loan prepayment occurs when a borrower repays the loan principal balance in full or in part ahead of the agreed principal repayment schedule. Prepayment can be initiated by the borrower or can be in line with the terms of the loan agreement.
( ) = negative; ANR = agriculture, natural resources, and rural development; AZE = Azerbaijan; BAN = Bangladesh; ENE = energy; FIN = finance; IND = India; INO = Indonesia; MYA = Myanmar; PAK = Pakistan; PHI = Philippines; PRC = People’s Republic of China; REG = regional; SRI = Sri Lanka; THA = Thailand; TRA = transport; WUS = water and other urban infrastructure and services.

Source: Asian Development Bank data
B. Portfolio Concentration

94. **Operations by product.** The product mix profile of the committed nonsovereign operations (NSO) portfolio (by amount) remained largely unchanged in 2019 compared to 2018. At the end of 2019, loans were 67.7% of the total committed portfolio (70.0% at the end of 2018), other debt securities were 6.7% (5.0% in 2018), guarantees 12.4% (12.5% at the end of 2018), and equities 13.2% (12.5% at the end of 2018).\(^{34}\) [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.] The fastest-growing instrument has been other debt securities, which increased from $10.1 million (0.1%) committed at the end of 2015 to $929.5 million (6.7%) committed at the end of 2019. The share of loans has declined gradually from 76.5% in 2015 to 67.7% at the end of 2019. The equity portfolio remained at 13.0% (Figure 82).\(^{35}\)

95. **Sector concentration.** The energy and finance sectors have historically dominated commitments, with over 40% in dollar terms, and remain high. In 2019, commitments in the transport sector exceeded the energy and finance sectors, with total commitments of $1,080.1 million for three projects (none in 2018).\(^{34}\) [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.] Transport is now the third-largest sector, with $1,274.3 million committed at the end of 2019, or 9.2% of the total committed portfolio (up from $327.0 million and 2.6% at the end of 2018). As a result, the concentration of the committed portfolio in dollar terms in the top two sectors (energy and finance) decreased to 79.0%, from 85.8% at the end of 2018 (Figure 82). The information and communication technology sector had a $500.0 million commitment for one project (there were none in 2018).\(^{35}\)

96. **Country concentration.** Commitments in India ($965.1 million) and Thailand ($459.1 million) surpassed commitments in the PRC ($381.0 million) and Indonesia ($152.9 million). Of the committed portfolio, the largest concentration was in India (23.8%, up from 21.3% in 2018), followed by the PRC (13.0%, down from 15.7%). With the significant commitments in 2019, the concentration in Thailand increased to 11.6%, from 8.0% in 2018, and exceeded exposure to Indonesia (9.6%). Exposure continues to be concentrated, with four countries responsible for 58.0% of the committed portfolio (Figure 82).\(^{36}\)

97. **Operations by country group.**\(^{36}\) In 2019, commitments in Group A countries increased to $631.5 million from $50.0 million in 2018. Commitments in Group B countries (excluding India) decreased to $86.2 million from $395.0 million in 2018.\(^{37}\) Commitments in Group C countries (excluding the PRC) decreased to $773.9 million from $979.7 million in 2018. Regional commitments decreased to $162.5 million from $403.0 million in 2018. Commitments in the PRC and India slightly increased to $1,346.1 million from $1,308.1 million in 2018, accounting for 44.9% of total commitments, up from 41.7% in 2018. Commitments in Group A and B countries (excluding India) increased to $717.6 million or 23.9%, up from $445.0 million and 14.2% in 2018. The NSO committed portfolio by project count remained concentrated in terms of countries.

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\(^{34}\) [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

\(^{35}\) [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

\(^{36}\) Countries that received nonsovereign project assistance from ADB in Group A: Afghanistan, Bhutan, Cambodia, Kyrgyz Republic, Lao People’s Democratic Republic, Maldives, Myanmar, Nepal, Samoa, and Tajikistan. In Group B: Bangladesh, India, Mongolia, Pakistan, Papua New Guinea, Uzbekistan. In Group C: Armenia, Azerbaijan, Georgia, Indonesia, Kazakhstan, Malaysia, Philippines, PRC, Sri Lanka, Thailand, Viet Nam.

\(^{37}\) Sri Lanka and Viet Nam graduated from Group B to Group C in 2019.
(Figure 83), with 32.9% in the top two countries (India and PRC), but concentration has gradually decreased (from 37.0% in 2015). The committed portfolio in Group A and B countries (excluding India) decreased to 19.3% from 22.2% in 2018. The committed portfolio in Group C countries (excluding the PRC) increased to 27.5% from 23.9% in 2018, mainly due to a number of new commitments in Thailand, Indonesia, and Georgia.

**Figure 83: Operations by Country Group, 2015–2019**

<table>
<thead>
<tr>
<th>Year</th>
<th>IND and PRC</th>
<th>Groups A and B, excluding IND</th>
<th>Group C, excluding the PRC</th>
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<td>2017</td>
<td>36.0%</td>
<td>25.7%</td>
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<tr>
<td>2018</td>
<td>36.1%</td>
<td>23.9%</td>
<td>22.2%</td>
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<tr>
<td>2019</td>
<td>32.9%</td>
<td>19.3%</td>
<td>27.5%</td>
</tr>
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</table>


**Figure 84: Portfolio Composition, FCAS and SIDS ($ million)**

- Total committed portfolio: $13,784.6 million
- FCAS: $802.7 million (5.8%)
- SIDS: $16.9 million (0.1%)

FCAS = fragile and conflict-affected situations, SIDS = small island developing states.

Note: $11.2 million in Papua New Guinea included in both FCAS and SIDS.

Source: Asian Development Bank data.

98. **Commitments in fragile and conflict-affected situations and small island developing states.** The committed portfolio in FCAS and SIDS DMCs remains low at 5.9% as of 2019 (Figure 84). Commitments in FCAS countries increased substantially and totaled $611.4 million (20.4% of 2019 total commitments), of which $597.5 million was in Myanmar (compared to $10.0 million in 2018), and $4.0 million in Afghanistan (nil in 2018). At end of 2019 the committed portfolio in FCAS DMCs was $802.7 million, or 5.8% of the total committed portfolio, up from 4.5% in 2018. [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]
99. **Operations by income groupings.** The share of the committed portfolio in LMICs (excluding India) was 25.5%, and 18.1% in UMICs (excluding the PRC). India’s share was 48.2% of the LMIC portfolio, and the PRC’s share was 41.8% of the UMIC portfolio. The composition has not changed materially during 2015–2019, and there are no transactions in LICs or HICs (Figure 85).

100. **Nonsovereign public portfolio.** The nonsovereign public portfolio grew substantially in 2019. Four nonsovereign public sector transactions of $1,313.8 million were committed (up from two totaling $320 million in 2018), including one public sector equity transaction of $50 million. [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.] At the end of 2019 the total nonsovereign public sector committed portfolio totaled $2,542.6 million; $1,374.2 million was outstanding, up from $460.1 million at the end of 2018. It remained modest (13.6%) compared with the nonsovereign private sector outstanding portfolio of $8.8 billion.

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38 [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]
C. Other Key Findings

105. **Transactions not yet effective.** The amount pending effectiveness significantly decreased in 2019 and totaled $1.0 billion (down from $2.4 billion at end 2018). The pace of commitments further increased with 68.4% (26 out of 38) approved and signed within 2019 (up from 47.9% in 2018). Figure 90 shows the transactions with full amount pending for signing by year of approval. The majority of unsigned transactions was from projects approved in 2019. However, the unsigned stock from five transactions approved in 2017 is high, totaling $344 million.

106. **Transactions pending disbursements.** By the end of 2019, 28 transactions amounting to $1.8 billion had been signed but not yet disbursed; 85.6% of these were signed in 2019 (Figure 91). The pace of disbursements significantly increased in 2019, with 20 projects out of 38 (52.6%) signed and disbursed within 2019 (up from 21.3% in 2018).

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**Figure 90: Transactions Not Yet Effective**

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<th>Year</th>
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<td>2018</td>
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<td>2019</td>
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Source: Asian Development Bank data.

**Figure 91: Transactions Signed but Not Yet Disbursed**

<table>
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<th>Year</th>
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<tr>
<td>2019</td>
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</table>

Source: Asian Development Bank data.
4. **Technical Assistance**

113. TA resources play an important role in NSO in developing capacity and providing policy advice with respect to the broader sector regulatory frameworks that support private sector development. Since 2015, a total of $70.6 million in TA has been committed for NSO.

114. The committed TA portfolio has increased in number and amount, from $44 million (37 numbers) in 2015 to $75 million (48 numbers) in 2019 (Figure 92). TA totaling $24.2 million were committed in 2019, up from $16.3 million in 2018.

115. **Country distribution.** Of the active TAs, 83.1% by amount ($62.1 million) are categorized as regional TA. India has the largest share of committed TAs (7.8%) followed by Georgia (2.4%). Of the TA commitments during 2015–2019, 81.5% by amount ($57.5 million) was regional TA; India’s share was 8.2%, and Georgia’s 2.5% (Figure 93).

116. **Sector distribution.** The largest share of the active committed TAs by sector is in industry and trade ($32.2 million, 43%) and finance ($24 million, 33.2%). TA commitments during 2015–2019 were also highest in the industry and trade (44.9%) and finance (31.0%) sectors (Figure 94).
D. Financial Performance

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

E. Portfolio Quality

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]

F. Conclusions and Recommendations

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]
### 2019 SOVEREIGN PORTFOLIO: KEY INDICATORS

<table>
<thead>
<tr>
<th>PPR Rating</th>
<th>Active Portfolio ($ million)</th>
<th>Contract Award Ratio (%)</th>
<th>Uncontracted (%)</th>
<th>Disbursement Ratio (%)</th>
<th>Undisbursed (%)</th>
<th>On Track (%)</th>
<th>Implementation Risk (%)</th>
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### 2019 SOVEREIGN PORTFOLIO: KEY INDICATORS

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<tr>
<th>PPR Rating</th>
<th>Active Portfolio ($ million)*</th>
<th>Contract Award Ratio (%)b</th>
<th>Uncontracted (%)b</th>
<th>Disbursement Ratio (%)b</th>
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<td>2 (2)</td>
<td>5,038</td>
<td>100</td>
<td>75</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>5,319</td>
<td>7</td>
<td>53</td>
<td>8</td>
<td>72</td>
<td>46</td>
<td>68</td>
</tr>
<tr>
<td>NON- OPERATIONS</td>
<td>427</td>
<td>16</td>
<td>59</td>
<td>17</td>
<td>71</td>
<td>63</td>
<td>35</td>
</tr>
<tr>
<td>TOTAL</td>
<td>88,775</td>
<td>25</td>
<td>40</td>
<td>20</td>
<td>61</td>
<td>74</td>
<td>25</td>
</tr>
</tbody>
</table>

Notes:
1. The 2018 figures will not tally with figures presented in the 2018 Annual Portfolio Performance Report because of adjustments made after the end of 2018.
2. Figures may not sum precisely because of rounding.

* Covers loans, grants, technical assistance, equity investments, and guarantees.

b Covers project loans and grants only.

Source: Asian Development Bank data.
2019 NONSOVEREIGN PORTFOLIO: FINANCIAL STATEMENT
($ million)

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]
### STATUS OF THE PORTFOLIO PERFORMANCE ACTIONS RECOMMENDED IN 2018

#### Table A3.1: Sovereign Section

<table>
<thead>
<tr>
<th>Issue 1: Project and portfolio quality is increasingly critical because of the widening gaps between annual commitments and contract awards, and disbursements.</th>
<th>Central and West Asia Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Quality design of new projects using lessons learned from the country and sector perspective cannot be compromised.</td>
<td>a) Lessons from PCRs and portfolio reviews are shared with project processing teams.</td>
</tr>
<tr>
<td>b. Ensure that cost estimates are robust and reflect market conditions to minimize excessive loan savings.</td>
<td>b) CWRD is looking to PPFD to provide tools to undertake this exercise in a systematic manner.</td>
</tr>
<tr>
<td>c. Conduct frequent review missions and robust midterm reviews for problematic projects to ensure that systemic issues are dealt with early.</td>
<td>c) CWRD holds mandatory pre-MTR briefings with its Portfolio, Results, Safeguards and Gender Unit and director general to agree on proposed solutions and action plans for problematic projects.</td>
</tr>
<tr>
<td>d. Hold timely discussions with the borrower on loan savings and their possible use to expand the project scope, or on early cancellation to reduce commitment charges for the borrower.</td>
<td>d) In 2019 CWRD’s efforts to cancel loan savings propelled cancellations to a record high of $1,209 million, almost double the 2018 cancellations of $625 million.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>East Asia Department</th>
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</thead>
<tbody>
<tr>
<td>a) Lessons from previous similar projects are carefully considered and incorporated as appropriate.</td>
</tr>
<tr>
<td>b) Cost estimates are prepared based on market rates and compared with costs of similar projects in the same province of the country.</td>
</tr>
<tr>
<td>c) In addition to frequent reviews and robust MTRs, the quarterly portfolio review in Mongolia provides an opportunity for closer monitoring of problematic projects. Similarly, in the PRC, EARD conducts special portfolio reviews for problematic projects, and provincial review if there are many problem projects in the province.</td>
</tr>
<tr>
<td>d) There were no loan savings in Mongolia. In the PRC loan savings were caused by actual costs being less than estimates and cancellation of some project components because of changes in priority. The PRC government prefers to use the savings for financing additional scope; to avoid delay, soon after identifying savings, EARD holds discussions with the executing agency to select and conduct due diligence on new subprojects, and process the approval for a change in scope.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pacific Department</th>
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</thead>
<tbody>
<tr>
<td>PARD has introduced a differentiated approach based on lessons learned, implementation of which is a work in progress.</td>
</tr>
<tr>
<td>PARD has established a dedicated team working on quality monitoring. This team will participate in special administrative missions and robust MTRs for problematic projects to ensure rapid action is taken to address systemic issues.</td>
</tr>
<tr>
<td>With the introduction of strategic procurement planning, the outposted PPFD procurement staff are reviewing cost estimates to ensure they reflect market conditions.</td>
</tr>
</tbody>
</table>
### South Asia Department

SARD aims to prepare more accurate cost estimates for each project that reflect recent trends in the construction industry. Through the Capacity Development Resource Centers in ADB’s resident missions, SARD will continue to strengthen executing and implementing agency capacity in its DMCs on procurement processes and perform due diligence to further improve project performance. SARD will also focus on shortening the turnaround period for review of bid documents and bid evaluation reports for critical contract packages.

### Southeast Asia Department

- a) Project designs incorporated lessons from both completed and ongoing projects. New projects processed in 2019 incorporated lessons, with improved design and procurement readiness as well streamlined project management structures.
- b) Project cost estimates and financing plans are rigorously reviewed, with reasonable contingencies included and discussed with borrowers and/or grant recipients.
- c) SERD required at least two review missions annually per project, conducted pre-MTR discussions between MTR missions and SERD management, and monitored post-MTR action plans. Where urgent issues arose, special review missions or videoconference meetings were arranged. Weekly meetings were also held for more problematic projects and these proved to be useful in sustaining executing agency cooperation and project momentum, and achieving progress.

Discussions on reallocation of loan savings were held early at the project level and more specifically at country and sector portfolio performance review meetings, but borrowers’ formal requests to ADB for such actions largely depended on internal procedures of governments, which have caused delays or led to cancellations in some cases.

### Central and West Asia Department

- a) CWRD applies flexible project implementation periods based on country capacity and project readiness.
- b) CWRD has robust filters in place and achieved high readiness in 2019. Project readiness will be further enhanced in 2020, with six PRFs approved in 2019, with three proposed for approval in 2020.
- c) For projects that have had substantial contract variations, the implementing agency may need time for an internal audit before finalizing liquidation of the advance account.
- d) The new project performance rating system to be implemented in Q1 2020 will enable project teams to pay continuous attention to project progress in relation to the design and monitoring framework outcome and outputs.

### East Asia Department

- a) Based on experience from previous and ongoing projects, the implementation period for new projects in the PRC and Mongolia is set at a minimum of 6 years.
- b) Design- and procurement-ready projects are being processed on a pilot basis, with two projects in the PRC, and introduction of a PRF loan in Mongolia.

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**Issue 2:** The implementation period set at project design should be realistic to better manage expectations.

**Recommendations:**

a. A review of country and sector performance needs to be fed into the project design to assess a realistic implementation period and have it endorsed at the quality review meeting.

b. The design and procurement readiness momentum should be sustained to enable more contract
awards and disbursements in the early life of the project.  
c. The financial closure of a project should be completed within 6 months of the loan closing date, to the extent possible.  
d. Project teams need to take constant proactive measures to minimize project implementation delays, rather than rely on quarterly project performance ratings as a trigger to respond.

<table>
<thead>
<tr>
<th>Pacific Department</th>
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</table>
| Financial closure for PRC projects usually takes 6–9 months because of the need for the executing agency to gather a large volume of supporting documents from implementing agencies for final liquidation of the advance.  
| During the regular review missions, project teams hold discussions with executing agencies and develop a time-bound action plan to avoid delays.  

<table>
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<tr>
<th>Pacific Department</th>
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</table>
| PARD continues to work on improving project readiness, making use of PRF loans to prepare large investment projects. In addition to PRF loans for ports in Nauru and Samoa, a road project in Solomon Islands, a road and port project in Tonga, and water sector investments (in Kiribati, Solomon Islands, and Vanuatu), PARD committed four PRF loans in 2019 focusing primarily on transport and water and urban sectors in Federated States of Micronesia, Solomon Islands, Tonga, and Vanuatu. PARD continues to implement the use of the project readiness checklist at concept stage, which is updated until project approval.  

<table>
<thead>
<tr>
<th>South Asia Department</th>
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</table>
| In 2019 SARD maintained its readiness performance with regard to design (100%) and procurement (94%), exceeding the ADB targets of 80% (design) and 60% (procurement).  
| The focus on improved quality and increased scrutiny with respect to timely submission of client reports and documents requires significant support from SARD.  
| SARD provides strong support to ensure timely closure of loans and grants, including submission of final audited project financial statement.  

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<tr>
<th>Southeast Asia Department</th>
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| Projects processed in 2019 adopted realistic project implementation periods based on lessons from implementation of previous projects.  
| In 2019, 75% of approved infrastructure projects were design-ready and 25% were procurement-ready, resulting in smooth start-up activities for six projects.  
| SERD is continuously working on and monitoring timely closure of completed projects. In 2019, 42 loans and grants were financially closed, of which 12 loans (including 7 programs loans) and 1 grant were closed on time, while 33 loans and grants were closed beyond their initial winding-up period. The delays in financial closure resulted mainly from liquidation issues and refund delays.  
| SERD significantly strengthened its internal monitoring system and conducted regular meetings of PMAP and PAU heads, which helped proactively address implementation challenges.  

### Issue 3: The present methodology of setting annual disbursement targets does not accurately reflect a country’s capacity and situation and needs rethinking.

**Recommendations:**

- a. Future annual corporate target setting for the purposes of the Planning Directions should consider the historical 3-year average disbursement ratio.
- b. Starting 2020, targets at the regional department and country level should adopt a differentiated approach based on historical performance linked to country grouping.
- c. Disbursement projections for the midyear preparation of the next 3-year work program and budget framework will use the proposed 90% achievement of annual targets in the future corporate results framework as the starting point.

<table>
<thead>
<tr>
<th>Central and West Asia Department</th>
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<tbody>
<tr>
<td>a) PPFD adopted a differentiated approach for setting 2020 targets.</td>
</tr>
<tr>
<td>b) Done by CWRD</td>
</tr>
<tr>
<td>c) Included in Strategy, Policy and Partnerships Department’s Operational Performance Metrics</td>
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<tr>
<th>East Asia Department</th>
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</thead>
<tbody>
<tr>
<td>a) Targets set by PPFD adopt a differentiated approach.</td>
</tr>
<tr>
<td>b) EARD sets the target for the country based on the type of projects in the portfolio, historical performance, and assessment of the current situation of each country (including the political situation, of the executing agencies, and capacity of contractors and consultants).</td>
</tr>
<tr>
<td>c) The PPFD methodology uses prior achievement to compute targets.</td>
</tr>
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<tr>
<th>Pacific Department</th>
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<tr>
<td>The targets from planning directions are cascaded to the country and regional departments.</td>
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<tr>
<th>South Asia Department</th>
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<tbody>
<tr>
<td>Guided by the annual Planning Directions, SARD conducts systematic and thorough assessments of disbursement targets using historical performance and the annual program. While considering the economic and political situation of its DMCs, SARD has consistently exceeded its disbursement targets through proper coordination, teamwork and strong leadership from the management.</td>
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<tr>
<th>Southeast Asia Department</th>
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</thead>
<tbody>
<tr>
<td>SERD’s annual project disbursement corporate target has always been ambitious considering the historical country performances and context. Since 2015, SERD’s average disbursement ratio has been 17% and the average volume $1.57 billion, against the desired ADB-disbursement ratio of 20%. Although the annual project disbursement target was not achieved, the actual achievements increased gradually from $1.5 billion in 2015 to $1.64 billion in 2019. In addition, the target includes only project disbursement, while SERD’s portfolio is quite strong in policy-based loans. During 2016–2019, annual SERD disbursement averaged $3.1 billion, of which PBL disbursement averaged $1.6 billion. In 2020, SERD disbursements are estimated at $3.2 billion, comprising $1.47 billion in PBL and $1.75 in project disbursements. SERD is continuing several actions to improve portfolio performance, such as (i) enhancing project readiness through TA loans and larger co-financed TA grants, (ii) safeguards and procurement troubleshooting through dedicated TA, and (iii) cancellation of slow moving loans. It will take some time for these measures to achieve a large increase in project disbursements.</td>
</tr>
</tbody>
</table>
**Issue 4:** The guidelines on preparing and circulating PCRs need to be further enhanced to ensure the reports’ timely circulation, supported by a comprehensive tracking system to avoid potential delays.

**Recommendations:**

a. Each regional department needs to establish a strong PCR tracking system at the divisional level, to be monitored by the front office, to minimize preparation delays.

b. Regional departments need to undertake stocktaking and spring cleaning of potentially overdue PCRs and include them in the 2019/2020 program.

c. The Project Administration Instruction needs to be strengthened to improve the clarity of PCR preparation, including circulation time frame, impacts of delays on counterpart funding, programmatic PBL, and attached support to projects and multitranche financing facilities.

d. An automatic reminder in the present eOperations system to prompt PCR preparation was implemented by PPFD in 2019.

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**Central and West Asia Department**

- A strong PCR tracking system is in place in CWRD’s Portfolio, Results, Safeguards and Gender Unit.
- Potentially overdue PCRs have been identified and included in the 2019–2020 program.
- The Project Administration Instructions have been strengthened to improve the clarity of PCR preparation, including circulation time frame, impacts of delays on counterpart funding, programmatic PBL, and attached support to projects and multitranche financing facilities.
- An automatic reminder in the present eOperations system to prompt PCR preparation was implemented by PPFD in 2019.

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**East Asia Department**

- EARD has established a PCR monitoring system in sector divisions that is controlled and monitored by the front office.
- EARD does routine yearly stocktaking, and has therefore not missed any overdue PCRs. Some PCRs are intentionally delayed (e.g., to allow additional time for impacts and outcome to be realized under PBL).
- The PAIs have been revised in accordance with the recommendation.
- An automatic reminder in the present eOperations system to prompt PCR preparation was implemented by PPFD in 2019.

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**Pacific Department**

PARD has established an internal monitoring system for tracking PCR and TCR milestone submissions and in 2019, which enabled timely completion of 10 PCRs and 19 TCRs (out of 8 PCRs and 10 TCRs programmed for the year).

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**South Asia Department**

Given the increased volume of PCRs, SARD has

- established a reverse clock for each PCR to spread out milestones, avoid bunching and enhance monitoring;
- delegated some PCRs from resident missions to sector divisions to balance workload, and to share implementation experience and lessons for future projects; and
- increased coordination between the SARD front office, divisions and resident missions through the PAU heads on projects scheduled to close, and to identify anticipated extensions or other issues (e.g., government will continue some pending outputs after ADB loan closing) to update the future PCR program.

- In addition, project teams as well as the SARD front office are notified through eOperations regarding timely closing of projects and preparation of PCRs.

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**Southeast Asia Department**

In 2019, SERD established an integrated portfolio program monitoring system, which aims to (i) improve portfolio data collection from multiple sources and levels; (ii) facilitate earlier identification of issues and risks to preempt implementation delays with the development of required actions; and (iii) enhance monitoring of achievement of quarterly and annual
targets. The monitoring system includes data on planning, preparation, circulation, and ratings of PCRs and TCRs, which also covers schedule of project financial closures, PCR missions, and PCR and TCR milestone activities. The monitoring system is updated monthly and serves as reference during SERD PAU heads meeting and PMAP meetings, chaired by SERD management. At the divisional level, staff applied a reverse-clock system to help closely monitor PCR and TCR preparation and ensure timely circulation to the Board.

To strengthen the quality of PCRs and TCRs, SERD developed and adopted internal PCR and TCR guidelines, which provide detailed guidance on the preparation of the reports. In addition, in coordination with Budget, Personnel, and Management Systems Department and IED, SERD organized two workshops on project evaluation for SERD staff involved in the preparation of PCRs and TCRs. The divisions also worked on staff time and administrative budget resource allocations to support quality PCR and TCR preparation.

As of 30 September 2019, SERD had achieved 108% of 2019 PCR circulation targets and 220% of 2019 TCR circulation targets.

| ADB = Asian Development Bank, CTL = Controller's Department, CWRD = Central and West Asia Department, DMC = developing member country, EARD = East Asia Department, IED = Independent Evaluation Department, MTR = midterm review, PAI = project administration instruction, PARD = Pacific Department, PAU = project administration unit, PBL = policy-based lending, PCR = project completion report, PMAP = Portfolio Management Action Plan, PPFD = Procurement, Portfolio and Financial Management Department, PRC = People's Republic of China, PRF = project readiness financing, Q = quarter, SARD = South Asia Department, SERD = Southeast Asia Department, TA = technical assistance, TCR = technical assistance completion report. Source: Asian Development Bank, regional departments. |
TABLE A3.2: NONSOVEREIGN SECTION - STATUS OF THE 2018 AND PREVIOUS YEARS APPR RECOMMENDATIONS

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB’s Access to Information Policy.]
## UPDATE ON 2019 COMMITTED ACTIONS BY REGIONAL DEPARTMENTS

### SOVEREIGN SECTION

<table>
<thead>
<tr>
<th>Central and West Asia Department</th>
<th>In 2019 CWRD achieved the following: a project transfer ratio of 49%, validated Q4 portfolio ratings of 85% satisfactory, design readiness of 73%, procurement readiness of 45%, contract awards of $1,871 million, disbursement of $1,793 million (excluding Afghanistan at $229 million), and end-to-end procurement time of 307 days.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Achieve the following quantitative results: (i) project transfer ratio increased (baseline 46%); (ii) at least 85% of the portfolio rated satisfactory; (iii) at least 60% design readiness achieved; (iv) at least 40% procurement readiness attained; (v) at least $2.1 billion in contracts awarded; (vi) at least $1.9 billion disbursed; (vii) end-to-end procurement time reduced (baseline: 389 days).</td>
<td>In 2019 CWRD achieved the following: a project transfer ratio of 49%, validated Q4 portfolio ratings of 85% satisfactory, design readiness of 73%, procurement readiness of 45%, contract awards of $1,871 million, disbursement of $1,793 million (excluding Afghanistan at $229 million), and end-to-end procurement time of 307 days.</td>
</tr>
<tr>
<td>(ii) Pilot at least two new financing modalities that enable quicker project start-up—PRF and small expenditure financing facility.</td>
<td>In 2019 the first small expenditure financing facility in ADB was approved for the Kyrgyz Republic. Six PRF loans to assist in project preparation such as design, safeguards and procurement were approved and signed for: (i) L6027-Pakistan: Punjab Water Resources Management (ii) L6015/6016-Pakistan: KP Cities Improvement Project (iii) L6021-Afghanistan: Road Rehabilitation and Maintenance Program (iv) L6020-Uzbekistan: Urban Services Project (v) L6024-Georgia: Livable Cities Investment Program (vi) L6022-Tajikistan: Tourism Development Project</td>
</tr>
<tr>
<td>(iii) Pilot executing and implementing agency recognition programs whereby ADB and the respective Ministry of Finance recognizes exceptionally performing project monitoring units through resident mission-led appreciation awards.</td>
<td>(iii) Appreciation awards handed out.</td>
</tr>
<tr>
<td>(iv) Increase the involvement of project administration unit heads in quality assurance during project processing to enhance project readiness.</td>
<td>CWRD organizes departmental review meetings with mandatory participation by country directors and PAU heads to assess project readiness, lessons, ADB value addition, and innovation for director general approval to proceed to concept paper preparation.</td>
</tr>
<tr>
<td>(v) Explore local business opportunity seminars in developing member countries.</td>
<td>PPFD plans a regional business opportunities fair in Uzbekistan in collaboration with CWRD.</td>
</tr>
</tbody>
</table>
## East Asia Department

(i) Continue discussions with the Government of Mongolia to support the amendment of the procurement law, to enable advance contracting and improve project readiness.  
Further to approval of the procurement law amendment, the government regulation on advance contracting was issued in 2019, which opens an opportunity to introduce PRF in 2020.

(ii) The Mongolia Resident Mission to engage in dialogue with the government on not applying a disbursement cap on ADB financed projects in 2019.  
The government did not apply a disbursement cap in 2019.

(iii) In PRC, continue the dialogue with the Ministry of Finance during country portfolio review mission and country programming mission over actions to improve project readiness.  
In a project processing workshop with the Ministry of Finance in November 2019, EARD proposed that advance actions be started after domestic approval of the Feasibility Study Report, which takes place about the same time as ADB’s management review meeting. The Ministry of Finance had agreed to implement this on pilot basis for two projects in 2020.

(iv) For the newly approved projects in the PRC, more attention will be given to start implementation immediately after loan approval.  
Project implementation missions were fielded for projects approved in Q3 or earlier. For projects approved in Q4 and later, the outbreak of COVID-19 has resulted in mission travel being restricted, with most staff working from home.

## Pacific Department

(i) Continue efforts to improve project readiness through the use of new products—i.e., PRF, SEFF, and cofinanced grants—for detailed design and procurement support. Strengthen the project readiness sheet to monitor readiness of projects at all stages of processing.  
PARD continues to work on improving project readiness, making use of PRF to prepare large investment projects. In addition to PRF for ports in Nauru and Samoa, a road project in Solomon Islands, and a road and port project in Tonga, and water sector investments in Kiribati, Solomon Islands, and Vanuatu, PARD committed four PRF loans in 2019 focusing primarily on transport and water and urban sectors in Federated States of Micronesia, Solomon Islands, Tonga, and Vanuatu. 
PARD continues to implement the use of the Project Readiness Checklist at concept stage, which is updated until approval of the project.

(ii) Work on executing and implementing agency capacity to improve project implementation in procurement and safeguards, and to better manage real-time project implementation issues. Funding for Regional Technical Assistance for Improving Project Implementation Capacities will be increased to continue its support to Pacific DMCs.  
The Regional TA on Building Project Implementation Capacities in the Pacific8 continues to provide advisory and capacity building support to counterpart agencies responsible for project implementation activities in the Pacific. Because of high demand among Pacific DMCs and the effectiveness of in-country assistance, the TA amount was increased by $1.1 million in 2019 for continued project implementation support. In 2019, the TA supported 15 projects in 6 countries, providing on-the-ground assistance in the areas of procurement, safeguards, financial management, disbursements, portfolio reviews and project management for effective project implementation.
### (iii) Rigorously monitor projects with high risk and high value to improve their rating and reduce uncontracted and undisbursed balances.

PARD identified and closely monitored its critical and high-value projects with high uncontracted and undisbursed balances, resulting in a largely improved *on track* rating, from 73% in 2018 to 78% in 2019. The percentage of uncontracted projects was maintained at 31% from 2018, which is on par with ADB’s 2019 performance. The percentage of undisbursed projects improved from 61% in 2018 to 58% in 2019, which is also on par with the ADB average.

PARD is addressing all critical project implementation issues through regular portfolio performance review meetings followed by compliance of action plans.

### (iv) Additional resources to be added to strengthen the department's financial management team to monitor compliance and improve financial management practices.

PARD continues to strengthen its financial management capacity, with two full-time financial management specialists, supported by national staff and consultants.

### South Asia Department

<table>
<thead>
<tr>
<th>(i) Continue to further achieve better results from the 2018 actions.</th>
<th>SARD continued 2018 actions to further achieve better results on delegation, TA portfolio, procurement time, financial management and capacity development.</th>
</tr>
</thead>
</table>

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<tr>
<th>(ii) Consider the political economy, such as changes in government administration or elections, in project processing, implementation, and portfolio management.</th>
<th>SARD considered the political economy in project processing and portfolio management, including changes in government administration or elections.</th>
</tr>
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<tr>
<th>(iii) Continue to aim at high project readiness wherever possible through advance procurement actions, including actions on safeguard compliance and monitoring, executing and implementing agency staff resources, and risk management.</th>
<th>SARD maintained high project readiness through advance procurement actions, including actions on safeguards compliance and monitoring, executing and implementing agency staff resources, and risk management.</th>
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<tr>
<th>(iv) Prepare more accurate cost estimates for each project, reflecting the recent trends in the construction industry.</th>
<th>SARD prepared more accurate cost estimates for each project that reflect recent trends in the construction industry. Through capacity development resource centers in resident missions, SARD will continue to strengthen executing and implementing agency capacity on procurement processes and perform due diligence to further improve project performance.</th>
</tr>
</thead>
</table>
(v) To improve financial management compliance, additional financial management resources will be made available. Financial management staff will provide support during processing and implementation, enhance monitoring, conduct country studies, and strengthen the financial management capacity of government institutions.

SARD improved financial management compliance and additional financial management resources were made available (two national staff were hired, and two new positions were approved in 2019). Financial management staff provided support during project processing and implementation, enhanced monitoring, conducted country studies, and strengthened the financial management capacity of government institutions.

<table>
<thead>
<tr>
<th>Southeast Asia Department</th>
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<tr>
<td>(i) Continue the One ADB/One SERD approach to portfolio management and project administration.</td>
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<tr>
<td>In 2019, in close collaboration with other departments, SERD adopted the One ADB model starting with upstream work (e.g., preparation of a new country partnership strategy; further alignment of country systems in the areas of safeguards, procurement and financial management; as well as earlier collaboration between sovereign and nonsovereign operations). The approach facilitated efficient use of resources and effective knowledge sharing among the teams and with SERD DMCs. The 2019 highlights of One ADB model in portfolio management and project implementation includes:</td>
</tr>
<tr>
<td>(i) Joint SERD-PFFD piloting of a functionally consolidated financial management model to improve quality of portfolio performance by mainstreaming financial management throughout the project cycle, with dedicated financial management support during project processing and implementation; financial management compliance review of the sovereign portfolio; quality assurance of project documents; and enhanced financial management capacity of SERD staff.</td>
</tr>
<tr>
<td>(ii) Joint processing with PPFD of a new regional transaction TA Facility on Strengthening Project Readiness, Procurement and Financial Management in Southeast Asia for $1.5 million to support capacity development in project implementation, procurement and financial management compliance in SERD’s DMCs.</td>
</tr>
<tr>
<td>(iii) Joint piloting by SERD and the IT Department of SERD Management Team Dashboard, which was developed based on SERD’s integrated portfolio program monitoring system to automate data collection and provide SERD staff with seamless access to the department’s portfolio data.</td>
</tr>
<tr>
<td>(iv) Continued collaboration with CTL on the enforcement of the implementation of the Client Portal for Disbursement portal for e-disbursement.</td>
</tr>
<tr>
<td>Internally, SERD continued to implement a highly collaborative One-SERD model across all sector divisions and resident missions. Project processing included the national officer of the resident mission or new staff as co-leader, and project</td>
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</table>
implementation teams included staff from headquarters and resident missions for both delegated and non-delegated projects. The model facilitated efficient and quality project implementation, empowering resident mission staff with sector experience and team leadership, and efficient resource management and work assignments.

In addition, SERD’s PAU network, consisting of PAU heads and national staff from sector divisions and resident missions, was established to facilitate discussions on SERD-wide project implementation and portfolio management issues and help improve portfolio performance.

(ii) Further improve portfolio business processes and the integrated management information system.

SERD continued improving organizational efficiency by streamlining business processes and enforcing service standards by using information technology programs and digital processes, including the SharePoint platform. In particular, SERD established an integrated portfolio program monitoring system aiming to (i) improve portfolio data collection from multiple sources and levels; (ii) facilitate earlier identification of issues and risks to preempt implementation delays with the development of required actions; and (iii) enhance monitoring of achievement of quarterly and annual targets. In collaboration with the IT Department, this monitoring system is currently being enhanced as a SEAMT Dashboard using Microsoft Power BI.

SERD also developed and adopted internal templates and guidelines and business service standards to strengthen the quality and timeliness of portfolio documents.

(iii) Continue working with DMCs to help achieve project readiness and institutionalize the processes, where possible; and improve financial management and safeguard compliance through regular monitoring, capacity building, and close coordination with PPFD.

SERD worked with DMCs on improving project readiness by engaging project, procurement, safeguards and financial management specialists to support financial management and safeguards compliance throughout all stages of project cycle and organizing training programs.

**Cambodia.** The Cambodia Resident Mission supported the government in updating their standard operating procedures, procurement manual, and financial management manual for externally financed projects, which were approved through sub-decree on 2 December 2019, to reflect development partners’ reforms and other international good practices that were introduced since the last update in 2012, in close consultation with other development partners. To introduce the updates, the resident mission supported 9 dissemination workshops reaching out to more than 600 government officials. In addition, the resident mission provided 2 safeguards and gender workshops and 11 project tailor-made clinics to various stakeholders to promote their awareness and share good practices. SERD and the Sustainable Development and Climate Change Department jointly organized a high-level safeguards policy dialogue with the government and clarified several key social and environmental safeguards issues.
External audit for ADB-financed projects in Cambodia is organized through block audit, led by the Ministry of Economy and Finance. The Cambodia Resident Mission continued the annual external audit arrangement, which resulted in timely submission of audit reports (98% were received on time, with only one report received late), and organized several consultation meetings and missions with PPFD to clarify ADB’s financial management requirements, which helped improve the quality of FY2018 audit reports.

**Indonesia.** The Indonesia Resident Mission conducted procurement policy and regulations training for the national procurement agency and executing agencies. It also provided project-tailored clinics on procurement (27), safeguards (20), disbursement and financial management (14), and gender training (4); and conducted a high-level discussion with the Ministry of Finance and Audit Board of Indonesia on the update of the audit requirements and revised terms of reference.

**Lao People’s Democratic Republic.** The Urban Development and Water Division; Environment, Natural Resources and Agriculture Division; and Lao Resident Mission worked with the Lao People’s Democratic Republic on an agreement to institutionalize a project readiness filter in government systems during the 2019 portfolio performance review conducted for the agriculture, natural resources, and rural development sector.

**Myanmar.** The Myanmar Resident Mission organized high-level discussions with government counterparts on project readiness and start-up, procurement and contract management, safeguards, and financial management at the 2019 Tripartite Portfolio Review Missions. As part of a One ADB approach, it also collaborated with other divisions and departments to organize a project implementation seminar, financial management training, and disbursement seminar, as well as supporting the Myanmar delegation’s participation in the regional project implementation workshops conducted in Cambodia and headquarters.

**Viet Nam.** The Viet Nam Resident Mission proactively followed-up with the executing agencies to submit audited project financial statements, which resulted in 10% improvement of acceptability of audited project financial statements for FY 2018 from FY 2017; and timeliness of the submissions improved from 54% on-time submissions in FY2016 to 77% in FY2017, and 78% for FY2018. In addition, ADB and ODA oversight agencies organized 9 structured trainings on ODA budget planning, financial management and disbursement, safeguards compliance and procurement, involving 31 projects and 472 project officials.

Other SERD resident missions also provided tailor-made procurement, safeguards, financial management and
| (iv) | Tighten monitoring through regular review of procurement plans and procurement package milestones, including for small packages, to ensure timely contract awards and disbursement. | With a strong emphasis on results, SERD continued to regularly and rigorously monitor project progress through an established integrated portfolio program monitoring and early warning system. At the department level, monitoring followed a risk-based approach and was undertaken in the form of semi-monthly portfolio management action plan meetings focused on performance and deliverables of actual problem and slow-moving projects, including their detailed progress in contract awards and disbursements. SERD also enforced the monitoring system at the divisional level. Particularly, sector divisions and resident missions tightened procurement monitoring with the use of a comprehensive Excel-based contracts tracker (by project and by package), with reverse clock milestone dates to ensure timely contract awards. The monitoring sheets have also been used by the executing agencies; in the case of delays, corrective action has been taken by resident mission teams and executing agencies, with special review missions fielded to address project implementation and procurement issues if needed.

Sector divisions and resident missions also effectively collaborated with PPFD’s focal and outposted staff on high-value contracts, the use of the procurement review system, and capacity development activities. The procurement review system was better used for procurement packages above $1.0 million to monitor transaction process and cross-check budget availability. The staff of the executing and implementing agencies received a number of tailored procurement training programs from resident missions and PPFD teams, with a strong emphasis on compliance with safeguards and financial management requirements.

In the Lao People’s Democratic Republic, the training was attended by 37 officials of the Public Procurement Monitoring Division of the Ministry of Finance, procurement officers from 8 ministries, and 14 procurement officers from projects financed by the World Bank. The training was jointly conducted by ADB and World Bank. |

| (v) | Continue to train project teams to effectively implement the new procurement framework and increase the number of staff accredited under the Procurement Accreditation Skills Scheme. | In 2019, SERD’s capacity building collaboration with PPFD on implementation of the new procurement framework was very productive, and resulted in joint training courses on the Procurement Risk Framework, Strategic Procurement Planning, and Contract Management conducted for project teams, particularly for new team leaders recently assigned to project processing and implementation. In addition, out of 165 operational staff, 147 staff were enrolled in the Procurement Accreditation Skills Scheme. In 2019, 4 staff were accredited for consultant recruitment and 5 were accredited for procurement, bringing the total number of accredited SERD staff to 37 for consultant recruitment and 38 for procurement. |
| (vi) | Monitor technical assistance portfolio performance with “no extension” policy and close at least 20 non-project-preparatory technical assistance projects by the end of 2019. | SERD continues to implement TA reforms by consolidating TA resources under sector and thematic regional TA facilities and applying a “no extension” policy to standalone non-project preparatory TA that has been implemented for over 5 years. In 2019, SERD closed 15 non-project preparatory TA projects (of a planned 20). The remaining 5 TA projects were extended to (i) accommodate governments’ requests for extension; (ii) maximize cofinancing for nonsovereign pipeline development; (iii) ensure completion of required final outputs; and (iv) maintain good engagement with an upper middle-income country. |
| (vii) | Continue to conduct constructive tripartite portfolio review missions. | SERD is continuously strengthening portfolio performance review though high-level tripartite sector and country meetings. In 2019, all resident missions (except the Thailand Resident Mission, as only one project is ongoing in Thailand) conducted CPRMs. SERD’s Urban Development and Water Division; and Environment, Natural Resources and Agriculture Division led sector portfolio performance reviews in Cambodia, Myanmar and the Lao People’s Democratic Republic. SERD’s safeguards team conducted country safeguards review meetings in Cambodia. The country portfolio and special review missions were attended by senior government officials, ADB Management, and project teams. The Indonesia Resident Mission conducted two country portfolio review missions to: strengthen project readiness criteria to improve advance action, align the procurement process by developing harmonized bidding documents for goods and civil works, strengthen joint portfolio monitoring with National Development Planning Agency (BAPPENAS) and MOF by developing common monitoring tools, and process a timely DIPA (national budget process) revision to avail of adequate budget by Q2 2020 to enable planned procurement. |

ADB = Asian Development Bank; CPRM = country portfolio performance review meeting; CSRM = country safeguards review mission; CTL = Controller’s Department; CWRD = Central and West Asia Department; DMC = developing member country; EARD = East Asia Department; FY = fiscal year; IT = information technology; MOF = Ministry of Finance; ODA = Overseas Development Agency (UK); PARD = Pacific Department; PAU = project administration unit; PPFD = Procurement, Portfolio and Financial Management Department; PPTA = project preparatory technical assistance; PRC = People’s Republic of China; PRF = project readiness financing; Q = quarter; SARD = South Asia Department; SERD = Southeast Asia Department; SPRM = sector portfolio review mission; TA = technical assistance.

ADB. Regional. Building Project Implementation Capacities in the Pacific.

Source: Asian Development Bank, regional departments.
SOVEREIGN OPERATIONS GLOSSARY

Active portfolio
All loans, grants, technical assistance (TA), equities, and guarantees committed and not financially closed (i.e., disbursement ended) as of the end of the financial year. The active portfolio includes funding from ordinary capital resources (OCR), concessional OCR lending (COL), the Asian Development Fund (ADF), other special funds, fully administered cofinanced loans and grants, and TA projects fully administered by the Asian Development Bank (ADB).

Advance action
Initiation of the process for procuring goods, services, and works before the effective date of the financing agreement.

Age
Refers to the average time from the date of product signing (commitment) to the end of the reporting period for active (committed) products.

Cancellation (effective)
Refers to the amount of partial or full reduction from the principal amount of effective products.

Cancellation (not effective)
Refers to the amount of products signed but cancelled prior to product effectiveness.

Closing date or closure
The last date for the borrower to withdraw from the account.

Contract award ratio
The ratio of total contracts awarded during the year to the total value for contract awards available at the beginning of the year, including newly committed projects (loans and grants) during the year.

Commitment (signing)
The financing approved by ADB’s Board of Directors or Management, for which the financing agreement has been signed by the borrower or recipient and ADB.

Delay (actual)
Refers to the time from original product closing to the actual financial closing.

Design-ready
Design-ready projects are those that have completed one of the following steps before project approval:

a) detailed engineering designs (DEDs), suitable for preparing and launching bidding documents for major construction or goods contract. For sector projects, DEDs for those subprojects for which construction is scheduled to start in the first 2 years should be available; or

b) preliminary design and specifications suitable for preparing and launching bidding documents for (a) construction contracts that include detailed design; and/or (b) turnkey or engineering, procurement and construction (EPC) contracts.
<table>
<thead>
<tr>
<th>Term</th>
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<tbody>
<tr>
<td>Disbursement ratio</td>
<td>The ratio of total disbursements during the year (including disbursement from newly committed operations during the year) to the undisbursed balance at the beginning of the year.</td>
</tr>
<tr>
<td>Effective (date)</td>
<td>The date on which ADB dispatches to the borrower or recipient notice of accepting supporting evidence of the satisfaction of project (loan or grant) effectiveness conditions set out in the financing agreement.</td>
</tr>
<tr>
<td>Implementation period (original / actual)</td>
<td>Refers to the time from product commitment (signing) to the original product closing (for original implementation period) or actual financial closing (for actual implementation period).</td>
</tr>
<tr>
<td>Multitranche financing facility (MFF)</td>
<td>A financing instrument through which ADB provides assistance programmatically by aligning the provision of financing with project readiness and the long-term needs of a client.</td>
</tr>
<tr>
<td>Net resource transfer</td>
<td>Defined as loan disbursements less principal repayments or prepayments and interest or charges received.</td>
</tr>
<tr>
<td>Procurement readiness</td>
<td>Defined as when bid documents were launched before project approval for major construction or goods contracts.</td>
</tr>
<tr>
<td>Processing time for procurement contracts (≥$10 million)</td>
<td>Refers to the average number of days from the date of the first receipt of a draft bidding document by ADB to the contract signing. Covers all contracts signed during the year.</td>
</tr>
<tr>
<td>Procurement time (from receipt of the bid evaluation report [BER] to ADB’s approval)</td>
<td>Refers to the average number of days from the date of the first receipt of the BER to ADB’s approval of the BER. It includes the time spent for any clarification and revision needed to finalize evaluation of the BER.</td>
</tr>
<tr>
<td>Product (or instrument)</td>
<td>The generic means of providing financing—debt (mostly loans), equities, guarantees, grants, or TA.</td>
</tr>
<tr>
<td>Project</td>
<td>Defined by its unique design and monitoring framework regardless of the number of its financing instruments or sources. It refers to a project or program with a common outcome (one design and monitoring framework) regardless of which financing instrument or source ADB has agreed to provide.</td>
</tr>
<tr>
<td>Project performance rating</td>
<td>Projects are rated using five performance indicators: technical, contract awards, disbursement, financial management, and safeguards. A three-level traffic light rating system applies: green is on track, amber is potential problem, and red is actual problem (at risk).</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>S-curve</td>
<td>The project S-curve shows the project contract award and disbursement over its life and is a useful graphical presentation of project performance.</td>
</tr>
<tr>
<td></td>
<td>The portfolio S-curves represents the annual contract award and disbursement profiles of the loan and grant portfolio by age.</td>
</tr>
<tr>
<td>Special funds</td>
<td>Asian Development Fund, Technical Assistance Special Fund, Japan Special Fund, Asian Tsunami Fund, Pakistan Earthquake Fund, Regional Cooperation and Integration Fund, Climate Change Fund, Asia Pacific Disaster Response Fund, Asian Development Bank Institute Special Fund, and Financial Sector Development Partnership Special Fund.</td>
</tr>
<tr>
<td>Terminated</td>
<td>Refers to the amount of products approved but terminated prior to signing of agreement.</td>
</tr>
<tr>
<td>Tranche (MFF)</td>
<td>Loan, grant, guarantee, or ADB-administered cofinancing for a project or a component under an MFF.</td>
</tr>
<tr>
<td>Uncontracted balance</td>
<td>Amount available for contract awards at the end of the year for active project loans and grants.</td>
</tr>
<tr>
<td>Uncontracted percentage</td>
<td>Uncontracted balance as a percentage of the total value to be awarded.</td>
</tr>
<tr>
<td>Undisbursed balance</td>
<td>Amount available for disbursement at the end of the year for active project loans and grants.</td>
</tr>
<tr>
<td>Undisbursed percentage</td>
<td>Undisbursed balance as a percentage of the net loan or grant amount.</td>
</tr>
</tbody>
</table>
**NONSOVEREIGN OPERATIONS GLOSSARY**

<table>
<thead>
<tr>
<th>Term</th>
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<tr>
<td>Approval</td>
<td>An investment approved by the Board of Directors of the Asian Development Bank (ADB) or by the President through Faster Approach to Small Nonsovereign Transactions (FAST).</td>
</tr>
<tr>
<td>B-loan</td>
<td>A loan made by ADB funded by a third party or parties without the borrower or third parties having any recourse to ADB. It involves the prearranged transfer to commercial lenders of participation in an ADB complementary loan, but without credit recourse to ADB for debt service. ADB is the lender of record because the B-loan is made in the name of ADB.</td>
</tr>
<tr>
<td>Cancellation</td>
<td>Undisbursed committed balance of an equity investment, loan, guarantee, or other debt securities cancelled by the mutual consent of ADB and an investee company, borrower or counterparty.</td>
</tr>
<tr>
<td>Carrying value (of an equity)</td>
<td>Value at which an equity is carried on the balance sheet. The carrying value depends on the accounting method used (cost method, equity method, market value method, or fair value method).</td>
</tr>
<tr>
<td>Closed-out loan</td>
<td>Loans that are fully repaid and/or prepaid.</td>
</tr>
<tr>
<td>Collective loss allowance</td>
<td>An allowance for existing probable losses resulting from risks that cannot be identified with specific investments. Also called “unallocated loss allowance” or “general loss allowance.”</td>
</tr>
<tr>
<td>Commitment</td>
<td>An investment approved by ADB’s Board of Directors for which the investment agreement has been signed by the investee company and ADB.</td>
</tr>
<tr>
<td>Commitment fees</td>
<td>Fees charged for entering into an agreement that obligates the entity to make or acquire a loan or to satisfy an obligation of the other party under a specified condition.</td>
</tr>
<tr>
<td>Cost of funding</td>
<td>Interest charges incurred for borrowed funds (e.g., ADB bonds) used in the lending activities (also called interest charges).</td>
</tr>
<tr>
<td>Default status</td>
<td>A loan in default is a loan on which payments (principal, interest, or fees) are overdue by more than 1 day.</td>
</tr>
<tr>
<td>Direct equity</td>
<td>An equity investment (e.g., common, preferred, or other capital stock) that gives the buyer direct ownership interest in an entity.</td>
</tr>
<tr>
<td>Direct public equities</td>
<td>Equity investment in a company whose shares are traded on a public exchange.</td>
</tr>
</tbody>
</table>
Direct value-added (DVA) commercial cofinancing: Cofinancing with active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by ADB (such as for credit enhancement, syndication, or financial administration) to facilitate mobilization, administration or participation in cofinancing.

Droppage: An investment approved by ADB’s Board of Directors or the President but which failed to become a signed agreement. Also called “termination.”

Equity: A security representing an ownership interest in an entity.

Equity income: Income from equity investments, including dividends and realized and unrealized capital gains and/or losses.

Fair value (of an equity): Current market value (i.e., realizable sales value) of an equity. For a direct public and liquid equity, this is the current market price on a public exchange (also called “market value”). For a direct private equity and direct public but illiquid equity, this is an estimate of the realizable sales value based on valuation methods.

Guarantee: An undertaking by ADB for the payment of a financial or performance obligation to a beneficiary on behalf of an obligor, thereby reducing or eliminating commercial and/or non-commercial risks to such beneficiary. Guarantees allow ADB to assume commercial and/or political risks arising under debt instruments provided by other financing partners (OM D9).

Impairment status: A loan in impairment status is a loan for which the borrower is unlikely to pay its credit obligations in full and a probable loss is identified, against which a specific loan-loss allowance has been established.

Impairment loan ratio: The sum of impaired loans divided by total loans outstanding. This includes all loans extended to borrowers rated 13 and 14 on ADB’s 14-point rating scale. In both numerator and denominator, “loans” include the gross amount of loans, present value of guarantees, and debt securities that are held to maturity and reported at amortized cost, regardless of credit enhancements in the form of guarantees, insurance, collateral, and security. Loans exclude equity investments, and debt that is available for sale and reported at fair value.

Internal rate of return (IRR): A measure of an investment’s financial performance over the entire holding period. The IRR takes into account both the amount and timing of disbursements and cash receipts. In the case of an outstanding equity investment, an estimated valuation of the investment is included as an element in calculating the IRR.

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<tr>
<td>Loan-loss provision</td>
<td>The charge against income that is the net result of increases and decreases in loan-loss allowances on specific investments, plus the increase or decrease in collective loan-loss allowance.</td>
</tr>
<tr>
<td>Loss allowance</td>
<td>The accumulation of charges to income made to accommodate significant and relatively permanent declines in the value of specific investments (specific loss allowances) and to cover portfolio risks that cannot be identified with specific investments (collective loss allowance).</td>
</tr>
<tr>
<td>Nonaccrual status</td>
<td>Transactions in arrears for more than 180 days where ADB recognizes interest income on a cash basis and no longer on an accrual basis.</td>
</tr>
<tr>
<td>Other debt securities</td>
<td>An instrument that can be bought or sold between two parties, direct public equity or direct private equity, convertible or non-convertible that is acquired for operations and not for liquidity purposes. A debt security represents borrowed funds that must be repaid by the borrower to the holder of the debt security. It includes government bonds, corporate bonds, municipal bonds, preferred stock, and collateralized securities.</td>
</tr>
<tr>
<td>Outstanding guarantee</td>
<td>A committed guarantee for which the underlying instrument has been issued and which is earning fees for the risks being guaranteed. Also called an “executed guarantee.”</td>
</tr>
<tr>
<td>PD-WARR</td>
<td>Probability of Default-Weighted Average Risk Rating is calculated by (i) determining the probability of default for each borrower or transaction based on its rating, (ii) calculating the weighted average probability of default weighted by projected exposure at default, and (iii) mapping the weighted average probability of default to a rating on ADB’s 14-point scale.</td>
</tr>
<tr>
<td>Pooled IRR</td>
<td>The IRR of a group of equities calculated by pooling the cash flows.</td>
</tr>
<tr>
<td>Prepayment</td>
<td>A loan paid in full or partial amount ahead of the original amortization or repayment schedule.</td>
</tr>
<tr>
<td>Private equity funds</td>
<td>Refers to partnerships, unincorporated joint ventures, and limited liability companies.</td>
</tr>
<tr>
<td>Repayment</td>
<td>Periodic or one-time receipt of principal amount due from a loan according to the amortization or repayment schedule.</td>
</tr>
<tr>
<td>Rate of return</td>
<td>Portfolio income, representing total income before imputed cost of funds or capital divided by the average outstanding portfolio for the year (calculated either before or after specific loan-loss provisions and charges, impairment losses, and charges and expenses).</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
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<tr>
<td>Risk participation</td>
<td>Where one party offloads and/or assigns its exposure in a loan or other receivable and/or obligation to another party in order to reduce the former’s risks.</td>
</tr>
<tr>
<td>Risk rating</td>
<td>A rating that indicates the risk that a borrower may default. An ADB rating of 1 (&gt;A-) indicates the lowest risk and 14 (default) the highest risk.</td>
</tr>
<tr>
<td>Risk transfer arrangement</td>
<td>An agreement between ADB and an Eligible Counterparty under which, further to a legally binding guarantee, insurance policy, risk participation agreement or other similar contract, the Eligible Counterparty assumes a portion or all of ADB’s risk of loss occurring as a result of primary borrower default under one or more of ADB’s transactions.</td>
</tr>
<tr>
<td>Total committed portfolio</td>
<td>Total committed portfolio is defined as (i) committed loan, other debt security and equity (carrying or fair value) portfolio, which consists of outstanding balances plus undisbursed balances; and (ii) the committed guarantee portfolio, which consists of outstanding balances on executed guarantees plus non-executed commitments</td>
</tr>
<tr>
<td>Undisbursed</td>
<td>Signed but not yet disbursed amount of a loan, other debt security, and equity investment.</td>
</tr>
<tr>
<td>Weighted average risk rating (WARR)</td>
<td>Average risk rating weighted by exposure (outstanding or outstanding net of risk transfer).</td>
</tr>
<tr>
<td>Write-off</td>
<td>An accounting procedure used when an asset is determined to be uncollectible, considered to be a loss, and taken off the balance sheet.</td>
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</tbody>
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