ASIAN DEVELOPMENT FUND 13 DONORS’ REPORT: TACKLING THE COVID-19 PANDEMIC AND BUILDING A SUSTAINABLE AND INCLUSIVE RECOVERY IN LINE WITH STRATEGY 2030
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ADB-PSW</td>
<td>Asian Development Bank-Private Sector Window</td>
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<tr>
<td>ADF</td>
<td>Asian Development Fund</td>
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<tr>
<td>ANE</td>
<td>accelerated note encashment</td>
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<tr>
<td>BFC</td>
<td>Blended Finance Committee</td>
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<tr>
<td>COL</td>
<td>concessional ordinary capital resources lending</td>
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<tr>
<td>COVID-19</td>
<td>coronavirus disease</td>
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<tr>
<td>CPA</td>
<td>country performance assessment</td>
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<tr>
<td>CPS</td>
<td>country partnership strategy</td>
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<tr>
<td>DEfR</td>
<td>development effectiveness review</td>
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<tr>
<td>DFI</td>
<td>European Development Finance Institutions</td>
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<tr>
<td>DMCs</td>
<td>developing member countries</td>
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<tr>
<td>DRF</td>
<td>Disaster Response Facility</td>
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<tr>
<td>DRR</td>
<td>disaster risk reduction</td>
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<tr>
<td>DRF+</td>
<td>expanded Disaster and Pandemic Response Facility</td>
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<tr>
<td>FCAS</td>
<td>fragile and conflict-affected situations</td>
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<tr>
<td>GNI</td>
<td>gross national income</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IED</td>
<td>Independent Evaluation Department</td>
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<tr>
<td>IFI</td>
<td>international financial institution</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IOC</td>
<td>instrument of contribution</td>
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<tr>
<td>LGS</td>
<td>loan guarantees solution</td>
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<tr>
<td>MDB</td>
<td>multilateral development bank</td>
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<tr>
<td>NDC</td>
<td>nationally determined contributions</td>
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<td>OCR</td>
<td>ordinary capital resources</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PBA</td>
<td>performance-based allocation</td>
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<td>PSW</td>
<td>Private Sector Window</td>
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<tr>
<td>RCI</td>
<td>regional cooperation and integration</td>
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<td>RPGs</td>
<td>regional public goods</td>
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<td>SDFP</td>
<td>Sustainable Development Finance Policy</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<tr>
<td>SEAH</td>
<td>sexual exploitation, abuse and sexual harassment</td>
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<td>SIDS</td>
<td>small island developing states</td>
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<tr>
<td>TA</td>
<td>technical assistance</td>
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<td>TASF</td>
<td>Technical Assistance Special Fund</td>
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<td>UHC</td>
<td>universal health coverage</td>
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<td>WHO</td>
<td>World Health Organization</td>
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### NOTE

In this report, “$” refers to US dollars, unless otherwise stated.

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

The Asian Development Fund (ADF) 13 donors’ report summarizes the outcome of the ADF 13 replenishment negotiations between Asian Development Bank (ADB) Management and ADF donors and presents the agreed policy and financing frameworks for the period covering 2021–2024.

The coronavirus disease (COVID-19) pandemic, which is severely impacting developing Asian and Pacific economies, started during the finalization of the ADF 13 replenishment process. While the COVID-19 pandemic is having a devastating social and economic global impact and the outlook remains uncertain, the effectiveness of the ADF 13 strategic and resource allocation framework and the ADF 13 financing framework to address this crisis has been carefully assessed. Overall, the frameworks are considered adequate and flexible enough to respond to the crisis, including responses to potential new waves, and build the foundations of an inclusive and sustainable economic recovery in ADF and concessional ordinary capital resources lending (COL) countries. The ADF 13 resource allocation framework and the financing framework represent a reasonable balance between an expected increasing demand for ADF grants by the ADF receiving countries (in comparison to the ADF 12 period), and the fiscal constraints of ADF donors, which are also impacted by the COVID-19 crisis. The overall ADF 13 framework will be reviewed during the ADF 13 midterm review, expected to take place in the first quarter of 2023.

ADB developing member countries (DMCs) eligible for ADF grants and/or COL are group A and group B countries, also called the concessional assistance countries. In this report, they will be referred as ADF and COL countries. ADF and COL countries have made good progress on sustaining economic growth and reducing poverty. Years of steady growth have led to a steep decline in the incidence of poverty. ADF and COL countries have also progressed on the Sustainable Development Goals (SDGs). Yet, they continue to face remaining and emerging challenges, which include pockets of poverty, limited access to education, health and social protection, fragility and vulnerability, gender gaps, climate change, environmental degradation, disaster risks, underinvestment in regional public goods (RPGs), limited private sector development, and low institutional capacity and corruption, among others. These challenges have been amplified by the ongoing COVID-19 pandemic, which is severely impacting ADF and COL countries, including fragile and conflict-affected situations (FCAS) and small island developing states (SIDS), through numerous channels, including adverse effects on health, sharp declines in consumption and investment, lower tourism and exports, lower remittances and disruptions in trade and production. This crisis is affecting disproportionally the poor, women, and vulnerable groups, including older persons and people with disabilities.

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1 ADB responded to the COVID-19 pandemic with a $20 billion response package including $2.3 billion concessional resources, of which about $1.58 billion in ADF grants and COL are mobilized through substantial reprogramming of 2020 country allocations and savings from ongoing projects.

2 ADB uses a three-tier DMC classification system: group A, group B, and group C. Classification is determined by two criteria: gross national income (GNI) per capita (Atlas method) and creditworthiness. Group A countries include DMCs lacking creditworthiness. Group B countries include those with limited creditworthiness. Group C countries have adequate creditworthiness and their per capita incomes exceed the International Development Association’s (IDA) operational cutoff of $1,185 in 2019 US dollars. Access to ADF grants and COL for group A countries is determined by the risk of debt distress. ADF grants are also provided to support specific challenges. Group B countries have access to COL and regular ordinary capital resources (OCR) lending. Group C countries have access to regular OCR lending. Purely for purposes of diversifying the financing terms of regular OCR sovereign lending operations in regular OCR-only borrowing countries, per capita income thresholds in the World Bank classification will be used to differentiate the countries of various income status. Four groups—C1, C2, C3, and C4—will be created in 2021. India does not have access to concessional assistance and is a regular OCR-only borrowing country.
Grants are needed in Asia and the Pacific to support DMCs facing high or moderate risk of debt distress\(^3\) and to support debt sustainability by avoiding the increase of debt burdens on countries. Grant support will be even more needed as the COVID-19 crisis is likely to further develop countries’ debt vulnerabilities. Grants can also play a catalytic role to support investments in targeted areas such as gender equality, climate adaptation and disaster risk reduction (DRR), and RPGs including regional health security.

The ADF 13, covering 2021 to 2024, is well placed to help DMCs face these challenges and tackle the ongoing COVID-19 crisis effectively. The ADF is the largest special fund of ADB and has an established framework with a sound resource allocation system and governance. Over the years, the ADF has provided stable and predictable resources to countries. Assessments by the Multilateral Organization Performance Assessment Network (MOPAN) consistently find that the development effectiveness of ADB’s support, including concessional assistance, has been positive and improving over time. The assessment by ADB’s Independent Evaluation Department of ADF XI and ADF 12 emphasizes that ADF project performance and results are stronger than during previous ADF periods. These positive evaluations did not change after the ADF became a grant-only operation.

The combination of ADF lending operations and ordinary capital resources (OCR) took effect on 1 January 2017. This major change created an opportunity for donors to reduce their contributions to the ADF, which has become a grant-only facility. Nevertheless, the ADF continues to require donors’ contributions to support poverty reduction, inclusive and sustainable economic growth, and the most vulnerable countries in the region. More than ever, ADF grants will be critical to tackle the COVID-19 crisis and its consequences.

Recognizing the continued need for grants and the effectiveness of the ADF as a platform for providing grants, ADF donors and ADB Management met to discuss the ADF 13 replenishment. Discussions focused on strategic directions and ADF grants and concessional lending allocation principles for ADF 13 period to maximize ADB’s development impact. To address the existing challenges in ADF and COL countries, respond to the COVID-19 crisis and support a strong recovery, ADF donors endorsed ADF 13 strategic directions for tackling the COVID-19 pandemic and building a sustainable and inclusive recovery in line with Strategy 2030.\(^4\) ADF 13 will be the first ADF replenishment to implement ADB’s Strategy 2030 during its full cycle. ADF 13 will implement Strategy 2030’s seven operational priorities in the poorest and most vulnerable DMCs, and tackle remaining poverty and inequalities. Gender and climate considerations will be further mainstreamed. ADF 13 will further support inclusiveness and do more to expand equitable opportunities for the most vulnerable groups, which include the poor, women, indigenous peoples, ethnic minorities, persons with disabilities, hard-to-reach and remote populations, migrants, and displaced and conflict-affected people. ADF 13 will continue to provide grants to group A countries, and on a very selective basis to group B countries, to address specific challenges.

Continuing to support quality infrastructure in line with the G20’s recent principles and strong governance and alleviating the negative impact of the COVID-19 crisis (cross-cutting areas),

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\(^3\) Debt distress classification is based on the joint International Monetary Fund (IMF)–World Bank Debt Sustainability Framework for low-income countries for debt-sustainability analyses.

\(^4\) ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila. Strategy 2030 recognizes that given the size of Asia and the Pacific, achieving major global commitments—such as the Sustainable Development Goals, the related Financing for Development agenda, the Paris Agreement on climate change, and the Sendai Framework for Disaster Risk Reduction—will depend critically on the success of the region.
ADF 13 will give special attention to six areas to respond to the main challenges in the poorest and most vulnerable DMCs, in alignment with Strategy 2030: (i) supporting FCAS and SIDS; (ii) achieving the SDG 5 transformative gender agenda; (iii) addressing climate change and supporting disaster resilience; (iv) fostering regional cooperation and integration (RCI), including the provision of RPGs such as regional health security, which is part of the universal health coverage agenda, and ocean health, biodiversity, and ecosystem services; (v) supporting private sector operations in group A countries; and (vi) enhancing debt sustainability. All of these special attention areas become even more relevant in the context of the fight against the COVID-19 pandemic, which is impacting the most vulnerable segments of the population, including women and children and highlights the importance of strengthening climate and disaster resilience to address future shocks.

In line with the International Monetary Fund (IMF)–World Bank multipronged approach for addressing emerging debt vulnerabilities, ADF 13 will help ADF and COL countries enhance debt sustainability through a combination of policy dialogue, interactive incentive schemes, and capacity building. This approach will be critical in the context of the COVID-19 crisis, which may exacerbate debt vulnerabilities. On the long term, it will enable an increasing number of ADF grant-eligible countries to steadily progress and, potentially, graduate from ADF grant support and reduce future ADF donor contributions.

To implement these strategic directions and to strengthen ADB’s effectiveness in addressing the challenges faced by ADF and COL countries, donors endorsed a number of revisions to the resource allocation framework.

The ADF 13 resource allocation framework will continue to adopt a two-pillar system, consisting of country- and theme-based components.

ADF 13 resource allocation framework will retain the following:

(i) country classification system and debt sustainability assessment to determine country grant eligibility;
(ii) the performance-based allocation (PBA) formula, which comprises country performance assessments (17 criteria in five clusters—macroeconomic management, structural policies, social inclusion and equity, governance, and portfolio performance), per capita gross national income, and population;
(iii) special support for Afghanistan; and
(iv) the debt distress reserve.

Revisions to improve ADF responsiveness, implementation effectiveness and efficiency of resource allocation include the following:

(i) the discontinuation of the base allocation for all ADF and COL countries and the introduction of an economic vulnerability premium. While in principle available to all vulnerable ADF-eligible countries, the economic vulnerability premium will be applied only to SIDS during ADF 13.
(ii) the expansion of the thematic use of ADF grants to gender equality and climate adaptation and the introduction of a single thematic pool applicable for group A countries and very selectively for group B countries, covering the following strategic areas: (a) fostering regional cooperation and integration (RCI), including providing regional public goods (RPG); (b) supporting disaster risk reduction (DRR) and climate adaptation; and (c) achieving the SDG 5 transformative gender agenda;
(iii) the expansion of the scope of the Disaster Response Facility (DRF) to cover health emergencies (the Disaster and Pandemic Response Facility) and the expansion of country coverage;

(iv) the introduction of a comprehensive package to enhance debt sustainability under ADF 13, which includes (a) alignment with the International Development Association (IDA) on the Sustainable Development Finance Policy (SDFP) assessments and incentive system, replacing the static 20% discount on ADF grants with an interactive incentive scheme; (b) support for the SDFP creditor coordination mechanism; (c) creation of a Technical Assistance Special Fund (TASF) set-aside to support debt sustainability; and (d) preferential access to the thematic pool for countries with prudent or improved performance in fiscal, debt and budget management to reinforce the performance-based incentive system;

(v) the introduction of a Private Sector Window (PSW) for group A countries on a pilot basis to help expand private sector operations in frontier markets and new sectors; and

(vi) the conversion of the biennial allocation to a 4-year allocation with annual updates, which include annual resource adjustments across countries, to improve the predictability of resources and facilitate preparation of multi-year programs while ensuring flexibility when necessary.

The ADF–OCR combination allowed ADB to scale up its lending assistance to concessional countries in comparison to the ADF XI period. An overall indicative amount for COL similar to the envelope in ADF 12 from ADB’s OCR balance sheet is expected to be made available during ADF 13. The allocation mechanisms for ADF grants and COL will be separated to make the allocation of concessional assistance resources more efficient. COL allocation will be based on PBA and adjusted by a need-based approach. The total COL allocation for an eligible country under ADF 13 will be the sum of the allocation from a PBA-based component (50% of overall resources) and the allocation from a need-based component (50% of overall resources). The need-based component of the COL allocation framework will be calculated based on a 5-year horizon as the average of 2 years’ historical commitments and 3 years’ rolling pipeline following the work program and budget framework (WPBF) process. Countries at moderate risk of debt distress (ADF blend countries) will receive a blend of ADF grants and COL, which will be allocated separately. As a transition measure, this framework will ensure the COL allocation for Myanmar will continue to be at least at a level similar to that under the ADF 12 period to meet the country’s needs. If the allocation method has to be changed in the future, donors will be consulted.

After the conclusion of the ADF 13 replenishment negotiations, ADB will submit for ADB’s Board of Directors’ consideration a revised concessional assistance policy, which will incorporate all the features, endorsed by ADF donors.

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5 The need-based component will supplement the PBA, which captures countries’ needs through two indicators; the GNI per capita and the population. While the PBA formula captures countries’ needs based on their level of social and economic development, the need-based component will be more dynamic and able to accommodate changing needs for ADB assistance in eligible DMCs following shifts in country-specific circumstances, which are reflected in the rolling pipeline. These shifts in country-specific circumstances could include short-term variations in absorptive capacity due to changes in government administration, borrowing policy, government’s internal approval processes, and unexpected events like emergencies and disasters.
ADF donors agreed on an ADF grant replenishment of $3,198.0 million for ADF 13 operations. This replenishment will finance ADF country operations (estimated at $1,983.0 million), enhanced thematic support ($671.0 million), the expanded Disaster and Pandemic Response Facility (DRF+) ($256.0 million), the pilot Private Sector Window (PSW) ($64.0 million), the ADF reserve for changes in debt distress ($224.0 million).

Donors and ADB discussed the seventh replenishment of the TASF. The implementation of Strategy 2030, the response to the COVID-19 crisis and the ADF 13 special attention areas require a significant amount of technical assistance (TA) to support ADF and COL countries. Donors agreed to replenish the TASF with $517.0 million. A substantially higher share of TASF 7 resources will be allocated to FCAS and SIDS. Donors agreed to set aside 10% of TASF 7 (about $51.7 million) to help enhance debt sustainability, consistent with the IMF–World Bank multipronged approach for addressing emerging debt vulnerabilities. During the ADF 13 period, ADB is committed to improve transparency of the TASF allocation, including regional TA benefitting various countries, by introducing a TASF dashboard in 2020. Greater TASF operations to support capacity building and knowledge production, in line with Strategy 2030, will be implemented. ADB will undertake a comprehensive review of ADB’s TA policy in 2020, including implementation of recent reforms; the allocation of TASF resources to all groups of DMCs, including a more selective and focused allocation to the better-off upper middle-income countries; nonsovereign TA operations; application of reimbursable TA; and enhancing TA monitoring. The recommendations will be reported during the ADF 13 midterm review. The total replenishment, including ADF 13 and TASF 7, amounting to $4,060.9 million will be financed as follows: (i) $2,341.0 million from new donor contributions (a reduction of 10% compared with ADF 12), (ii) $1,169.7 million net income transfers from OCR subject to annual approvals by ADB’s Board of Governors (an increase of 13% compared with ADF 12, (iii) $213.0 million from income from liquidity investment and (iv) $337.2 million partial releases of ADF 12 set-asides for DRF and reserves for changes in debt distress. Azerbaijan and Philippines became new donors.

Several donors reiterated their interest in discussing a long-term vision for ADF grants and ADB concessional lending including a wider review of the needs for ADF grants in the region, and the most efficient and effective way to meet the region’s need for concessional finance, including through consideration of fragility and vulnerability, and the implications for OCR resources under different net income transfer scenarios. It was agreed to continue this important discussion immediately after the ADF 13 replenishment negotiations. A paper on the future of ADF grants will build on the OCR-ADF merger analysis as well as on the analysis presented during the 2019 ADF 12 donors consultation meeting.

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6 Excludes from total ADF 13 replenishment size, (i) funds of $517.0 million allocated to TASF and (ii) funds amounting to $346.0 million earmarked for ADF’s share of ADB administrative expenses.

7 This percentage refers to share of new resources available during the ADF 13 period, excluding regional knowledge TA benefiting DMCs (e.g., Asian Development Outlook; Supporting Research on Pacific Development; Asian Regional Public Debt Management Forum; and Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Controls). In 2019, regional training and regional research amounted to $28 million, or 13% of total TASF commitments.

8 The discussion will build on the OCR-ADF merger analysis as well as on the analysis presented during the 2019 ADF 12 donors consultation meeting.
and concessional lending to DMCs will be discussed at the 2021 donors' annual consultation meeting.⁹

⁹ The determination of future COL levels and allocations and net income transfers will require the involvement of the Board of Directors and an analysis of their impact on the financial sustainability of ADB.
I. INTRODUCTION

1. With the combination of the Asian Development Fund (ADF) lending operations and ordinary capital resources (OCR), which took effect on 1 January 2017, the ADF became a grant-only facility. This major change created an opportunity for donors to reduce their contributions. However, the ADF continues to require donors’ contributions to support poverty reduction, inclusive and sustainable economic growth, and the most vulnerable countries in the region, notably fragile and conflict affected situations (FCAS) and small island developing states (SIDS). Since 2017, concessional lending operations have been financed from the OCR balance sheet of the Asian Development Bank (ADB).

2. ADF donors and ADB Management met from November 2019 to September 2020 to decide on the strategic directions, and ADF grants and concessional lending allocation principles for the ADF 13 period to maximize ADB’s development impact. Reference is made where appropriate to the allocation of concessional OCR lending (COL). This report records the key agreements reached during these meetings. It focuses on the ADF grant replenishment, and the objectives it aims to achieve in the 25 concessional assistance countries, which are group A and group B countries and are referred in this report as ADF and COL countries. Altogether, 25 ADF and COL developing member countries (DMCs) are expected to have access to ADF grants and COL during the ADF 13 period (Table 1 and Appendix 1). Of the 18 group A countries, 13 are currently at high or moderate risk of debt distress, 2 are currently at low risk of debt distress and 3 are classified as gap countries. Ten ADF and COL countries are classified as FCAS and 13 ADF and COL countries are SIDS.

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1 The first ADF 13 replenishment meeting was held 5–7 November 2019 in Manila, the second meeting 11–12 February 2020 in Manila, and the third meeting was held in September 2020.

2 ADB uses a three-tier DMC classification system: group A, group B, and group C. ADB’s country classification is determined by two criteria: gross national income (GNI) per capita (Atlas method) and creditworthiness. Group A countries include DMCs lacking creditworthiness. Group B countries include those with limited creditworthiness. Group C countries have adequate creditworthiness and their per capita incomes exceed the International Development Association’s (IDA) operational cutoff, which is $1,185 in 2019 US dollars. Access to ADF grants and COL for group A countries is determined by the risk of debt distress. ADF grants are also provided to support specific challenges. Group B countries have access to both COL and regular OCR lending. Group C countries have access to regular OCR lending and do not have access to ADF grants and COL. Purely for purposes of diversifying the financing terms of regular OCR sovereign lending operations in regular OCR-only borrowing countries, per capita income thresholds in the World Bank classification will be used to differentiate the countries of various income status. Four groups—C1, C2, C3, and C4—will be created in 2021. India does not have access to concessional assistance and is a regular OCR-only borrowing country.

3 The gap countries have had GNI per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as such by the IDA. The operational cutoff is $1,185 (2019 prices).

4 The 10 FCAS are Afghanistan, the Federated States of Micronesia, Kiribati, the Marshall Islands, Myanmar, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu. Vanuatu is on the watch list as its average rating is marginally above the cutoff rating. ADB uses the multilateral development banks’ (MDB) harmonized ratings for determining FCAS. A country is considered FCAS if it has an average rating of 3.2 or less based on the ADB country performance assessment (CPA) and the World Bank Group country policy and institutional assessment (CPIA). A country is also considered FCAS if a United Nations and/or regional peacekeeping or peacebuilding mission has been present during the past 3 years. ADB is working with other MDBs to improve the methodology to track fragile situations. ADB’s 2020 CPA is currently undergoing and will be disclosed at the beginning of 2021.
Table 1: Asian Development Fund and Concessional Ordinary Capital Resources Lending Countries

<table>
<thead>
<tr>
<th>Group A</th>
<th>At high risk of debt distress</th>
<th>At moderate risk of debt distress</th>
<th>At low risk of debt distress or IDA gap</th>
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<tr>
<td></td>
<td>(access to ADF grants and TASF 7)</td>
<td>(access to ADF grants, COL, and TASF 7)</td>
<td>(access to thematic ADF grants, COL, and TASF 7)</td>
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<tr>
<td>Afghanistan f</td>
<td>Micronesia, Federated States of fσ</td>
<td>Kiribati fσ</td>
<td>Maldives σ</td>
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<td>Marshall Islands fσ</td>
<td>Nauru fσ</td>
<td>Solomon Islands fσ</td>
<td>Vanuatu σ</td>
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<td>Samoa σ</td>
<td>Tajikistan</td>
<td>Bhutan</td>
<td>Cambodia</td>
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<td>Tonga σ</td>
<td>Tuvalu fσ</td>
<td>Lao PDR</td>
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f = fragile and conflict-affected situation, σ = small island developing states, ADF = Asian Development Fund, COL = concessional ordinary capital resources lending, IDA = International Development Association, Lao PDR = Lao People’s Democratic Republic, OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.

Notes:
1. As of 2020, the IDA gap countries were Bhutan, Lao PDR, and Myanmar. They have had gross national income per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as gap by the IDA. The operational cutoff is $1,185 (2019 prices).
2. India does not have access to concessional assistance and is a regular OCR-only borrowing country.
3. Based on the 2020 Debt Distress Classification for ADF and COL countries as of 2020.

3. The coronavirus disease (COVID-19) pandemic, which is severely impacting developing Asian and Pacific economies, started during the finalization of the ADF 13 replenishment process. While the COVID-19 pandemic is having a devastating social and economic global impact and the outlook remains uncertain, the effectiveness of the ADF 13 strategic and resource allocation framework and the ADF 13 financing framework to address this crisis has been carefully assessed (Appendix 8). Overall, the frameworks are considered adequate and flexible enough to respond to the crisis, including responses to potential new waves, and build the foundations of an inclusive and sustainable economic recovery in ADF and concessional ordinary capital resources lending (COL) countries. The ADF 13 resource allocation framework and the financing framework represent a reasonable balance between an expected increasing demand for ADF grants by the ADF receiving countries (in comparison to the ADF 12 period), and the fiscal constraints of ADF donors, which are also impacted by the COVID-19 crisis. The overall ADF 13 framework will be reviewed during the ADF 13 midterm review, expected to take place in the first quarter of 2023.

II. DEVELOPMENT CONTEXT AND CHALLENGES

4. ADF and COL countries face significant challenges and are not a homogeneous group. ADF and COL countries (footnote 1), especially those in group A countries, still face important development challenges such as persistent poverty, inequality, fragility and vulnerability, gender gaps, climate and disaster risks, environmental degradation,

5 ADB responded to the COVID-19 pandemic with a $20 billion response package including $2.3 billion concessional resources, of which about $1.58 billion ADF grants and COL are mobilized through substantial reprogramming of 2020 country allocations and savings from ongoing projects.
underinvestment in regional public goods (RPGs) including regional health security, limited private sector development, low institutional capacity and corruption, among others. Maintaining strong transparency and accountability frameworks will serve to ensure a clear public policy objective of inclusive and sustainable growth.

5. **Continuous economic growth and decline in poverty in the region.** Asia and the Pacific has been the fastest-growing region in the world in recent decades. It is expected to account for more than half of global production by 2050. Sustained economic growth has led to a significant decline in poverty in the region. Extreme poverty, as measured by the $1.90 per day threshold at 2011 purchasing power parity, has significantly declined in developing Asia from 58% in 1990 to about 7% of the total population in 2015.

6. **Impact of the COVID-19 pandemic.** The ongoing pandemic is having a severe impact on developing Asian and Pacific economies, including FCAS and SIDS and on the most vulnerable population segments, women and children, through numerous channels, including sharp declines in consumption and investment, lower tourism and exports, disruptions in trade and production, lower remittances and adverse effects on health. The magnitude of the economic losses will depend on how the outbreak evolves, which remains highly uncertain. ADB’s May 2020 assessment, estimates a global impact of between $5.8–8.8 trillion in losses in comparison to a pre-crisis scenario, equal to between 6.4%–9.7% of global gross domestic product (GDP). The economic losses in Asia and the Pacific could range from $1.7 trillion under a short containment scenario of 3 months to $2.5 trillion under a long containment scenario of 6 months, with the region accounting for about 30% of the overall decline in global output.

7. **Persistence of pockets of poverty and slow improvement in social and human development in ADF and COL countries.** While the COVID-19 crisis is amplifying this trend, large pockets of extreme poverty persist in ADF and COL countries. Extreme poverty (measured against a threshold of $1.90 per day) in ADF and COL countries is higher than in developing Asia, at about 10% of the population. This number is significantly underestimated, however, since some group A countries without official data have high estimated poverty rates, including two relatively large DMCs: Afghanistan, with an estimated poverty rate according to the national definition of 55%, and Cambodia, with an estimated poverty rate of 14%. Many people in ADF and COL countries face not only income poverty but also multidimensional deprivations, such as food insecurity, weak social protection, poor health coverage, and lack of education. The most vulnerable groups include low-income households, women and children, indigenous peoples, ethnic minorities, persons with disabilities, hard-to-reach and remote populations, migrants, and displaced and conflict-affected people. Women and girls’ conditions need special attention. In ADF and COL countries, 94 million people are undernourished. In 2015, social protection programs covered only 55% of intended beneficiaries in Asia, and 31% in the Pacific, leaving

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8 The strong commitment of the global community to address these challenges is well articulated by the Group of 20 Leaders’ Statement on COVID-19 issued on 26 March 2020.
10 The Afghanistan Living Conditions Survey 2016–17 estimates the poverty line at 2,064 afghanis per person per month, equivalent to $26, or less than $1 per day at current rates. The Cambodia Socio-Economic Survey 2014 used a national poverty line equivalent to $46 per month.
11 The Food and Agriculture Organization of the United Nations (FAO) et al. 2018. *The State of Food Security and Nutrition in the World 2018: Building Climate Resilience for Food Security and Nutrition*. Rome. Undernourishment is defined as the condition in which an individual’s habitual food consumption is insufficient to provide the amount of dietary energy required to maintain a normal, active, and healthy life. The estimate for Asia is based on country classifications by the FAO.
more than half of the intended beneficiaries without support. While child mortality declined from 36 per 1,000 live births in 2014 to 31 in 2017 in ADB DMCs, child mortality remained substantially higher in the ADF and COL countries at 49.

8. **Progress needed to achieve the Sustainable Development Goals.** ADF 13 will be instrumental to support sustainable and inclusive development in the region. While overall there is a lack of data on Sustainable Development Goal (SDG) indicators, particularly in the Pacific countries, making more granular assessment challenging, studies from the United Nations and others suggest that Asia and the Pacific is not on track to achieve any of the 17 SDGs. The situation in ADF and COL countries is particularly challenging and will be further challenged by the COVID-19 crisis. They are often unable to adequately finance basic services such as health care, affordable and clean energy, and resilient infrastructure. Women’s economic participation (SDG 5) tends to lag: women spend much more time on unpaid care and have much lower participation in the labor force than men. Climate action (SDG 13) is a growing concern in ADF and COL countries, where the carbon intensity of economies has increased slightly, even though their absolute emissions are low, and vulnerability to climate change is high. Many countries do well on responsible consumption (SDG 12) because base levels of consumption are so low, but ensuring the environmental sustainability of growth into the future is a major issue.

9. **Fragile and Conflict-Affected Situations.** Strategy 2030 emphasizes the importance of differentiated approaches to groups of countries, including FCAS. Countries facing FCAS present political, social, economic, security and environmental challenges that differ from those in other developing countries. In 2020, all 10 ADB FCAS (footnote 4) are also ADF and COL countries. The vulnerability of countries is a multidimensional concept based on susceptibility to shocks or hazards, the origins of which can be environmental, economic, social, or political. Conflict, political instability, weak governance, economic and social insecurity, and vulnerability to shocks make it particularly difficult for FCAS countries to achieve their development objectives. Limited institutional capacity further affects a state’s ability to carry out the basic functions of governing. Among ADF and COL countries classified as FCAS, two (Afghanistan and Myanmar) are classified as conflict-affected. Afghanistan’s potential for growth and development is vast and continued ADF grant assistance is essential to help the country build resilience, and achieve self-reliance and sustainable inclusive growth. Other countries are labelled fragile mainly because of their limited institutional capacity but also because of their small population, narrow economic base, and geographic location or legacy of past conflicts and exposure to natural hazards. Fragility and vulnerability remain some of the biggest obstacles to peacebuilding and poverty reduction, as well as a threat to growth, development and stability. Fragility, vulnerability, and conflict risks can take place at the subnational level and beyond national borders, as recently illustrated by the crisis of displaced persons in the Cox’s Bazar District in Bangladesh. FCAS countries have been severely hit by the COVID-19 crisis and will require special attention to build a sustainable and inclusive economic recovery. Women and girls are among the hardest-hit groups.

10. **Small island developing states.** SIDS are characterized by their small size, remoteness from global markets, and heightened vulnerability to shocks. SIDS are particularly vulnerable to

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economic shocks, natural hazards, and climate change and other factors. A single disaster triggered by natural hazards, for example, can significantly set back development progress in SIDS by a decade or more. Their rich biodiversity and coastal zones are susceptible to environmental degradation. Many SIDS confront severe institutional capacity constraints and other factors, which make them FCAS. The financing needs for basic infrastructure alone in the 13 SIDS that are eligible for ADF and/or COL are estimated to exceed $2.6 billion per year—equivalent to 27% of annual government expenditures in these countries. This amount reflects the high-cost environment of SIDS and the difficulty in achieving economies of scale in small countries. The significant financing needs to develop basic infrastructure in SIDS cannot be covered by ADF support alone and therefore, where possible, concessional assistance should be utilized to crowd-in other financing resources from other development partners and the private sector. SIDS have been severely hit by the COVID-19 crisis mainly through a decline in tourism industry as a consequence of travel restrictions.

11. Persistent gender gaps. Gender gaps remain persistent in the labor participation rates, wage levels, access to essential services, and decision-making. Among the 13 ADF and COL countries in the Social Institutions and Gender Index (SIGI) of the Organisation for Economic and Co-operation Development (OECD), 6 countries (3 group A DMCs and 3 group B DMCs) are in the high or very high category, which means highly restrictive institutions for women’s and girls’ rights. According to the World Economic Forum’s Global Gender Gap Report 2018, which rank 149 countries worldwide, 6 of the 12 ADF and COL countries with available data are ranked in the bottom tier. These countries perform particularly poorly in economic participation, educational attainment, and health indicators. Women’s economic participation is often challenged by their domestic care responsibilities. Women and girls in the region spend as much as 11 times more of their day on unpaid care and domestic work than men and boys. Except in one DMC, political empowerment is consistently low across all listed ADF and COL countries, indicating the significant need to increase women’s voice in decision-making. Finally, in several ADF and COL countries, the level of gender-based violence remains very high inside and outside the domestic sphere. The share of women who have experienced intimate (married and unmarried) partner violence (physical and sexual) in their lifetime is over 60% in some concessional assistance Pacific countries. The COVID-19 crisis is particularly adversely impacting women and more attention needs to be given to address as early as possible increased risks of gender-based violence (particularly domestic violence); higher COVID-19 risks among health workers who are largely women, the heavier burden of unpaid care and domestic work; and gender inequalities in intra-household cash transfer allocation and access to livelihoods, jobs, businesses, and financial (including insurance) services, among others.

12. Climate change and disaster risks. Disasters, climate change and other factors threaten the long-term sustainability of development in the region. ADF and COL countries are particularly

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17 The OECD’s SIGI brings together quantitative and qualitative measures of institutions in terms of their discrimination in the form of formal and informal laws, attitudes and practices that restrict women’s and girls’ access to rights, justice and empowerment.
19 World Economic Forum. 2018. Global Gender Gap Report 2018. Geneva. The report benchmarks 149 countries on their progress toward gender parity on a scale from 0 (disparity) to 1 (parity) across four thematic dimensions (economic participation, educational attainment, health and survival, and political empowerment) and provides country rankings.
20 Afghanistan, Uzbekistan and all group A and B Pacific countries are not ranked in the report.
impacted by disasters and slow-onset impacts of climate change such as glacier melting, ocean acidification and rising sea levels. Asia and the Pacific is subject to all major types of natural hazards, including earthquakes, tsunamis, and extreme weather events, including tropical cyclones, floods, and droughts, which are intensifying in frequency and impact.\textsuperscript{21} Geophysical hazards (including earthquakes and tsunamis) have also caused significant loss of lives. From 1999 to 2018, 723,913 lives were lost in ADB’s DMCs as a consequence of natural hazards.\textsuperscript{22} A further 3.4 billion people were affected while reported damage totaled $640 billion.\textsuperscript{23} ADF and COL countries alone accounted for 54% of total fatalities, 39% of people affected, and 23% of total reported physical losses. Of the 15 countries worldwide with the highest estimated disaster risk, 8 are ADF and COL countries (5 group A and 3 group B countries).\textsuperscript{24} Disasters, climate change and other factors such as fragility and conflict especially affect the lives and livelihoods of the poor and vulnerable. The poor rely on fewer and more vulnerable assets, often located in more hazard-prone areas; have limited access to financial services such as insurance; and lack opportunities to engage in sustainable livelihoods. The 2015 Nepal earthquake was estimated to push an additional 2.5%–3.5% of the population, equivalent to up to 1 million people, below the poverty line.\textsuperscript{25} The poor and near poor will be particularly vulnerable to disasters over the next few years as COVID-19 has further weakened their coping capacity, disrupting livelihoods and eroding limited savings. SIDS are particularly vulnerable to natural hazards, climate change and other factors, reflecting their narrow economies, remoteness, geographical positions in areas particularly prone to both extreme weather and geophysical events, and diseconomies of scale in addressing risk. The Inter-Governmental Panel on Climate Change (IPCC) recognizes that climate-related risks affect diverse areas such as health, livelihoods, food security, water supply, human security and economic growth. Such threats could roll back hard-won development gains in group A and group B countries, which remain disproportionately susceptible to adverse climate impacts. Those at higher risk include SIDS, FCAS, the disadvantaged and vulnerable populations, some indigenous people, women and communities reliant on agricultural or coastal livelihoods.

13. **Quality infrastructure gap in ADF and COL countries.** ADF and COL countries still need considerable resources to fill infrastructure deficits, especially in lagging areas, isolated states and landlocked countries. Access to energy has increased significantly, but about 20% of people in ADF and COL countries still had no access to electricity in 2017. The proportion of the population in ADF and COL countries using safely managed drinking water remains largely unchanged, with wide disparities between rural (84%) and urban (93%) areas. Only 73% of urban and 54% of rural residents were using safely managed sanitation services, including handwashing facilities with soap and water in 2015. Road access per 10,000 people did not really progress during 2013–2016 in ADF and COL countries (footnote 16). Quality deserves as much attention as quantity, and progress can be made to further support quality infrastructure in line with the G20 Principles for Quality Infrastructure Investment, which uphold the importance of considering life-cycle costs; sustainability, including debt sustainability and transparency; and resilience and inclusivity in infrastructure investment. Finally, quality infrastructure will be needed even more in

\textsuperscript{21} Inter-Governmental Panel on Climate Change (IPCC). 2012. *Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation*. According to the IPCC, not only are climate risks expected to increase with global warming of 1.5°C and intensify significantly with 2°C, but the world is not on track to halt warming to even 2°C.


\textsuperscript{23} Including multiple counting of people affected multiple times.


the post COVID-19 context to build back better and support green and resilient projects for a sustainable and inclusive recovery in ADF and COL countries and mitigate future health risks.

14. **Regional cooperation and integration, including the provision of regional public goods.** ADF and COL countries increasingly face additional regional development challenges. These include poor connectivity between economies; limited regional trade and investment opportunities; and underinvested (RPGs such as regional health security, as currently illustrated by the COVID-19 crisis, and environmental protection such as ocean health and biodiversity and ecosystem services.\(^\text{26}\) The need for regional cooperation will be stronger than ever in the fight against the COVID-19 pandemic. The rapid and diffuse path of the pandemic and its economic and social impacts from national to regional and global proportions highlight the intrinsic need to consider and adopt cross-border perspectives and cross-border coordination and cooperation to mitigate further spread, ensure access to resources to treat the disease, address immediate economic impacts, plan a safe return to economic activity between DMCs, and build resilience in the near to longer term.\(^\text{27}\)

15. **Universal health coverage and regional health security.** Asia and the Pacific is a hotspot for emerging infectious disease outbreaks, as the ongoing COVID-19 crisis illustrates. In the past, some of the most expensive and deadliest disease outbreaks originated in the region. The ongoing COVID-19 outbreak is impacting the economic stability of the affected countries as well as the regional and global economies. While national-level investments are essential to improving health security, there are benefits from adopting a regional approach to strengthening health security and preparedness. As diseases spread without consideration of national borders, effective prevention and control strategies can require cooperation at the supranational level with several national governments acting in concert. More broadly, DMCs that are moving forward on universal health coverage could benefit from the support that improves quality and coverage of government and private health-care services. At the time of a pandemic crisis, this larger coverage is critical for countries to mitigate the devastating impact of the outbreak on their population.

16. **Environment and biodiversity.** Transboundary landscapes, seascapes, and flyways across Asia and the Pacific are RPGs that underpin the region’s economy, supporting biodiversity and providing food, freshwater, livelihoods, climate protection, and other ecosystem services to more than a billion people. The Mekong River, for example, covers 2.6 million square kilometers and supports globally significant biodiversity, forest, and carbon stocks, and the largest inland fishery in the world. The water and natural resources it provides are shared by the six countries in the Greater Mekong Subregion, which has a combined population of more than 330 million. The impacts of overexploitation, unsustainable use, and poor management of ecosystems—such as declining ocean health and rapid biodiversity loss—cross national borders, undermine economic development of the region, and disproportionately impact poor and vulnerable communities.

17. **Limited private sector development in frontier markets.**\(^\text{28}\) Lower income economies have underdeveloped financial markets, which limit the possibility of any significant increase in resources for the private sector. ADF and COL countries particularly group A countries, FCAS

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\(^{26}\) ADB defined RPGs as “a benefit shared by two or more countries in a region”.

\(^{27}\) For example, ADF support that enables small and medium-sized enterprises to continue participating in cross-border trade helps (i) ease shorter term imports of key medical equipment, and sustain low-income households’ welfare, and (ii) sustain competitive sectors of the economy and market-based employment over the medium term.

and SIDS, generally lack political and macroeconomic stability and have poor enabling environments for private sector development. In the World Bank Group’s 2019 report on the ease of doing business in 190 countries, more than 50% of group A countries were among the bottom third.\(^\text{29}\) Given that jobs are created primarily by the private sector, improving the business environment for entrepreneurs and companies is critical to generate jobs for the poorest. Small- and medium-sized enterprises and inclusive businesses must be supported, as should the expansion of private sector operations in new sectors such as agribusiness and social sectors. The COVID-19 pandemic has significantly affected the private sector, which has translated to significant job losses—especially in group A countries. The need to provide solutions to help ‘kick-start’ the private sector to recover and allow it to create quality jobs and become engines of economic growth is even stronger than at the beginning of 2020.

18. **Debt sustainability.** Increasing debt vulnerabilities in developing countries over recent years has been a growing concern. The number of group A countries at high risk of debt distress doubled from 2011 to 2019 as a result of structural weaknesses, unsustainable financing practices in some cases, weak prioritization and inefficiency of public investment, weak debt management, low disaster risk management and high vulnerability to economic shocks and natural hazards.\(^\text{30}\) This limits the ability of the poorest and most vulnerable DMCs to finance and achieve the SDGs.

19. The situation is expected to worsen as the COVID-19 pandemic triggers an outflow of funds from emerging markets and an abrupt restriction of economic activity leading to a global recession. Even if DMCs manage to avoid an outbreak, the economic fallout will be unavoidable. Small, open economies are the most vulnerable. There will be sharp reductions in revenues even as governments are called on to step up the fiscal response to the emergency. Most ADF eligible countries already receiving 100% ADF grants lack the capacity to borrow and will have extremely limited fiscal space.\(^\text{31}\)

III. **THE CASE FOR THE ASIAN DEVELOPMENT FUND 13 REPLENISHMENT**

20. **Asia and the Pacific still need grants.** Grants are the ultimate funding modality to help the poorest and most vulnerable countries in Asia and the Pacific. Grants are needed now and, in the future, to support DMCs facing high or moderate risks of debt distress, especially the poorest and most vulnerable ones, including FCAS. Grant support will be even more needed as the COVID-19 crisis is likely to further exacerbate debt vulnerabilities. There is also a potentially strong catalytic role for grants to play at the project level as incentives in targeted areas such as gender equality, climate adaptation disaster risk reduction (DRR) and RPGs including regional health security and environmental protection. These areas tend to be underinvested by governments while generating strong positive externalities at the national and regional levels.

21. **Ambitious development goals and ADB commitments.** As highlighted in Strategy 2030, the SDGs and other global initiatives are shaping countries’ views on development agenda. Based on the joint multilateral development bank (MDB) framework adopted at the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24), ADB will continue to align its investments with the principles set out in international

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\(^\text{30}\) In 2011, group A high-risk countries were Afghanistan, Nauru, Tajikistan, Tonga and Tuvalu. In 2019, group A high-risk countries were Afghanistan, the Federated States of Micronesia, Kiribati, the Lao People’s Democratic Republic, the Marshall Islands, Nauru, Samoa, Tajikistan, Tonga and Tuvalu.

\(^\text{31}\) Actual and heightened risk of debt distress remained a possibility. Extraordinary measures are being taken by international financial institutions and the G20 to help DMCs manage fiscal pressures and avoid debt distress.
climate agreements including principally the Paris Agreement. Given the size of the region’s population, global progress on addressing poverty, hunger, and lack of access to social services will depend critically on Asia and the Pacific’s success. ADB’s aspirations for Asia and the Pacific are aligned with these major global commitments that both DMCs and ADB have pledged to support. ADF 13 future operations will be designed to help meet these goals and targets. ADB will also play an important role in supporting the G20 agenda on quality infrastructure development as a source of global growth. To achieve these ambitious development goals and support an inclusive and sustainable recovery post COVID-19, ADF 13 will work with civil society organizations to tap their unique strengths, such as their local presence and specialized knowledge.

22. **The Asian Development Fund is the largest of ADB’s special funds and has a long-standing and established framework for resource allocation and governance.** Since its inception, the ADF has been part of ADB’s core operations. The ADF’s main comparative advantage is to provide stable and predictable resources for recipient countries for annual country programming of ADB operations. This feature is very important for SIDS and FCAS, as one of ADB’s key principles for working in these countries is making a long-term commitment to support their development priorities. Being specifically targeted at the poorest and most vulnerable countries, the ADF is a key component to delivering ADB’s mandate and has enabled ADB to better fulfill its role as a key development partner in the region.

23. **Accommodating the various interests of its donors, the ADF embodies a collective effort of donors in supporting the region.** Donors continue to have a strong voice, play an active role, and share a common understanding of the strategic direction of the ADF in addressing poverty, vulnerability, challenges in the promotion of regional cooperation, climate and disaster resilience, and disaster response, among others. ADB’s regular consultations with ADF donors have influenced major ADB policies. The ADF provides a platform for maximizing common interests among donors, leveraging financial contributions, and responding to diverse country needs. From this perspective, the ADF remains highly relevant to supporting eligible countries with diverse needs and supporting unfinished development agendas in the region.

24. **ADB’s assistance is highly effective.** The ADF, as an integral part of ADB, benefits from all recent institutional improvements that ADB has implemented. ADB has a successful track record of delivering assistance and achieving results, through previous ADF replenishment rounds. A midterm assessment of ADF 12 found that the funds had been allocated in line with the priorities set by ADB and the ADF donors. The focus on gender mainstreaming has increased, with more than 3 million women and girls set to benefit from new and improved infrastructure provided by ongoing projects. Food security is being strengthened with additional rural roads, value-chain development, and food safety advances, as well as irrigation upgrades on almost 40,000 hectares. Improving governance and capacity building has been supported by 85% of ADF 12 grants committed so far. More than 3 million people are expected to benefit from strengthened disaster resilience supported through the DRR financing mechanism.\(^\text{32}\)

25. **External assessments of the development effectiveness of ADB’s support have been consistently positive and improving over time.** The 2017–2018 report of the Multilateral Organisation Performance Assessment Network\(^\text{33}\) assessed ADB for the fourth time (previous

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assessments were conducted in 2006, 2010 and 2013). The assessment does not focus on the ADF but looks at ADB’s organizational effectiveness, including concessional assistance operations as a whole (strategic, operational, relationship and performance aspects), and the results ADB achieves against its objectives. The assessment finds that ADB has maintained a positive performance trajectory. The assessment appreciates the relevance of ADB’s strategic framework and well-recognized comparative advantage based on its ability to provide a combination of financing and knowledge. The assessment also highlights that ADB is close to its clients and has a well-developed results-based management system. The assessment highlights the need to strengthen the sustainability of results, gender equality, and catalyzing and leveraging of financing and to better manage knowledge. These aspects have been improved since then and will continue to guide the implementation of the ADF 13. Finally, the 2020 Aid Transparency Index, which does not focus on the ADF, ranks ADB first among 47 organizations. This is a strong signal of ADB’s commitment to performance and transparency.

26. **The Independent Evaluation Department’s assessment of ADF XI and ADF 12 concludes that ADB project performance and results are stronger than during previous ADF periods.** The department concludes that development results made possible by ADF XI and ADF 12 grants are stronger than for previous ADF periods and there is a strong rationale for continuing ADF support. These positive evaluations did not change after the ADF became a grant-only operation. The evaluation further highlights that transitioning to a grants-only facility has increased the ADF’s relevance. The evaluation concludes that it is critical for ADB to continue to scale up ADF grant support for sustainable development in the most vulnerable areas of Asia and the Pacific to consolidate development gains and enhance the chances of achieving the SDGs by 2030. The evaluation recommended several actions such as streamlining the utilization of set-asides, the separation of allocation of ADF grants and COL, and the adaptation of ADB systems to match the needs of SIDS and FCAS, which will be implemented during the ADF 13 period.

27. **ADB continues to improve its institutional effectiveness to be stronger, better, and faster.** Since Strategy 2030 was finalized, ADB has been carrying out comprehensive reforms to continue to strengthen its operational efficiency and effectiveness; improve internal capacity; respond to remaining and emerging challenges; and develop differentiated approaches to groups of countries by modernizing its business processes, expanding its products and instruments and strengthening its presence in FCAS and SIDS. Building on these changes, ADF 13 will be utilized to maximize ADB’s impact in the countries eligible for ADF grants and achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific in line with major global commitments.

IV. **ASIAN DEVELOPMENT FUND 13 STRATEGIC DIRECTIONS**

28. **Implementing Strategy 2030 through ADF 13.** To address the existing challenges in ADF and COL countries, respond to the COVID-19 crisis and support an inclusive and sustainable recovery, ADF donors endorsed ADF 13 strategic directions for tackling COVID-19 pandemic and building sustainable and inclusive recovery in line with Strategy 2030. ADF 13 will be the first ADF to implement the ADB’s Strategy 2030 during its full cycle. ADF 13 is a critical instrument to implement ADB’s corporate strategy in line with the 2030 agenda for sustainable development and to support countries’ seeking to meet their domestic climate and disaster risk goals in line

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with international commitments, including principally the Paris Agreement and the Sendai Framework for DRR. ADF 13 will implement Strategy 2030’s seven operational priorities in the poorest and most vulnerable DMCs and address remaining poverty and inequalities. ADF 13 will further support inclusiveness and do more to expand equitable opportunities for the most vulnerable groups, which include low-income households, women and children, indigenous peoples, ethnic minorities, persons with disabilities, hard-to-reach and remote populations, migrants, and displaced and conflict-affected people.

29. During the ADF 13 period, countries will have access to robust, and, in many cases, increased ADF 13 country allocations to address the COVID-19 crisis through budget support and investment projects targeting vulnerable populations, including women and children. The ADF 13 framework will be able to respond to the COVID-19 crisis and its consequences through the expanded Disaster and Pandemic Response Facility (DRF+), which will cover health emergencies. In case of very severe disasters with damages and losses exceeding 10% of GDP, all group A countries may have access to grant resources from the DRF+ to cope with the crisis. In terms of prevention of disease and strengthening of health systems, ADF 13 will play an important role through the thematic pool especially the first strategic area on regional cooperation and integration (RCI) including RPGs such as regional health security. In addition, support for habitat and biodiversity protection will reduce natural resource degradation and food security risks, increase climate and disaster resilience to minimize additional economic shocks, and create job opportunities in rural areas, while also reducing risks of zoonotic disease outbreaks. In case the impact of the COVID-19 crisis downgrades the debt distress classification of COL eligible countries and make them eligible for grants, the debt distress reserve will be used to provide additional grant resources to the affected countries.

30. **Using a country-focused approach.** Through ADF 13, the ambitious global development agenda will be tailored to local circumstances. DMCs have significantly diverse needs, institutional strengths, and availability of resources, including among countries with similar per capita income. ADF 13 will customize its approach to meet the varying needs of its diverse client base. During the ADF 13 period, ADB will enhance its policy dialogue and analytical work, including on efforts to help countries achieve the country targets of the SDGs, the Sendai Framework for DRR and national climate strategies. The country partnership strategy (CPS) will continue to be the primary platform for defining ADB’s operational focus in a country—with the DMC as the driver of its own development and ADB as a partner providing customized solutions to development needs and challenges. ADB’s involvement in specific themes or sectors in a country will be based on its comparative advantage vis-à-vis other development partners, specific country demands, and the potential for value addition within ADB’s capacity and resource envelope. Building on its strong track record of collaboration, ADB will further strengthen coordination and partnerships with other international financial institutions, bilateral partners, civil society organizations, and the private sector at the country level.

31. **Access to ADF 13 grants to vary across groups of countries.** ADF 13 grants will implement the seven Strategy 2030 operational priorities in group A countries at high risk of debt distress (grant-only countries) and at moderate risk of debt distress (ADF blend countries). The bulk of ADF 13 grants will continue to be allocated on a country basis to group A countries. As each country is different and faces specific challenges, the operational focus will be decided

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37 Such projects and activities may include initiatives addressing illegal wildlife trade to reduce use and consumption of wildlife that could facilitate transfer of zoonotic disease to human populations, initiatives promoting better management of human development in conservation landscapes, to reduce fragmentation of forest areas and increased human wildlife interaction such as wildlife hunting and consumption and initiatives promoting better food safety in rural markets and livestock areas that are close to forest and wildlife conservation areas.
at the country level during the preparation of the CPS and the country operations business plan (COBP). Additional ADF 13 grants will be offered on a project basis to address specific challenges under the thematic priorities.

32. ADF 13 grants will be provided to group A countries at low risk of debt distress and International Development Association (IDA) gap countries (COL-only countries) to address specific challenges under the thematic priorities. ADF 13 grants will also be provided on a very selective basis to group B countries to address specific challenges.

33. **Quality infrastructure.** The ADF 13 replenishment is taking place following the G20 Principles on Quality Infrastructure (Box 1), which uphold the importance of considering life-cycle costs, sustainability, resilience, and inclusivity in infrastructure investment. Quality infrastructure development will continue to be a mainstay of ADB’s operations funded by the ADF. ADF-funded infrastructure investments will continue to promote high-quality infrastructure investment with due consideration for, among others, life-cycle cost, environmental sustainability, disaster resilient design, technology and knowledge transfer, and debt sustainability. ADB’s safeguard policy will continue to be effectively implemented in all of the projects that ADB supports. Infrastructure will remain a key ADF cross-cutting priority to promote social and economic development in ADF and COL countries and achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific. This cross-cutting quality infrastructure agenda will support efforts to address remaining poverty and inequalities and make progress in the six ADF 13 special attention areas.

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<tr>
<th>Box 1: G20 Principles for Quality Infrastructure Investment</th>
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<tr>
<td>Volume and quality of infrastructure investments matter to promote social and economic development in the poorest and most vulnerable countries of the region. The G20, under Japan’s presidency, has set out six principles for quality infrastructure investment to maximize the positive economic, environmental, social, and development impact of infrastructure and create a virtuous circle of economic activities, while ensuring sound public finances:</td>
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<tr>
<td>- Principle 1: Maximizing the positive impact of infrastructure to achieve sustainable growth and development</td>
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<td>- Principle 2: Raising economic efficiency in view of life-cycle costs</td>
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<td>- Principle 3: Integrating environmental considerations in infrastructure investments</td>
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<td>- Principle 4: Building resilience against natural disasters and other risks</td>
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<td>- Principle 5: Integrating social considerations in infrastructure investment</td>
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<td>- Principle 6: Strengthening infrastructure governance</td>
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34. Through its ADF-funded infrastructure operations, ADB will seek to improve access of the poor, women, and the vulnerable (including older persons and people with disabilities), including in FCAS and SIDS, to basic energy, transport, clean water, and sanitation services. ADF 13 will promote connectivity within and between countries to spur economic growth and further reduce poverty and inequalities.

35. In ADF funded infrastructure operations, ADB will promote advanced technologies and innovations that reduce life-cycle costs and increase durability, improve the efficiency and quality of services, and minimize negative environmental and social impacts. ADB will also conduct capacity building to introduce quality and value for money in procurement in line with the updated procurement policy adopted in 2017. Sustainable infrastructure investment will also be central to achieving global commitments to address climate change, biodiversity and habitat conservation, and other factors, as well as strengthen disaster risk management. As part of this, build back
better and green recovery considerations will be built into ADF 13-supported projects that address the COVID-19 pandemic recovery.

36. **Governance and institutional capacity.** Governance will continue to be a mainstay of ADB’s operations funded by the ADF in line with the second governance and anticorruption action plan (GACAP II) and the operational plan for Strategy 2030’s sixth operational priority (strengthening governance and institutional capacity). Weak governance and underperforming institutions continue to stifle the delivery of basic services and hamper private sector development. ADF 13 will support public financial management reforms to help DMCs improve governance and create an enabling environment for inclusive and sustainable growth, in close coordination with other development partners. Addressing remaining and emerging challenges requires effective governance. ADF 13 will help eligible countries build resilience and respond to economic shocks, strengthen service delivery, and improve capacity and standards. ADB recognizes that better governance is not just a development outcome in itself but serves as an enabler to achieve the other SDGs. Consequently, and in line with SDG 16, ADF 13 will support eligible countries to build effective, accountable, and inclusive institutions at all levels; promote the rule of law; enhance government transparency, accountability, community participation; and reduce corruption.

37. ADF 13 will support ADF and COL countries—through investment grants and TA—to enhance public management and financial stability by: (i) enhancing domestic resource mobilization to improve tax collection and the business environment; (ii) strengthening public finance, expenditure, and fiscal policies with a focus on budgeting, investment, procurement, accounting and reporting, and auditing; (iii) enabling private sector development to improve the investment and business climate for private sector participation; and (iv) supporting macro-fiscal stability in ADF and COL countries to build resilience and respond quickly to economic shocks with stronger debt management capacity. To improve governance and service delivery capacity, ADB will focus on (i) supporting policy reforms that improve the delivery of public services and provide incentives to develop the private sector and public-private partnerships; (ii) promoting fiscal decentralization and service delivery standards to strengthen subnational governments; (iii) reforming state-owned enterprises to improve corporate governance and transparency, and (iv) developing legal and judicial institutional capacity to improve the efficiency, transparency and integrity of the courts and other dispute resolution mechanisms. ADB will also promote digital technology and civil society engagement for efficient and responsive public service delivery and improved government accountability and transparency.

38. **Six areas of special attention under ADF 13.** In addition to these cross-cutting areas, ADF 13 will give special attention to six areas to respond to the main challenges in the poorest and most vulnerable DMCs, in alignment with Strategy 2030. Gender, DRR, and climate considerations will be further mainstreamed into these six areas. ADF 13 will create synergies across areas for special attention to maximize its operational impact. For instance, disasters can exacerbate vulnerability in SIDS and fragility in FCAS countries. ADF 13 grants will create incentives to invest in climate and disaster resilience in ADF and COL countries, and for FCAS countries to build quality rural infrastructure and support sustainable and productive agriculture. ADF 13 can promote the mutual benefits of each area of special attention and have an overall greater impact on DMCs. Figure 1 summarizes the linkages between Strategy 2030; the ADF 13

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cross-cutting areas; the ADF 13 areas for special attention, and the ADF 13 allocation framework (Section V) for tackling the COVID-19 pandemic and building sustainable and inclusive recovery.

Figure 1: Tackling the COVID-19 Pandemic and Building Sustainable and Inclusive Recovery in line with Strategy 2030 with ADF 13

A. Supporting Fragile and Conflict-Affected Situations and Small Island Developing States

39. Donors strongly supported ADB’s commitment to further support FCAS and implement differentiated approaches in line with Strategy 2030 during the ADF 13 period and asked for a clearer and more substantive updated operational plan to implement the approaches as soon as possible. Strategy 2030 recognizes that countries with FCAS (footnote 2) need special attention and advocates a differentiated approach to its operations in FCAS. ADF 13 will identify opportunities for humanitarian-peace-development nexus aspects (the Triple Nexus), in line with ADB’s value addition, especially in fragile countries and by working on the fragility to stability continuum. ADB’s work in FCAS is governed by an operational plan, which guides ADB’s FCAS operations through a comprehensive set of actions to mainstream fragility- and conflict-sensitive approaches in country strategies and operations. To better address the complex challenges of FCAS, the plan supports the following: (i) continuing efforts to make country strategies and plans for all FCAS countries, which are more fragility- and conflict-sensitive, by mainstreaming good practices in project design and implementation; (ii) strengthening resources for FCAS operations by expanding the field presence of staff and improving staff incentives, enhancing staff skills

capabilities and awareness, establishing an FCAS resource group, augmenting financial resources and adopting differentiated business processes for FCAS operations, and developing a more appropriate risk framework; and (iii) developing an institutional strengthening framework to better identify the needs of FCAS and design long-term support to build their institutions, refining the approach of identifying FCAS DMCs, and better coordinate ADB assistance with other development partners. This operational plan will be updated in 2020–2021.

40. Recognizing that fragility and conflict are complex and multifaceted, the operational plan seeks to address five characteristics of the key drivers of fragility: (i) weak governance; (ii) ineffective public administration and rule of law; (iii) prolonged civil unrest; (iv) exposure to interstate, national, or subnational violent conflict; and (v) vulnerability to economic shocks and natural hazards, ADF 13 will contribute to implement differentiated approaches for FCAS in line with Strategy 2030.

41. To successfully operate in FCAS, ADF-funded projects will implement ADB’s approach, which follows international best practices and is based on ensuring the following:
   (i) **Context sensitivity.** This is fundamental to operations in FCAS. ADB must analyze the specific circumstances of a country—including its political situation, economic condition and outlook, conflicts, ethnic and gender issues, vulnerabilities to natural hazards, and understanding of stakeholders—and develop a relevant approach. Context sensitivity needs to be included in all activities, including the country partnership strategy (CPS), project design, procurement, and implementation; to be reflected in the project or facility administration manual.
   (ii) **Do no harm.** Once ADB understands the context and stakeholders, it must ensure that its operations seek to significantly improve situations—whether livelihoods or the capacity to transition from FCAS to stability—and, at the very least, do no harm.
   (iii) **Capacity assistance and development.** ADB needs to ensure that its staff and counterparts have the capacity to perform their roles and responsibilities in operations. If their capacity is lacking, resources must be made available in the form of advisors, training, and outreach materials to enable counterparts to carry out their responsibilities.
   (iv) **Monitoring and continuous improvement.** Because of the often rapidly changing context in FCAS, ADB needs to build in a feedback loop on monitoring and continuously improve to ensure that its operations adjust to the changing context and remain relevant.
   (v) **Seek progress on the fragility-to-stability continuum.** ADB operations should help countries progress from FCAS to transitional situations on their way to becoming resilient and/or stable. ADB seeks to move beyond mitigation to prevention.

42. ADF 13 will continue to fully integrate FCAS approaches into operations, especially in the project cycle and tailor specific processes and procedures to match the needs of FCAS while continuing to promote gender and climate change mainstreaming into its operations in FCAS. To guide this agenda, the review of the 2013 FCAS operational plan will be conducted in 2020 before the start of ADF 13. An issues paper was prepared in July 2020 and the draft revised operational plan, the FCAS and SIDS Approach Paper\(^{40}\) will be circulated by the end of 2020.

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\(^{40}\) Consequent to ADF discussions, the new approach will encompass SIDS and FCAS given their many shared challenges. The operational plan will be called an Approach Paper so as not to confuse it with the 7 Operational Plans of Strategy 2030’s operational priorities.
The new Approach Paper will be considered by Management for approval by Q1 2021, and then submitted for endorsement by the Board of Directors. The Approach Paper will be informed through consultation with other development partners, aligned with Strategy 2030, reflect current international and region-specific best practices, and be strongly coordinated with the new Pacific Approach, which is also currently being revised. The Approach Paper will recognize that drivers of fragility are complex and need to be analyzed according to their context. These drivers are clustered around the multi-dimensional understanding of fragility and are closely linked to risks arising from climate change, demographic shocks, health and geophysical hazards, gender inequality, patterns of discrimination, economic and social exclusions and perceptions of grievances and injustice. Finally, ADB will further develop its expertise on FCAS and strengthen its field presence in FCAS, subject to security conditions, in line with Strategy 2030.

43. To achieve this commitment and support FCAS in tackling the COVID-19 crisis, ADF 13 support for FCAS countries will increase by 8% under ADF 13 in comparison to ADF 12 (Appendix 2). Additional technical assistance (TA) resources will be made available. Understanding and articulating the interrelationship between vulnerability, resilience, and fragility will be crucial to mainstream FCAS approaches in ADF-financed operations and better target vulnerable populations living in FCAS such as people with disabilities, displaced persons, young people and women. Enhanced gender analysis will guide measures to address gendered social norms and gender-based violence, women’s access to essential services and participation in decision-making processes. Developing a vibrant private sector is critical for assisting the FCAS transition to stability. ADB’s Private Sector Operations Department has a mandate to expand in new and frontier markets, including challenging ones such as FCAS. ADF 13 will support the development of private sector operations in FCAS countries and will also consider smaller deal sizes with potentially higher risks and development impacts, including inclusive business models.

44. Afghanistan. During 2021–2024, the special support to Afghanistan will continue. ADB operations in energy, transport, and agriculture and natural resources achieved important results in Afghanistan during ADF XI and ADF 12. Energy projects have been connecting more households to the grid, especially in rural areas, and installing and upgrading transmission and distribution infrastructure. They have also contributed to a reduction in greenhouse gas emissions by expanding renewable energy generation capacity. Transport projects have been upgrading and building new roads and railways, with a focus on expanding connectivity in rural areas and improving regional connectivity. Agriculture projects have been expanding the land covered by irrigation infrastructure, improving productivity, enriching rural lives and incomes and empowering women.

45. Despite these achievements and progress in various sectors also supported by international development partners, Afghanistan continues to have extensive development needs, which are further increased by the COVID-19 crisis. Prior to the outbreak of the COVID-19 crisis, the financing gap was estimated to be about $1.5 billion by 2024. This gap is expected to widen due to the negative economic impact of the crisis on Afghanistan. The pledging conference planned to be held in 2020 will be crucial to close the gap. In parallel, continued efforts are required by the Afghan government to improve the tax base and tax receipts. Continued investments are needed to tackle the COVID-19 crisis and address remaining social and economic challenges in the country. Of the population, 45% is food insecure, with 28% severely food insecure, and 30% have a protein deficiency. The country continues to have some of the worst health outcomes in the world, particularly for mothers and children. Poverty remains high at

55% of the population, and inequalities persist among regions, between cities and rural areas and between the rich and poor. The special allocation will finance priority national and regional cooperation projects in energy, transport, and agriculture and natural resources, taking into due consideration the importance of mainstreaming gender and environmental concerns, expanding efforts on operations and maintenance to improve the sustainability of projects, and exercising zero-tolerance towards corruption. In addition to supporting Afghanistan’s economy, regional cooperation projects will also have wider impacts on regional economic prosperity, peace, and security.

46. **Small island developing states.** Of the 10 FCAS, 8 are SIDS. SIDS confront structural constraints arising from their small size, remote location, geographic dispersion, narrow asset bases, and exposure to natural hazards and climate change and other factors’ impacts. SIDS are usually characterized by low capacity to carry out basic government functions and to provide social and infrastructure services, small tax bases, reliance on external revenue sources (including development assistance), dependence on imports (alongside low levels of exports), limited private sector opportunities, and high costs. Resilience to manage and mitigate risks is low, and SIDS are susceptible to external shocks, both economic and environmental. These factors lead to secondary development challenges, including low formal sector employment, urbanization pressures, and limited economic engagement by women. While extreme poverty is rare, large segments of the population are susceptible to shocks to prices or supplies of food staples. SIDS are also experiencing a significant negative economic impact from COVID-19, mainly through a decline in tourism as a consequence of travel restrictions and reduced remittances from overseas workers.

47. ADF 13 will be instrumental in responding to the COVID-19 crisis and its social and economic consequences in SIDS. ADF 13 recognizes that despite common structural constraints, SIDS are not a homogenous group. Consequently, ADF 13 will scale up grant support for SIDS by 46% and implement a differentiated approach in eligible SIDS based on specific needs (Appendix 2). ADF 13 will be critical to contain debt distress risks—particularly for the smaller islands and atolls that are at high risk of debt distress—and will help bridge financial gaps in many SIDS. ADF 13 grants will contribute to the reduction of SIDS’ vulnerability to shocks through an economic vulnerability premium, the amount of which will vary with country vulnerability. At the same time, ADF 13 will support SIDS in taking steps to improve public financial management; enable priority development spending; control debt vulnerabilities, which can squeeze priority development spending; and improve debt management practices. ADF 13 grants will also support investments in SIDS with positive externalities such as gender equality, climate adaptation, DRR, RPGs, connectivity and access, institutional strengthening, and private sector development. ADF grants will help build women’s and girls’ resilience through green jobs and other economic opportunities, economic and financial safety nets, and gender-responsive policies and institutions. Gender and climate change mainstreaming in projects taking place in SIDS will continue under ADF 13.

**B. Addressing the Sustainable Development Goal 5 Transformative Gender Agenda**

48. **Gender mainstreaming.** Gender equality is a human right\(^\text{42}\) and is smart economics. There have been notable improvements in gender equality in Asia and the Pacific in the past two decades. However, persistent gender gaps remain in labor participation rates, wages, access to

\(^{42}\) The United Nations Universal Declaration of Human Rights states that ‘All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood’. In addition, the description of the Sustainable Development Goal (SDG) 5 asserts that ‘Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world’. 
essential services, and decision-making. In line with Strategy 2030 and the ADB gender operational plan for 2019–2024, ADF 13 will continue to mainstream gender into ADF-funded projects that address quality infrastructure investments; FCAS and SIDS; disaster resilience and climate change impacts; RCI including RPGs; private sector operations; and debt sustainability (Appendix 3). ADF 13 will continue to strongly promote gender equality with 60% of ADF 13 grants (in volume of commitments) supporting gender mainstreaming (projects classified as gender equity theme or effective gender mainstreaming) from 2021 to 2024. Enhancing gender mainstreaming under ADF 13 will also help mitigate the adverse impact of COVID-19 on vulnerable women, and assist their socioeconomic recovery and build resilience. ADF 13 will expand opportunities for women and girls living with disabilities. The ADB-Private Sector Window (ADB-PSW) will coordinate with the Women Entrepreneurs Finance Initiative (We-Fi) to support women-led small and medium sized enterprises. TASF 7 will be a critical channel to further developing gender mainstreaming capacity in ADF and COL countries.

49. **Supporting girls in education.** ADB’s Strategy 2030 recognizes that more investments in education, including for girls are necessary to address remaining poverty and reduce inequalities. ADF 13 recognizes that the completion of secondary education for girls is a critical objective as it opens the door to economic and social opportunities, and that significant gender gaps remain in secondary completion rates for girls in the Asia and Pacific region. Despite progress in education attainment and opportunities for skills development, labor market outcomes are still not equitable for women. In line with SDG 4 (Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all) and SDG 5 (Achieve gender equality and empower all women and girls), ADF 13 will reflect this high priority to education and equity, including for girls and women. Specifically, countries receiving ADF 13 grants will be able to use these resources to (i) address gender gaps in learning and support completion of secondary education for girls; (ii) promote girls’ access to science, technology, engineering, and mathematics education, and to technical and vocational education and training in nontraditional sectors and trades; (iii) promote girls’ access to employment training to become future-ready for the workforce such as training in digital literacy, entrepreneurship and soft skills, and employment services that facilitate school-to-work transitions; (iv) improve girls’ access to inclusive and pro-active labor market and social protection initiatives to complement re-skilling, up-skilling and lifelong learning programs for girls, whose jobs may be potentially affected by new technologies; and (v) promote girls’ access to training in new technology domains such as data science, artificial intelligence, and machine learning. ADF 13, through its thematic pool, will address gender stereotypes through teacher training and curriculum reforms, support the needs of adolescent girls through sexuality education, menstrual hygiene education and sanitation facilities; protect girls from gender-based violence; and involve men and boys, parents and communities in changing gender stereotypes.

50. **Sustainable Development Goal 5’s Transformative Gender Agenda.** The Strategy 2030 gender operational plan recognizes that to step up to accelerate and sustain gender equality impacts, it is essential to go beyond standard gender mainstreaming to pilot, demonstrate, and replicate innovative approaches to narrowing persistent gender gaps and entrenched gender discriminations through transformative approaches. On top of enhanced gender mainstreaming,

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44 This ADF 13 target by 2024 is based on volume of commitment and is not a deviation from the Strategy 2030 target on gender, which is based on the number of ADB’s sovereign and non-sovereign committed operations. The ADF target is at least as ambitious as the institutional target in Strategy 2030.

45 A multi-donor fund, that aims to mobilize financing from commercial and international financial institutions to improve women entrepreneurs’ access to finance (https://we-fi.org).
ADF 13, through its thematic pool of grants, will support the SDG 5 transformative gender agenda, which provides strategic entry points for challenging the discriminatory social norms that drive systemic gender inequalities.

51. The SDG 5 transformative gender agenda includes: (i) eliminating violence against women and girls; (ii) reducing and rebalancing unpaid care and domestic work; (iii) ensuring women’s participation in decision-making and leadership; (iv) ensuring access to sexual and reproductive health; (v) undertaking reforms to ensure women’s access to economic and productive resources and information and communication technology; and (vi) supporting legal or institutional reforms for protecting women’s rights and changing gendered social norms. These interventions will enable countries to further support women affected by COVID-19 through such impacts as increased domestic violence, losses in jobs and economic assets, and an increased burden of unpaid care work, among others. Under ADF 13, as a result of additional support from the thematic pool, the number of projects classified as “gender equity as a theme” will be 30% more than under ADF 12. ADF 13 will collaborate with partners, including women’s rights organizations, to address this agenda.

52. **Addressing sexual exploitation, abuse and harassment.** ADB, by implementing its normal policies and procedures, is committed to mitigating and addressing sexual exploitation, abuse and harassment (SEAH) that may arise in investment projects financed by ADB, and sexual harassment that may arise in ADB’s workplace. To address SEAH risks that may emerge in investment projects financed by ADB, ADB will develop guidelines that will assist staff identify such risks and advise borrowers on how to best manage such risks. As part of the process of developing the guidelines, ADB will develop a mechanism to report to its Board on credible allegations of SEAH arising in ADF-financed operations. ADB already has in place a Code of Conduct to address sexual harassment that may arise in ADB’s workplace and includes information thereon in publicly available annual reports. ADB has a formal and independent avenue for reporting and investigating allegations of staff misconduct, including sexual harassment, and conducts outreach programs to prevent bullying and harassment and to promote a respectful work environment for all staff. In the event that ADB determines that there are credible allegations of SEAH occurring either in investment projects financed by ADB or within the ADB workplace, ADB will take swift and appropriate action in accordance with its policies and procedures. If and when ADB becomes aware of serious cases of SEAH arising in investment projects financed by ADF, which pose high reputational risk to the ADF donors, ADB will, in accordance with its policies and procedures, report on such cases at an aggregate level, and on a confidential basis to its Board, which includes representatives of ADF donors.

C. **Addressing Climate Change and Supporting Disaster Resilience**

53. Investing in prospects for low-carbon and climate-resilient development will require significant resources, and the window for such change is rapidly closing. Adaptation costs are likely to increase sharply over time, even as the world tries to limit a global rise in temperatures. In the face of rapidly growing greenhouse gas emissions, increasing risks and impacts from disasters, climate change and other factors, and accelerating environmental degradation, ADB recognizes that tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability are critical to achieving its Strategy 2030 vision of a prosperous, inclusive, resilient, and sustainable Asia and the Pacific. Key responses identified under operational priority (OP) 3 of Strategy 2030 include scaling up support to address climate and disaster risks and environmental degradation, accelerating low-emission and climate-resilient development in the context of energy security and energy access (SDG 7), ensuring a
comprehensive approach to build climate and disaster resilience, ensuring environmental sustainability, and increasing focus on the water–food–energy nexus.

54. **Strategy 2030 targets and Asian Development Fund contribution.** Climate finance from ADB’s own resources will reach $80 billion cumulatively from 2019 to 2030, and ADB will ensure that 75% of the number of its committed operations (on a 3-year rolling average, including sovereign and nonsovereign operations) will support climate mitigation and adaptation by 2030. ADF 13 will continue to support climate mitigation and adaptation by mainstreaming climate and disaster resilience into projects, country partnership strategies, and additional support from the thematic pool. The share of ADF 13 financing for climate adaptation and mitigation will be at least 35% (in volume). At least 65% of committed ADF 13 operations (in number of projects) will support climate mitigation and adaptation by 2024.46

55. **National climate-related action plans such as nationally determined contributions.** The national climate-related action plans such as nationally determined contributions (NDCs) are key mechanisms to understand domestic priorities for the transition to low emission and climate-resilient development, with targets to increase the use of renewable energy and enhance energy efficiency in key sectors, in the context of energy access and energy security, as well as other emission intensive sectors such as transport, agriculture and forestry. ADF 13 will systematically support the majority of ADF countries in their efforts to implement and update their national climate-related action plans, including their NDCs.47

56. **Clean energy, including renewable energy and energy efficiency.** ADF 13 will support and help scale up country demand for renewable energy and energy efficiency in the context of energy security and energy access in sovereign operations and private sector investments in frontier markets, while maximizing access to safe, affordable, clean and sustainable energy for the poor. It will also support carbon markets; clean technology promotion, and promote quality infrastructure investments that are in line with the Strategy 2030 agenda for sustainable development and international climate agreements, including principally the Paris Agreement and Sendai Framework. ADB will support ADF countries in meeting their national climate-related action plans including their NDCs and targets related to access to safe, affordable, clean and sustainable energy and energy efficiency by mobilizing concessional climate finance and public and private investments. The ADB energy policy is being reviewed in 2020.

57. **Climate adaptation and disaster resilience.** ADF 13 will give special attention to supporting climate adaptation and DRR. Globally, mitigation activities account for a larger portion of climate finance compared to adaptation.48 Total climate financing from ADB’s own resources from 2015 to 2018 for group A and B countries was $8.21 billion, of which, $5.56 billion (68%) was for mitigation and $2.65 billion (32%) for adaptation. While ongoing efforts to mainstream climate adaptation into project design (building climate resilience of projects) should be continued using regular ADF allocation, additional ADF grants through the thematic pool for climate adaptation will be used to further incentivize the design of investment projects and/or project components explicitly focusing on building climate resilience and reducing disaster risk (building climate resilience through projects). This approach is critical for both group A and B countries,

46 This ADF 13 target by 2024 is based on number of operations and is in line with the Strategy 2030 target, which includes an interim target of 65% by 2024. Projects contributing to climate change adaptation will strengthen disaster resilience to the extent that they increase resilience to extreme weather events.

47 If national climate-related action plans, including NDCs, are updated, some countries may request additional support.

especially to help steer development toward resilience and catalyze transformational changes. Such projects will be able to leverage additional concessional finance from other development partners such as the Green Climate Fund. Under ADF 13, building resilience will be scaled up in comparison to ADF 12.

58. ADF 13 will also be critical in strengthening the adaptive capacity of the large number of poor people living in high risk areas and populations engaged in disaster and climate-sensitive livelihoods. This requires integrating adaptation measures in the design of livelihood projects, technical and vocational education, health, social development, and wider public sector management projects. It also requires pro-poor climate and disaster risk financing solutions, including insurance, seeking to help reach the InsuResilience goal of 500 million poor and vulnerable people covered against climate and disaster shocks by pre-arranged risk finance and insurance mechanisms by 2025. Such interventions will help poorer communities reduce asset, income and well-being losses from impacts of disaster and climate-related shocks and stresses. Achieving such results will also require strengthening linkages with other thematic priorities of ADF 13. Gender equality and women’s empowerment considerations will be at the center of building adaptive capacity through enhanced gender-responsive policy and legal frameworks, improved access to green jobs, climate-smart technologies, natural assets, financial safety nets, and active participation in designing community-led solutions and other decision-making processes in climate change and disaster risk management.

59. The COVID-19 pandemic highlights importance of strengthening climate and disaster resilience to address future shocks. The pandemics of the future may overlap with extreme weather and geophysical events that are expected to become more frequent, thereby exacerbating economic distress. Disasters will particularly increase the vulnerabilities of the poor and vulnerable populations. Thus, targeted grant support for DRR and climate adaptation through the ADF 13 thematic pool will be critical to incentivize ADF countries to continue investing in building resilience, which otherwise may take a backseat due to more immediately pressing fiscal demands to address health crises and their impacts on the economy. Additionally, the ADF 13 thematic pool is also well positioned to support building back better by prioritizing investments that strengthen long-term resilience of poorer communities, basic services, and institutions. ADF 13 grants will support investments with focus on (i) enhancing resilience of public health systems, including long-term improvements to disease surveillance systems; (ii) incorporating adaptive delivery features in social assistance programs to improve their capacity in dealing with future crises; (iii) promoting green infrastructure as part of employment generation schemes; and (iv) integrating discrete activities to strengthen physical resilience of renewable energy projects, which generate jobs and also contribute to low-carbon development.

60. Enhanced response to disasters and emergencies under Asian Development Fund 13. Response to disasters will be enhanced during ADF 13 through the DRF+, which will cover disasters and emergencies triggered by large cross-border movements of displaced persons, and public health emergencies such as epidemics and pandemics on top of those triggered by extreme weather and geophysical events. The humanitarian-development nexus embedded in disaster-resilient reconstruction is a key element of resilience and will guide the utilization of the DRF+. Limited ADF grant support will be available for all group A counties affected by severe disasters and emergencies leading to estimated damages and losses exceeding 10% of GDP.

49 For example, in SIDS, ADF grants could be used to introduce approaches that accommodate sea level rise or retreat from it, rather than protect land from sea-level rise through hard shore protection measures.
51 As seen recently with Typhoon Harold in the South Pacific and with Cyclone Amphan in India and Bangladesh.
52 The DRF+ will support emergency relief, recovery and reconstruction.
Such severe disasters and emergencies result in large and urgent financing needs that cannot be met quickly by additional concessional borrowing without undermining the debt sustainability of DMCs. The DRF+ will be able to offer grant assistance to group A and group B countries when they accommodate significant cross-border inflows of displaced people, in full alignment with the IDA 19 Window for Host Communities and Refugees special grant provision.

D. Fostering Regional Cooperation and Integration including the Provision of Regional Public Goods

61. ADF 13 will continue to support RCI in group A countries, including landlocked countries, by promoting quality infrastructure investments for greater connectivity and expanding trade and investment for economic transformation and job creation. This will be critical particularly now that the need for regional cooperation is stronger than ever in the fight against COVID-19.

62. ADF 13 will increase the provision of RPGs, including regional health security, ocean health, biodiversity and ecosystem services in group A countries and selectively in group B countries (Appendix 4). Other RPG activities and knowledge aimed at better supporting movement of people across borders and economic migration and also related to trade and connectivity will become highly important in the post COVID-19 recovery. A key rationale for grant-funded interventions is to capture the positive externalities that an investing country does not enjoy and to mitigate the negative externalities associated with the absence of the project. Grants would make investments in projects addressing RPGs viable from a national perspective. ADF 13 grants will be used to demonstrate the benefits of projects with RPG characteristics and incentivize governments to opt for such investments.

63. ADB has advanced its knowledge on RCI and RPGs through knowledge products and work to strengthen the classification process for RCI and TA projects. The 2018 Asian Economic Integration Report had a special theme chapter, “Toward Optimal Provision of Regional Public Goods in Asia and the Pacific,” which looks at examples of provision of RPGs in Asia and the Pacific and the contribution of ADB’s RCI projects to them. Going forward, given the multifaceted global and regional challenges created by the ongoing COVID-19 pandemic, ADB will further emphasize its focus on the RCI and RPG knowledge, including non-traditional RPGs such as addressing economic migration or forced displacement, but also on trade and connectivity that will become of ever greater importance in the recovery years post COVID-19. Strategy 2030 Operational Plan for Priority 7: Fostering Regional Cooperation and Integration, 2019–2024 emphasizes that continued work on RCI project classification is a knowledge priority. A scorecard has been developed for use during the project concept stage to look at (i) alignment of the project with regional strategies and priorities; (ii) the projects contribution to regional economic benefits; and (iii) other contributions to RCI, such as strengthening regional institutions. To be classified RCI, projects will need to pass the scorecard. It has been trialed and refined over several years and will be rolled-out with the release of new Staff Instructions and Operations Manual in the fourth quarter of 2020. An e-learning module and brownbag training sessions will be released for ADB staff on RCI and the scorecard at the same time. Furthermore, a handbook on how to conduct regional economic analysis is being produced to support ADB’s Guidelines for the Economic Analysis of Projects. Economic analysis in the report and recommendation of the President (RRP) on RCI projects is expected to include calculation of regional effects to the greatest extent possible. The handbook will be supported by an e-learning module (under development). The RCI-Thematic Group and the Economic Research and Regional Cooperation

[53 Group C countries will not receive ADF grants.]
Department are working together to further integrate regional economic analysis into economic training for ADB staff.

64. **Universal health coverage.** The importance of financing for universal health coverage (UHC) in developing countries has been recognized by the international community before the COVID-19 crisis. The G20 Shared Understanding document stresses the importance of collaboration between finance and health authorities to be better prepared to respond to health outbreaks. To maintain momentum, ADB, World Health Organization (WHO), and the Government of Japan will organize a ministerial symposium at the 53rd Annual Meeting of ADB’s Board of Governors in Incheon, Republic of Korea, in 2020. The ongoing COVID-19 crisis illustrates that UHC is critical at the national level to mitigate the devastating impact of outbreak on population and at the regional level to contain the spread of a pandemic. In line with Strategy 2030, ADF 13 will support group A and B countries (Box 2) that are pursuing UHC to improve the quality and coverage of government and private health-care services. ADF 13 will support reforms in health financing, including health insurance systems, and better and equitable access to quality health-care services, including through reducing out-of-pocket expenses for the poor. ADF 13 will seek to optimize indirect health benefits by tapping synergies with projects on transport (road safety), the urban sector (healthy cities), water (water safety), sanitation (communicable diseases), and energy (low carbon and reduced pollution). ADF 13 will assist DMCs in managing emerging issues, including the growing burden of noncommunicable diseases and elderly care, in a cost-effective and sustainable manner. It will also promote the greater use of innovative and smart health service delivery systems and support DMCs in strengthening social protection systems and service delivery.

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<th>Box 2: Universal Health Coverage in Group A and B Countries</th>
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<td>Universal health coverage (UHC) as defined by the World Health Organization means “all individuals and communities receive the health services they need without suffering financial hardship.” UHC is a key component of ADB’s Strategy 2030’s operational priority (OP) 1, and moving towards UHC by 2030 is essential to accomplish most health-related Sustainable Development Goals.</td>
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The UHC service coverage index (SCI) tracks access to a set of 16 globally recognized essential health services and has been designated as one of the indicators for tracking UHC. In 2017, the global UHC SCI increased to 66 from the 2015 index of 64 signaling a slight global expansion in access to these health services. Despite modest global gains, some group A and group B countries have expanded their capacity to provide essential health services, with Cambodia increasing its UHC SCI from 55 in 2015 to 60 in 2017, and Afghanistan and Timor-Leste increasing 3 points each to 37 and 52, respectively. However, only two group A countries (the Kyrgyz Republic and Tajikistan) and one group B country (Uzbekistan) have a UHC SCI higher than the global average. Increased investments in essential health services are needed across all group A and group B countries if they are to make progress towards UHC. These include investments in expanding primary care services and increasing production of well-trained and responsive human resources for health, climate-smart and resilient health facilities, inexpensive diagnostics and medicines, and digital and mobile health tools that will ensure the efficient delivery of quality health services.

Domestic government health spending per capita and household out-of-pocket health spending (OOPS) have rapidly increased. In 2017, global health spending accounted for 10% of the world’s gross domestic product (GDP), growing in real terms by 3.9% a year from 2000 to 2017 and exceeding economic growth, which was 3.0% a year during the same period. However, across low income countries, average per capita health spending was only $41 in 2017, less than one seventieth of what is spent per capita in high-income countries ($2,937 per year). Financial protection continues to be persistently low in several developing countries as OOPS remains high. This has resulted in more than 930 million people (about 12% of the world’s population) spending at least 10% of their household budgets for health care, including about 100 million people being pushed into extreme poverty because of health spending. In five group A and four
group B countries, OOPS amounts to over 50% of total health spending. However, all the small Pacific nations have an OOPS share less than 15% as health expenditures are predominantly financed by government and donors. Reducing OOPS and increasing domestic government spending for health are critical steps to move towards UHC. Increased government domestic spending, among other options, needs to be catalyzed and mobilized to ensure financial protection.

In 2014, the share of government health spending to total health spending in group A and group B DMCs ranged from 2.4% to 26.6%, with the share of total health spending to GDP ranging from 1.48% to 17.14%. Asian Development Fund (ADF) grant financing can strategically mobilize increased domestic financing for health. Grant financing has catalytic abilities, as demonstrated by the experience of the regional health security set-aside in ADF 12, where $53 million in ADF 12 grants mobilized an additional $143 million of domestic financing for health. Improved general domestic resource mobilization can facilitate increased domestic health financing. Ongoing ADB support on domestic tax policy and administration reforms in DMCs; capacity building programs on domestic resource mobilization; and promotion of new technologies, such as satellite imagery for property tax, digitalization of tax administration, and the use of algorithms to identify tax evasion and other leakages, are expected to support this goal. The Joint Finance and Health Ministers’ Symposium on UHC Financing in Asia and the Pacific is planned for 2020 on the sidelines of the ADB Annual Meeting. This historic event is expected to facilitate agreement on steps to increase domestic financing for health in the region.

Moving towards UHC also requires addressing emerging issues, such as increasing demand for health care services brought about by rapid aging; the rising burden of non-communicable diseases; growing health risks associated with rapid urbanization, large mobile populations, malnutrition, climate change, and disasters triggered by natural hazards and those that are man-made; and emerging and reemerging pandemics and infectious diseases. Addressing these issues requires an integrated approach, risk-based country-specific health system strengthening, strategic government purchasing of health services, engagement with the private sector providers and financiers, well-informed health governance and leadership, extensive use of digital health and other technologies, evidence-based and properly implemented health policies, and partnerships with civil societies. Through ADF 13, ADB must provide cutting edge technical knowledge and innovative solutions to DMCs, particularly group A countries, to facilitate adoption and implementation of these approaches, tools, and innovations for UHC.


65. **Regional health security.** As part of this broader UHC agenda and building on the positive track record of the ADF 12 regional health security set-aside, ADF 13 will support regional health by (i) supporting cross-border communicable disease prevention and control; and (ii) promoting effective cross-sector initiatives on regional health, such as moving towards UHC to ensure that countries are better prepared to prevent, detect and respond to human and animal disease outbreaks before they become pandemics, which have devastating consequences on human and animal health and negative impact on trade. Despite high returns on investment, many countries are hesitant to borrow to strengthen health security if they have not recently experienced a major epidemic. Part of ADF 13 grants will be critical to catalyze investments in regional health security, which are to be scaled up substantially in comparison to ADF 12, in the context of the COVID-19 crisis. It will be of particular importance and urgency to help DMCs build up RCI operations in regional health by improving their preparedness for and capability to respond to transboundary risks such as the COVID-19 pandemic. At least 10 countries will be supported to

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54 Many countries are under the false impression that investments in human capital and health security are not productive or that the returns are lower than investments in other areas. Through the ADF 12 regional health security set-aside, ADB incentivized countries to borrow for investments in health security by providing countries with additional grants. By co-financing loans with grants, ADB was able to leverage significant investments in countries that were originally resistant to borrowing for the health sector, including strengthening the primary health care system, which is an integral part of health security. The $53 million in regional health security grants available under ADF 12 has leveraged four projects worth a total of about $200 million.
improve their health system, including by introducing or improving UHC, through at least one TA or one project or policy-based lending.

66. ADB has been expanding its technical capacity in health and health security in particular through strategic partnerships with WHO, Japan International Cooperation Agency, the United Nations Children’s Fund (UNICEF), the US Centers for Disease Control and Prevention, Australia’s Department of Foreign Affairs and Trade (DFAT), the United States Agency for International Development (USAID), and various academic institutions and non-governmental organizations. These partnerships have greatly expanded ADB’s capacity to engage with countries and assist with the preparation and supervision of regional health security projects. As a multisectoral institution that has convening power and influence in several sectors beyond health, ADB is able to lead health security initiatives, which require close collaboration across multiple sectors. By leveraging these connections, ADB can contribute to strengthening regional health security through engagements with strategic sectors, including health, finance, agriculture, tourism, environment, and urban to complement actions from other humanitarian and development partners.

67. Environment and biodiversity preservation. Biodiversity and healthy terrestrial and marine ecosystems are RPGs that are critical to the region’s food and water security, public health and well-being, livelihoods, climate mitigation and adaptation, and disaster resilience. Biodiversity and ecosystem services underpin the region’s economy. Many of the region’s major economic sectors—agriculture, fisheries and tourism—depend on biodiversity and ecosystem services. We are now facing the sixth great extinction and ecological collapse. This will have unprecedented impacts on human life and the regional economy, and especially the lives of the poorest and most vulnerable communities that are most dependent on local natural resources and impacted most by environmental degradation.

68. ADF 13 will support regional actions and projects to address transboundary pollution and promote the sustainable management, protection and restoration of shared natural resources (such as ocean health and biodiversity and ecosystem services). Maintaining the health and function of these RPGs is essential to livelihoods, food security, climate resilience, and human health and well-being. It is also critical to reduce the risk and spread of infectious diseases, which are strongly linked to the destruction of natural habitats and the illegal wildlife trade. Based on country demand, and where aligned with country strategies, ADB will support the development, updating and/or implementation of National Biodiversity Strategies and Action Plans (NBSAPs), coastal and marine management plans, or similar action plans focused on biodiversity protection or ecosystem health, along with plans to address transboundary pollutants like plastics. This will include support for countries on integrating the environmental dimensions of the SDGs, especially ‘Responsible Consumption and Production’, ‘Life on Land’, and ‘Life below Water’, into relevant national and sub-national policies, plans and programs. This could include support for protected area management and spatial planning (e.g. land use plans, marine spatial plans, national park networks, and marine protected areas); ecosystem-based approaches to fisheries management; invasive species management, and stronger enforcement, including protection of threatened species and reducing demand for illegal wildlife products. Alignment will also be made where relevant with ADB’s Action Plan for Healthy Oceans and Sustainable Blue Economies and the ADB Ocean Finance Initiative, which will support DMCs to increase investments in ocean health through knowledge, project development and innovative finance and de-risking.

69. Consistent with the G20 Principles for Quality Infrastructure Investment, ADB will strengthen the integration of biodiversity into infrastructure planning and design, ensuring that biodiversity is fully protected at landscape and project levels. This can involve strategic upstream
assessments of biodiversity risks and planning options, modification of project designs to avoid or reduce impacts, and enhanced real-time monitoring using advanced technologies, remote sensing, and cameras with artificial intelligence. ADF 13 will also scale up action from “source to sea” to reduce marine pollution, including the better management of plastics. ADF 13 support will include action planning; policy and regulatory reform to accelerate the transition to a circular plastics economy; investments in green SMEs, circular business hubs, and integrated solid waste management systems (including ‘reduce, reuse and recycle’ approaches and technologies); support for green ports; regional knowledge sharing on solutions; facilitation of partnerships; and the promotion of innovative approaches, technologies and financing mechanisms.

E. Supporting Private Sector Operations in Frontier Markets

70. In Strategy 2030, ADB committed to expand its private sector operations to reach one-third of its total operations in number by 2024, while targeting frontier markets and interventions with higher development impact. To achieve this objective, ADB will rely on its full complement of financing instruments, modalities, knowledge products, and experience. ADF 13 will continue to support private sector development through upstream support to improve investment climates and business environments. The economic and financial consequences of the COVID-19 pandemic on the private sector is profound and widespread. Nonsovereign support will be required to (i) provide short-term working capital to companies involved as frontline responders to the pandemic; and (ii) extend financing more broadly as the private sector faces lower demand, constrained supply chains, and reduced access to finance.

71. ADF 13 will support expanding private sector operations by piloting the ADB-Private Sector Window in group A countries (Appendix 5), which will unlock greater opportunities for ADB’s private sector operations in frontier markets in line with the quality infrastructure agenda. Activities will also be developed in new sectors, particularly those bringing a higher development impact. The activities include deepening ADB’s interventions in health, education, agribusiness, tourism, and nontraditional energy infrastructure (e.g., water, urban sanitation, information communication and technology, and transport). Those sectors, especially health, agribusiness and tourism, were significantly impacted by the COVID-19 pandemic. The activities will further support promoting gender equality and climate mitigation and adaptation by 2030 by strengthening gender and climate-sensitive project designs in private sector operations. The ADB-PSW will support ADB’s target of reaching 55% of its overall private sector operations in frontier economies and/or new sectors by 2024. At least 50% of non-sovereign operations will be in the new sectors prioritized under the ADB-PSW proposal. Finally, ADB will mobilize private capital in group A countries to contribute to much needed private sector development. The ADB-PSW will contribute to meeting ADB’s overall target of mobilizing $2.50 of private capital for every $1 of ADB resources by 2030.

F. Enhancing Debt Sustainability

72. ADB supports the Core Principles of Sustainable Financing to promote information-sharing and coordination among MDBs and international financial institutions (Box 3). These are

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55 These will include, among others, the ADB Ventures Financing Partnership Facility (ADB Ventures), and existing donor resources for blended concessional finance operations.

56 ADB Private Sector Window (PSW) support should create opportunities for equitable access to education. Potential ADB-PSW projects will specifically address this aspect and will be assessed accordingly in the context of affirming the eligibility criteria.
in line with the G20 Operational Guidelines for Sustainable Financing. The COVID-19 crisis has made these principles more relevant as the global response further strains the sustainability of development financing. ADF 13 will align with the International Monetary Fund (IMF)—World Bank multipronged approach for addressing debt vulnerabilities.

Box 3: Core Principles of Sustainable Financing

The objective is to promote information-sharing and coordination among multilateral development banks (MDBs) and other international financial institutions (IFI) with respect to the implementation of resource allocation frameworks and selected debt and financing policies. These principles are intended to be open to all MDBs and other IFIs and center around four areas.

- **Financing policies**
  - ADB’s lending policies provide greater concessionality in lending terms to countries with higher debt vulnerabilities, and these countries are generally ineligible for ADB’s least concessional lending.
  - ADB’s lending eligibility and allocation policies are informed by the joint World Bank-International Monetary Fund (IMF) Debt Sustainability Framework (DSF).
  - ADB adopts the methodology and principles as agreed in the World Bank-IMF DSF for calculating the grant element of financing.
  - ADB will ensure that its policy incorporates incentives to address debt vulnerabilities and will seek to further strengthen this, for instance by supporting the policy and performance actions under the World Bank’s Sustainable Development Financing Policy (SDFP) and the IMF’s Debt Limits Policy (DLP).
  - ADB is also engaging stakeholders at the country level in dialogue where possible on policies to reduce debt vulnerabilities.

- **Creditor coordination**
  - ADB is coordinating with the World Bank to support borrowing countries to take policy actions aimed at enhancing debt transparency and debt management.
  - ADB is harmonizing its position with that of other MDBs and IFIs on financing and debt-related policies to the full extent possible, as a matter of efficiency.
  - ADB continuously coordinates and engages other MDBs and IFIs in policy discussions in various fora and seeks out areas for collaboration.

- **Information Sharing and Transparency**
  - ADB will publicly disclose its operational policies on its website, in compliance with its own Access to Information Policy. This includes the country eligibility and access classification for each operational year, and applicable policies and related parameters such as country performance ratings as well as any remedies or responses in relation to the SDFP.
  - ADB will also coordinate with other MDBs and IFIs, either bilaterally or through various fora to exchange information on elements relevant for the adequate implementation of the policies covered under these principles but not in the public domain, consistent with its disclosure policy.

- **Financial Innovation**

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57 The [G20 Operational Guidelines for Sustainable Financing](https://www.g20.org/en/g20/g20-guidelines) aim to enhance access to sound financing for development while ensuring that sovereign debt remains on a sustainable path by fostering information-sharing and cooperation among borrowers, creditors and international financial institutions, as well as learning through capacity building.

58 The IMF and World Bank are implementing a multi-pronged approach to address debt vulnerabilities. The multipronged approach was called for in April 2018 by the Development Committee and the International Monetary and Financial Committee and is described in detail in the [September 2018 Bali Development Committee paper](https://www.imf.org/external/pubs/ft/scr/2018/cr18171.pdf). Building on the progress achieved and on lessons learned in recent years, the approach comprises ongoing and planned actions: (i) strengthening debt analytics and early warning systems to help countries better understand debt vulnerabilities; (ii) strengthening debt transparency to help countries have a more complete picture of their debt; (iii) strengthening capacity on debt and fiscal risk management to help countries deal with existing debt more effectively, including through operational support to strengthen macro-fiscal policy frameworks and manage fiscal risks; and (iv) reviewing the IMF Debt Limits Policy (DLP) and the IDA Non-Concessional Borrowing Policy.
ADB supports international efforts in financing solutions that enhance borrower country resilience, and considers the provision of such instruments to client countries, within the boundaries of its governing rules and framework.


73. ADF 13 will enhance its support for debt sustainability in group A countries accessing their ADF grant country allocation through alignment with the IDA Sustainable Development Finance Policy (SDFP), which includes two pillars: (i) a creditor outreach program to facilitate information sharing and mitigate debt related risks and (ii) a debt sustainability enhancement program to enhance incentives for countries to move toward sustainable financing.  

74. ADB will collaborate with the IMF and the World Bank to improve regular dialogue, exchange information, and subscribe to a common framework, including shared standards of rigor and transparency. ADB has joined the World Bank on consultations with DMCs to discuss the implementation of the SDFP, and will continue the joint effort to improve debt sustainability. ADB and the IDA will work together with DMCs to identify a common set of policy actions for each DMC and undertake assessments of agreed policy actions under the SDFP. ADB will also collaborate with bilateral creditors including non-Paris Club members and emerging donors.

75. ADB will modify the ADF 13 incentive system by replacing the static 20% discount on ADF grants with an interactive incentive scheme similar to the IDA’s under the SDFP, amplifying the system to shift DMCs’ focus more effectively and proactively to policy actions in a broader area of public financial management. Rewarding improvements in public financial management performance through prioritized access to the consolidated thematic pool will reinforce the incentives while balancing the needs of weaker DMCs and the performance of stronger ones.

76. ADB will continue to help ADF and COL countries strengthen their public financial management policies and institutions through technical assistance (TA) and policy advice. ADF 13 will provide strengthened support for capacity building through a TASF set-aside for debt sustainability. The set-aside will focus on strengthening (i) fiscal policy; (ii) debt management; and (iii) debt transparency, including debt recording, monitoring, and reporting (para. 112).

77. Overall, ADF 13 is structured to help ADF and COL countries enhance debt sustainability through a comprehensive package of reforms that include a combination of policy dialogue, exchange information, and subscribe to a common framework, including shared standards of rigor and transparency. ADB has joined the World Bank on consultations with DMCs to discuss the implementation of the SDFP, and will continue the joint effort to improve debt sustainability. ADB and the IDA will work together with DMCs to identify a common set of policy actions for each DMC and undertake assessments of agreed policy actions under the SDFP. ADB will also collaborate with bilateral creditors including non-Paris Club members and emerging donors.

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59 The IDA Sustainable Development Financing Policy was approved in June 2020 and came into effect at the start of IDA 19 on 1 July 2020. The early stage of the policy implementation will be adapted to support countries’ response to the COVID-19 crisis. Agreed performance and policy actions (PPAs) will be defined annually for IDA countries with elevated risks of debt distress and assessed at the end of the fiscal year. If progress is unsatisfactory, a percentage of the country’s allocation will be set aside and it will be given another year to recover it, except the set-aside in the third year which will be immediately lost. Countries at low risk of debt distress under the Low-Income Country (LIC) Debt Sustainability Framework or limited debt vulnerabilities under the Market-Access Countries Debt Sustainable Assessment (MAC DSA) will not be under the system of PPAs and set-asides. The set-aside is 20% for high risk countries and 10% for moderate risk as well as for IDA Blend and Gap countries under the MAC DSA, unless management determines that the country’s debt vulnerabilities are limited. The enhanced creditor outreach will facilitate information sharing, dialogue and coordination through the promotion of the “Core Principles of Sustainable Financing” and will expand boundaries of MDB outreach, enhance transparency and communication with bilateral creditors on the SDFP, promote dialogue on debt transparency with Paris Club, non-Paris Club and private creditors, strengthen dialogue and coordination around debt-related TA and enhance the use of the “Lending to LICs” platform.  

60 Joint virtual consultations were held on 5 March 2020 with DMCs in the Pacific and on 6 April 2020 with DMCs in Central Asia and South Asia.  

61 When the identification of common set of policy actions is not possible, ADB will adopt its own set of policy actions.
interactive incentive schemes, and capacity building. In the long run, this will enable an increasing number of ADF grant-eligible countries to steadily progress and graduate from ADF grant support and reduce the future ADF donor contributions in the long term. Ensuring sound public finances is also consistent with the G20 Principles for Quality Infrastructure Investment, which emphasize that in addition to project-level financial sustainability, the impact of publicly funded infrastructure projects on macro-level debt sustainability, needs to be considered and transparent, given that infrastructure investment can have significant impact on public finance.

78. ADF 13 will help address the debt distress risks faced by ADF eligible countries by providing grants and technical assistance. Many SIDS are indebted due to the impacts of disasters and the high costs of recovery, further exacerbated by constrained fiscal space, limited revenue generation potential, and high costs of public services. ADF 13 will align with the IMF–World Bank multipronged approach for addressing debt vulnerabilities through the provision of technical assistance in four areas: debt analysis and early warning systems, debt transparency, debt management capacity, and review of debt policies.

79. While it will continue to support countries at risk of debt distress, ADF 13 will support debt sustainability through a comprehensive package of reforms that include (i) policy advice and capacity building through TA in the areas of fiscal, debt, and budget management; (ii) preferential access to the thematic pool for countries with prudent or improved performance in fiscal, debt and budget management, and (iii) alignment with the IDA SDFP. Implementing the G20 Principles for Quality Infrastructure Investment will also support this agenda.

V. USE OF ASIAN DEVELOPMENT FUND 13 RESOURCES

80. The ADF 13 resource allocation framework will continue to adopt a two pillar- system, consisting of country- and theme-based components (Figure 2). Box 4 summarizes the ADF 13 grant resource allocation framework and its main changes from ADF 12 grant framework. After the conclusion of the ADF 13 replenishment negotiations, ADB will submit a revised concessional assistance policy for consideration by ADB’s Board of Directors before the end of 2020.
81. **Enhancing effectiveness and efficiency of country allocation system.**
The performance-based allocation (PBA) system remains the cornerstone of the ADF 13 grant allocation framework. To implement the strategic directions and enhance effectiveness and efficiency of the allocation process, donors endorsed a number of revisions to the country allocation system (Box 4). Most of these revisions aim to increase resources to FCAS countries and to SIDS. These revisions remain valid to respond to the COVID-19 pandemic and build an inclusive and sustainable recovery.

**Box 4: Asian Development Fund 13 Grant Resource Allocation Framework**

The Asian Development Fund (ADF) 13 framework will **retain** the following elements:

(i) the country classification system and debt sustainability assessment to determine country eligibility for grants;
(ii) the performance-based allocation formula, which comprises country performance assessments (17 criteria in five clusters, macroeconomic management, structural policies, social inclusion and equity, governance, and portfolio performance); per capita gross national income; and population;
(iii) the special support for Afghanistan; and
(iv) the debt distress reserve.

**Revisions** to improve ADF responsiveness, implementation efficiency and effectiveness of resource allocation include the following elements:

(i) the discontinuation of the base allocation for all ADF and concessional ordinary capital resources lending (COL) countries and the introduction of an economic vulnerability premium;
(ii) the expansion of the thematic use of ADF grants to gender equality and climate adaptation;
(iii) the introduction of a single thematic pool applicable for group A countries and very selectively for group B countries, addressing the following strategic areas: (a) fostering regional cooperation and integration, including the provision of regional public goods; (b) supporting disaster risk reduction and climate adaptation; and (c) achieving the Sustainable Development Goal 5’s transformative gender agenda;
(iv) the expansion of the scope of the Disaster Response Facility (DRF) to cover health emergencies (the Disaster and Pandemic Response Facility) and the expansion of the country coverage;
(v) the introduction of a comprehensive package to enhance debt sustainability under ADF 13, which includes (a) an alignment with International Development Association on the Sustainable Development Finance Policy assessments and incentive system, (b) replacement of the static 20% discount on ADF grants with an interactive incentive scheme; (c) creation of a technical assistance special fund set aside for supporting debt sustainability in ADF and COL countries; and (d) preferential access to the thematic pool for countries with prudent or improved performance in fiscal, debt, and budget management to reinforce the performance-based incentive system;
(vi) piloting of a Private Sector Window for group A countries to help expand private sector operations in frontier markets and new sectors; and
(vii) the conversion of the biennial allocation to 4-year allocation with annual updates, which include annual resource adjustments across countries, to improve the predictability of resources and facilitate preparation of multi-year programs while preserving flexibility.

**Source:** Asian Development Bank.

82. **Strengthening debt sustainability.** ADF 13 is introducing a comprehensive package for enhancing public debt sustainability in ADF and COL countries, which has become increasingly
relevant as the global response to the COVID-19 pandemic further strains the sustainability of development financing. The ADF grant framework will continue to use the joint IMF–World Bank Debt Sustainability Framework for low-income countries for debt sustainability assessment (DSA) to determine eligibility for the bulk of ADF grants. Donors endorsed the discontinuation of the static 20% discount on country allocation in grants and its replacement with an interactive incentive scheme aligned with the IDA on the SDFP assessments and incentive system. Donors endorsed preferential access to the ADF 13 thematic pool to reward improvements in public financial management policies and reinforce the overall performance-based incentive system to promote debt sustainability. This package of policy actions relates to the debt sustainability enhancement program pillar under the SDFP.

83. ADB will continue to help DMCs significantly improve and strengthen their public financial management policies and institutions through TA and policy advice in discussions leading to the country partnership strategy (CPS), the annual programming exercise, or around specific policy-based operations, in coordination with other partners. The biennial country performance assessment (CPA) exercise provides another platform for policy dialogue. ADB will continue the commitment under ADF 12 to focus on the analysis of existing problems and countries’ potential to increase domestic resource mobilization. Donors endorsed the creation of a set-aside to support public debt sustainability under TASF 7, representing 10% of the fund. This package becomes even more relevant to support countries with increasing debt vulnerabilities as a result of the COVID-19 pandemic.

84. **Increased country allocations.** Donors agreed to increase the share of ADF 13 country allocations, which provide critical unearmarked support to group A countries at high and moderate risk of debt distress. Country allocations will comprise 62% of total ADF 13 grant resources, compared to 59% under ADF 12, with an increased share allocated through the PBA formula (33% of total ADF 13 grant resources up from 30% under ADF 12). This feature will support ADF countries, particularly SIDS and FCAS, in addressing the COVID-19 pandemic and its devastating economic and social consequences.

85. **Increased support for the most vulnerable ADF countries including small island developing states.** Strategy 2030 recognizes SIDS as requiring special attention on account of their unique development challenges. Income-based measures do not capture the vulnerability of SIDS, which is aggravated by high exposure to natural hazards as well as climate change and other factors. Most SIDS have very small PBAs mainly because of their small population. These allocations are not sufficient to meet country needs for key development programs. Donors endorsed the creation of an economic vulnerability premium to replace the base allocation. The premium will be calibrated based on the economic vulnerability index (EVI), which is the most suitable index based on its country coverage, data availability, simplicity, and comprehensiveness (Table 2). While in principle available to all vulnerable ADF-eligible countries, the economic

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62 The mechanism determining the preferential access to the thematic pool will rely on CPA scores.
63 The creditor outreach program to facilitate information sharing and mitigate debt related risks will also be implemented separately.
64 ADB’s CPS template provides guidance to discuss how ADB will deliver its support for each strategic priority. Priority policy, regulatory, or institutional reform areas that ADB will seek to address should be identified in the discussion.
65 The EVI was created by the United Nation’s Committee for Development Policy and is updated every 3 years (the latest update was in 2018). It covers 145 developing countries worldwide, including all 10 ADF grant-eligible SIDS, and measures the structural vulnerability of countries to economic and environmental shocks. The index is composed of two sub-indices with eight variables in total, with different weights: population (1/8); remoteness from world market (1/8); merchandise export concentration (1/16); share of agriculture, forestry and fishing in GDP (1/16); share of population in low elevated costal zones (1/8); instability of exports of goods and services (1/4); victims of disasters triggered by natural hazards (1/8); and instability of agricultural production (1/8).
vulnerability premium will be applied only to SIDS during ADF 13.\textsuperscript{66} The full amount of the premium will be allocated to ADF grant-eligible countries at high risk of debt distress and half of the amount of the premium will be allocated to ADF grant-eligible countries at moderate risk of debt distress with the remaining amount allocated as COL.

86. During the ADF 13 period, only ADF grant-eligible SIDS will receive the premium. This support will increase ADF 13 country allocations for SIDS by more than 45% compared with ADF 12.\textsuperscript{67} The premium amount will not change during the ADF 13 cycle to ensure predictability.

**Table 2: Economic Vulnerability Premium for Asian Development Fund 13**

<table>
<thead>
<tr>
<th>Rounded EVI Score</th>
<th>Country (ADF grant-eligible SIDS)</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>70-80</td>
<td>Kiribati</td>
<td>55</td>
</tr>
<tr>
<td>60-70</td>
<td>Marshall Islands</td>
<td>50</td>
</tr>
<tr>
<td>50-60</td>
<td>Federated States of Micronesia, Maldives, Nauru, Solomon Islands, Tonga and Tuvalu</td>
<td>45</td>
</tr>
<tr>
<td>40-50</td>
<td>Samoa\textsuperscript{a} and Vanuatu</td>
<td>40</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, EVI = economic vulnerability index, SIDS = small island developing states.

Note: Countries classified at moderate risk of debt distress will get half of the premium.

\textsuperscript{a} Samoa’s score of 39.7 was rounded to 40.


87. **Increased support for fragile and conflict-affected situations.** ADF 13 grants will support several fragile and conflict-affected situations through the economic vulnerability premium, which will be allocated to ADF grant-eligible SIDS facing FCAS and a stable special support for Afghanistan in comparison to ADF 12. This represents an 8% increase in comparison to ADF 12. Recognizing the need for a continued strong ADB presence in Afghanistan, donors endorsed the continuation of the special support to Afghanistan for the ADF 13 period. This will enable ADB to provide about the same total amount of support to Afghanistan during ADF 13 as during ADF 12. The economic vulnerability premium for SIDS and the special support to Afghanistan will support investments to address vulnerability and fragility drivers among others, in line with the humanitarian-peace-development nexus.

88. **Enhanced thematic support.** Donors agreed to create a single thematic pool representing 21% of total ADF 13 grant resources. Pooling grant resources, allowing some flexibility of resource allocation across strategic areas, and applying a unified allocation process will increase the responsiveness to demand from eligible countries over the ADF cycle and maximize the efficiency of resource utilization. The thematic pool will be used to support progress in the six ADF 13 special attention areas to respond to the main challenges in the poorest and most vulnerable DMCs, in alignment with Strategy 2030 and the quality infrastructure agenda. The focus of the thematic pool will be on the following strategic areas: (i) fostering RCI, including the provision of RPGs; (ii) supporting DRR and climate adaptation; and (iii) achieving the SDG 5 transformative gender agenda. The three areas will be highly relevant to build an inclusive and sustainable recovery, from the COVID-19 pandemic. The thematic pool will mainstream regional health security under the provision of RPGs and provide grant incentive to group A countries, and on a very selective basis to group B countries, in improving health systems, introducing and enhancing universal health coverage, and strengthening regional health security. Financing for

\textsuperscript{66} Access to the economic vulnerability premium will be re-assessed at the end of the ADF 13 cycle.

\textsuperscript{67} Following the alignment with the IDA SDFP, Maldives will cease to be under the IDA Non-Concessional Borrowing Policy remedy, which will be phased out on 1 July 2020. Under the assumption that the country remains at high risk of debt distress, Maldives will receive 100% of its allocation in ADF grants under ADF 13.
regional health security is expected to double under ADF 13 in comparison to ADF 12. The ADF 13 strategic area on the SDG 5 Transformative Gender Agenda will target support for women from vulnerable households who will benefit from prevention and protection against gender-based violence, reforms to ensure women’s access to economic and productive resources, child and elderly care support and reproductive health support. The provision of ADF grants from the thematic pool will increase the awareness of governments and unlock projects that otherwise would not take place and cannot be realized through mainstreaming. Project eligibility criteria will target projects with large development impact (even if financial returns are low) and underinvested activities with positive externalities.

89. Grants from the ADF 13 thematic pool will be allocated to projects, not countries. Indicative shares will be established upfront for each strategic area (40% for fostering RCI, including providing RPGs; 40% for supporting DRR and climate adaptation; and 20% for achieving the SDG 5 transformative gender agenda). When necessary, ADB can adjust up to $30 million or about 4% of the total thematic pool amount across the three strategic areas. If more than a cumulative adjustment of $30 million is needed over the ADF 13 replenishment period, donors’ endorsement will be sought. The implementation of the thematic pool and resource utilization will be reported to donors at the ADF 13 midterm review.

90. The thematic pool will support projects in group A countries, including IDA-gap countries, and, on a very selective basis, group B countries (Appendix 4).68 Priority will be given to FCAS and SIDS. The thematic pool will be allocated following a project selection and prioritization process based on a scorecard (Appendix 4). This process will be reviewed at the ADF 13 midterm review.

91. **Enhanced Disaster and Pandemic Response Facility.** Donors agreed to expand the DRF’s coverage for grant-eligible group A countries to include not only severe disasters triggered by natural hazards but also to those caused by large cross-border movements of displaced persons as well as public health emergencies, including epidemics and pandemics.69 The DRF+ will continue to cover relief, early recovery, and reconstruction following severe disasters and emergencies. It will be highly relevant in addressing COVID-19 impacts and potential future waves. The ADF 12 criterion—the severity of the disaster or emergency—will remain and a country will be able to receive up to an additional 100% of its annual country allocation or up to $100 million (whichever is lower) from the DRF+. The risk of debt distress of group A countries will continue to be used to determine grant eligibility.

92. Grant assistance will be offered to all group A countries when they are affected by a severe disaster, where estimated damage and losses exceed 10% of GDP. In addition, grant assistance may be offered to group A and group B countries, where appropriate, when they accommodate significant cross-border inflows of displaced people, in full alignment with the criteria developed by the IDA 19 Window for Host Communities and Refugees.

93. The DRF+ is in line with the evaluation finding of ADF X and ADF XI operations by the Independent Evaluation Department, which recommended a broader emergency relief facility.

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68 A maximum of 10% of the thematic pool resources will support projects in group B countries or involving group B countries, in the case of multi-country projects. Project eligibility criteria will be more stringent for projects in group B countries. Different leveraging ratios will be required for projects in group A countries and for projects in group B countries.

69 The DRF+ would be triggered for health emergencies when a grant eligible Group A country has (i) declared a public health emergency; and (ii) the WHO has declared a public health emergency of international concern under WHO’s global alert and response system.
The DRF+ will significantly improve ADB’s capacity to address severe disasters and emergencies in ADF and COL countries. It will be implemented in close coordination with relevant development partners. ADB is revising its Disaster and Emergency Assistance Policy and will also continue to develop its instruments to strengthen disaster resilience, including preparedness and provision of post-disaster support.

94. Agreed financing for DRF+ is estimated at 8% of total ADF 13 grant resources. COL-eligible countries will receive additional COL following a disaster or emergency from the OCR window under a need-based approach, which has flexibility to allocate more COL resources to countries with higher needs in the case of a disaster (para. 104).

95. **Private Sector Window.** Building on ADB’s experience in blended finance and related governance practices, donors endorsed the creation of the ADB-PSW on a pilot basis to promote private sector growth and investment and mobilize private finance in group A countries. The ADB-PSW includes three solutions—local currency, blended finance, and loan guarantees. These solutions were developed based on an analysis of (i) the financing constraints and challenges faced by the private sector in group A countries; (ii) lessons learned from the experience of IDA and the African Development Bank in developing and implementing their respective PSWs; and (iii) lessons learned from the use of existing concessional funds for private sector operations in ADB. The need for de-risking solutions offered under the ADB-PSW are even more relevant in addressing COVID-19 impacts, as businesses try to access much needed financing to ‘kick-start’ and rebuild operations that have been adversely impacted by the pandemic.

96. The use of the ADB-PSW will be governed by an independent Blended Finance Committee. To strengthen its accountability, ADB established the committee to assess potential transactions that propose the use of concessional resources to finance private sector operations. The committee will assess potential transactions against a set of eligibility criteria including the ability to demonstrate the principles of additionality, minimum concessionality, crowding-in, commercial sustainability, reinforcement of markets, and promotion of high standards, in each case, in accordance with the Development Finance Institutions (DFI) Blended Finance Principles (DFI Principles). To show its strong commitment to transparency and information sharing, ADB has developed a disclosure framework for PSW transactions which will demonstrate to donors and the public that ADB is deploying grant resources to private sector transactions that not only meet the DFI Principles but also contribute high development impacts to the relevant community (Appendix 5).

97. The ADB-PSW will be 2% of total ADF 13 grant resources. Progress on implementing the ADB-PSW, including information on resource utilization will be reported at the ADF 13 midterm review. ADB will continue to monitor and learn from the experiences of the IDA in implementing its PSW, including IDA’s planned evaluation.

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70 Donors agreed to retain $100 million of the ADF 12 DRF set-aside to support disasters triggered by natural hazards that may occur in 2020. The unused balance, if any, at the end of 2020, will be carried over to ADF 13 and added to the DRF+ resources.

71 The ADF 12 COL reserve will be discontinued as COL-eligible countries can receive additional COL following a disaster from the OCR window.

72 African Development Bank et al. 2017. DFI Working Group on Blended Concessional Finance for Private Sector Projects. ADB also supports the principles of transparency as prescribed in the OECD Development Assistance Committee Blended Finance Principles.
Ensuring predictability and flexibility of resources. ADF grants will be allocated for the 4 years of the ADF 13 cycle with annual updates. The new allocation mechanism will balance improved predictability of resource allocations to facilitate the preparation of multi-year country programs and flexibility to adjust resource allocations across eligible DMCs through annual updates at the beginning of each year. Predictability and flexibility of the resource allocation mechanism will help to maximize resource utilization under ADF 13. Country allocations and utilization will be reported during the ADF 13 midterm review.

ADF debt distress reserve. Increasing debt vulnerabilities in developing countries, which have been a growing concern, are expected to worsen as the COVID-19 pandemic triggers a severe slowdown of economic activity, fall in public revenue, and increase in public expenditure. Donors agreed to continue the ADF debt distress reserve at 7% of total ADF 13 grant resources. The debt distress reserve will be used to provide additional grant resources in response to downgrades of a country’s risk of debt distress. Simulations indicate that if the Kyrgyz Republic remains a country at moderate risk of debt distress under ADF 13, rather than being classified as IDA gap country, and the Solomon Islands and Vanuatu are downgraded from moderate to high risk of debt distress in 2020, there would be additional demand for ADF grants of about $128 million under ADF 13, which would be covered by the debt distress reserve. If the Kyrgyz Republic is further downgraded to high risk of debt distress, and the Solomon Islands and Vanuatu are downgraded to high risk of debt distress in 2020, demand for ADF grants would increase by $232 million. This additional demand would fully utilize the debt distress reserve and would result in a slight adjustment of PBA allocations across ADF countries to meet the gap. The utilization of the reserve and its potential alternative use will be reported during the ADF 13 midterm review.

ADF 13 funding requirement. Table 3 presents ADF 13 funding and indicative allocations. A sizeable ADF 13 replenishment is required to respond to the COVID-19 crisis and build an inclusive and sustainable recovery in line with Strategy 2030, including ADB’s efforts to mainstream gender and climate change. ADF 13 will give additional support to the strategic priority areas where ADB needs to further scale up, such as gender equality, including the SDG 5 transformative gender agenda, climate adaptation, disaster resilience, RCI and RPGs, and private sector operations.

The funding framework balances the increased financing needs of ADF countries and donors’ constrained ability to supply funds in lieu of containing the COVID-19 impact on their societies. Uncertainty about the economic and social outlook and scale of additional financing needs of ADF countries has significantly increased since the outbreak of the COVID-19 pandemic. It will therefore be critical to closely monitor evolving development needs and how the funding framework for ADF 13 supports the ADF grant-eligible countries in response to the unprecedented crisis. The overall ADF 13 framework will be assessed at ADF 13 mid-term review.

The ADF 12 COL reserve will be discontinued as new COL-eligible countries can receive COL from the OCR window.
Table 3: Asian Development Fund 13 Funding and Indicative Allocation

<table>
<thead>
<tr>
<th>Item</th>
<th>ADF 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>Country allocation</td>
<td>1,983</td>
</tr>
<tr>
<td>Of which: Performance-Based Allocation</td>
<td>1,054</td>
</tr>
<tr>
<td>Special Support to Afghanistan(^74)</td>
<td>516</td>
</tr>
<tr>
<td>SIDS Premium</td>
<td>413</td>
</tr>
<tr>
<td>Thematic pool</td>
<td>671</td>
</tr>
<tr>
<td>Pilot Private Sector Window</td>
<td>64</td>
</tr>
<tr>
<td>Enhanced Disaster and Pandemic Response Facility</td>
<td>256</td>
</tr>
<tr>
<td>Reserve for changes in debt distress</td>
<td>224</td>
</tr>
<tr>
<td><strong>Total ADF Grants</strong></td>
<td><strong>3,198</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, SIDS = small island developing states.
Note: Numbers may not sum precisely because of rounding.

VI. ALLOCATION OF CONCESSIONAL ORDINARY CAPITAL RESOURCES LENDING DURING THE ASIAN DEVELOPMENT FUND 13 PERIOD

102. **Indicative COL amount.** As part of the donors’ consultation on the level of projected concessional lending from ADB’s ordinary capital operations for 2021–2024, an overall indicative amount for COL similar to the ADF 12 envelope is expected to be made available from ADB’s OCR balance sheet during ADF 13. The amount will be subject to discussions by the Board of Directors on ADB’s long-term financial projections and 3-year rolling work program and budget framework (WPBF). Allocation and utilization of COL resources in the first biennium of ADF 13 will be reported to donors at the ADF 13 midterm review, and donors will be informed of the indicative envelope of COL and its allocations for the second biennium of ADF 13. COL will be allocated for the 4 years of the ADF 13 cycle, with annual updates, which may include annual reallocation across countries, and will support Strategy 2030 priorities including gender and climate change mainstreaming.

103. **Separating the allocation of the ADF and COL.** Following the combination of ADF lending operations with the OCR balance sheet, the ADF has become a grant-only fund while COL is funded from ADB’s OCR balance sheet. With ADF grants and COL originating from two different funding sources, but with a linked allocation system, the current allocation system has diminished the efficiency of concessional assistance allocation. Despite unutilized availability of COL resources, its allocation is restricted by limited ADF resources that are predetermined by donor contributions. As a consequence, donors agreed to de-link ADF grant and COL allocations and allocate ADF grants and COL separately to enhance the efficiency of the ADF and COL allocation framework.

104. The allocation of COL will be based on PBA and a need-based approach. The total COL allocation for an eligible country under ADF 13 will be the sum of the allocation from a PBA-based component and from a need-based component (each accounting for 50% of overall resource allocations). The need-based component of the COL allocation framework will be calculated based on a 5-year horizon as an average of 2 years’ historical commitments and 3 years’ rolling

\(^74\) Afghanistan will receive its PBA and the special support. The special support is calculated in order to stabilize the overall country allocation over the ADF replenishment cycle. For ADF 13, the special support is slightly lower than for ADF 12 due to a slightly higher PBA.
pipeline following the WPBF process. Project pipelines are jointly prepared by country teams and governments in line with ADB and government priorities as identified in country partnership strategies, follow stringent business processes, and are guided by indicative resources available. This will minimize the risk of inflated project pipelines and reduced quality at entry, which could escalate allocations under the need-based component. Project pipelines for countries with lower shares than implied by the PBA mechanism in the previous year will receive particular attention in the subsequent years to be strengthened. By building on recent years' commitments, countries' absorptive capacity can be better factored in. Overall, introducing the need-based component will ensure that countries with higher development needs, expeditious commitments and higher absorptive capacity will receive higher COL allocations. Any potential risk related to escalated pipelines and reduced project quality under the need-based component will be closely monitored by ADB and reported to donors during the ADF 13 annual donor consultations and the ADF 13 mid-term review. As a transition measure, this framework will ensure that COL allocation for Myanmar will continue to be at least at a level similar to that under the ADF 12 to meet the country's needs. If changes to the allocation method are warranted, donors will be consulted.

105. Countries at moderate risk of debt distress (ADF blend countries) will receive a blend of ADF grants and COL, which will be allocated separately. The grant PBA will be applied with 50% of PBA share, and COL will be allocated following the new COL allocation approach. COL allocations for group B countries will be prioritized in areas such as DRR, climate adaptation, environmental sustainability, RCI and RPGs such as regional health security, biodiversity, ocean health, and environment, gender equality, social sectors, food security, and public sector management.

VII. TECHNICAL ASSISTANCE SPECIAL FUND 7

106. TA is an important instrument to support capacity building, project preparation and implementation, gender and climate change mainstreaming, and knowledge production and sharing, particularly for poorer and more vulnerable DMCs, including FCAS countries and SIDS. TA facilitates dialogue among and learning across DMCs, and addresses common development challenges. TA is a key instrument to support DMCs' response to the COVID-19 pandemic by financing the following urgent activities: (i) procurement of medical supplies and equipment; (ii) strengthening of DMCs' health security capacity; (iii) conduct of policy and technical studies;
(iv) preparation and implementation of countercyclical measures to lower transmissions of infections and mitigate social and economic costs of the pandemic; and (v) supporting women and children.

107. The implementation of Strategy 2030 and ADF 13 requires a significant amount of TA to support ADF and COL countries. TASF 7 will (i) support the implementation of Strategy 2030’s seven operational plans, the ADF 13 special attention areas, and cross-cutting areas; (ii) help address emerging global policy issues, such as the impact of COVID-19 pandemic; (iii) enhance debt sustainability; and (iv) finance increasing TA to group A countries, FCAS countries, and SIDS, including for private sector development.

108. To meet these objectives, donors endorsed the replenishment of TASF 7, amounting to $517 million, subject to ADB’s commitment to adhering to the following directions and principles, beginning in 2020:

(i) TA grants should benefit the poorest and most vulnerable DMCs, a principle that several donors reiterated.
(ii) TA operations in the better-off upper middle-income countries should be strategically selective and focused.

109. TASF support for DMCs will be discussed in their country partnership strategies and through the annual country programming process. ADB’s WPBF, 2020–2022, includes the following directions for future TA operations:

(i) ADB will increase allocation of TASF resources to low-income countries (LICs), lower middle-income countries (LMICs), FCAS countries, and SIDS.
(ii) TASF allocations for upper middle-income countries will be selective and focused on areas where these countries have limited expertise, and promote knowledge sharing and benefit several DMCs.
(iii) ADB will employ loan-financed modalities such as the project readiness financing facility and the small expenditure financing facility to support project preparation, whenever possible.
(iv) ADB will maximize the use of resources from its other special funds, and existing and new trust funds; and proactively seek burden sharing of project preparation costs through TA loan, project readiness facilities, or other suitable modalities.
(v) The TASF 7 will only be used to support ADF and COL countries.

110. During the 2021–2024 period, 100% of TASF 7 will support LICs, LMICs, FCAS countries, and SIDS. TASF 7 support for FCAS countries and SIDS will be increased by 50% and 40%, respectively, in comparison to TASF 6. About 84% of the total TASF (including TASF 7 and TASF [income transfer]) will support LICs, LMICs, FCAS countries, and SIDS.\(^80\)

111. ADB committed to improve transparency of its TASF allocation under ADF 13, including regional TA benefitting various countries. A substantially higher proportion of TASF during 2021–2024 will be allocated to capacity building and knowledge production in line with Strategy 2030. To help DMCs address the impact of the COVID-19 pandemic on people’s lives and economies,

\(^79\) TASF 7 is funded by ADF donors and TASF (income transfer) is funded by OCR income transfers.

\(^80\) This percentage refers to share of new resources available during the ADF 13 period, excluding regional knowledge TA benefitting DMCs (e.g., Asian Development Outlook; Supporting Research on Pacific Development; Asian Regional Public Debt Management Forum; and Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Controls). In 2019, regional training and regional research amounted to $28 million, or 13% of total TASF.
TASF 7 will support, among others, (i) the strengthening of health systems’ capacity, (ii) social protection, (iii) preparation and implementation of targeted social and economic assistance programs, and (iv) enhancing debt sustainability and debt management. ADB will review its TA operations in 2020 (including the implementation of recent reforms, allocation of TASF resources, nonsovereign TA operations, application of reimbursable TA, and TA monitoring). Initial findings will be shared with the ADB Board of Directors by the first quarter of 2021. ADB will also review the TASF framework as reflected in the TASF 1981 Regulations and make any necessary updates thereto by the end of 2021. The recommendations will be reported during the ADF 13 midterm review. ADB will create a TASF dashboard in 2020, which will include donor-funded TASF 7 allocations and TASF funded through income transfers. The TASF dashboard will provide details on allocations, including for regional TA by recipient country.

112. **Set aside for debt sustainability.** Donors endorsed the creation of a TASF set-aside to support debt sustainability. About 10% of TASF 7 ($52 million) will be dedicated to help enhance debt sustainability in ADF and COL countries, particularly those at high or moderate risk of debt distress. ADB will align its support with the IMF–World Bank multipronged approach for addressing emerging debt vulnerabilities. Under the TASF set-aside, ADB will help strengthen (i) fiscal policy; (ii) debt management; and (iii) debt transparency, including debt recording, monitoring, and reporting. This will help DMCs cushion the negative impact of COVID-19 and the near global lockdown that came with the pandemic, and at the same time enable DMCs to comply with SDFP performance and policy actions.

113. **TASF liquidity management.** Donors endorsed the proposals on TASF liquidity management, including: (i) the conversion of TASF resources held in various contributed currencies to the operational currency of TASF (US dollars) upon receipt of TASF contributions and the related revision of the TASF regulations; (ii) the adoption of a new liquidity management framework and associated risk mitigation measures to determine an frontloading income from TASF liquidity investments to increase TASF commitments available for commitments; and (iii) the indicative frontloading of income from TASF liquidity investments in the amount of $5 million annually for TASF 7 subject to an approval by the Board of Directors on the proposed TASF liquidity management.

VIII. **ASIAN DEVELOPMENT FUND 13 FINANCIAL MANAGEMENT AND REPLENISHMENT FRAMEWORK**

A. **Replenishment Size and Financing Framework**

114. Donors agreed on a total replenishment size of $4,060.9 million, consisting of $3,543.9 million for ADF 13 and $517.0 million for TASF 7.

115. The replenishment will be financed from four sources: (i) $2,341.0 million from new donor contributions, (ii) $1,169.7 million from OCR net income transfers subject to annual approvals by ADB’s Board of Governors as part of the annual net income allocation, (iii) $213.0 million income from liquidity investments, and (iv) $337.2 million partial releases of ADF 12 set-asides for the

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82 An adoption of these items requires an approval of the ADB’s Board of Directors.

83 The frontloading amount is lower than the proposed level of $15 million discussed with ADF donors in November 2019 because of a significant decrease in projected returns on liquidity investments during TASF 7 period following the COVID-19 pandemic (ADB. Forthcoming. *Technical Assistance Special Fund Liquidity Management.* Manila). The paper is scheduled for consideration by the Board of Directors on 27 October 2020.
disaster risk facility (DRF) ($116.6 million) and reserves for changes in debt distress ($220.6 million). Donors agreed to retain $100 million of the ADF 12 DRF set-aside to support disasters triggered by natural hazards that may occur in 2020 and respond to the COVID-19 pandemic. The unused balance, if any, at the end of 2020, will be carried over to ADF 13 and added to the DRF+ resources. The ADF 13 financing framework is in Table 4.

Grant eligibility is determined based on debt distress classification at the beginning of each year. Any change in debt distress classification and corresponding grant shares in 2020 will be applied the following year. Since 2020 is the last year of ADF 12 and there is no change in debt distress classification of ADF countries that required the use of the remaining reserve by the time of the second ADF 13 replenishment meeting in Manila in February 2020, it was agreed to include the unused balance of the reserve as part of financing for ADF 13. This is in line with the indication in Para. 95 of the ADF 12 Donors' Report. ADB is monitoring potential changes in debt distress classification. As of 2020, there is no indication of such changes.

### Table 4: Asian Development Fund 13 Financing Framework

<table>
<thead>
<tr>
<th>Donor</th>
<th>ADF 12 Contribution Share (%)</th>
<th>US Dollar Equivalent</th>
<th>Unit of Obligation</th>
<th>ADF 13 Contribution Share (%)</th>
<th>US Dollar Equivalent</th>
<th>Unit of Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>11.00</td>
<td>337,160,029 A$</td>
<td>468,537,806</td>
<td>26.85</td>
<td>823,089,799</td>
<td>750,817,022</td>
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<tr>
<td>Azerbaijan</td>
<td>0.07</td>
<td>2,000,000 $</td>
<td>2,000,000 $</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>0.02</td>
<td>500,000 $</td>
<td>500,000 $</td>
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<td>China, People's Republic of</td>
<td>3.25</td>
<td>100,000,000 $</td>
<td>100,000,000 $</td>
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<td>India</td>
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<td>41,740,000</td>
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<td>Indonesia</td>
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<td>Japan</td>
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<td>130,965,215,679</td>
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<td>Kazakhstan</td>
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<td>Korea, Republic of</td>
<td>2.89</td>
<td>88,533,779 W</td>
<td>103,050,663,054</td>
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<td>Malaysia</td>
<td>0.16</td>
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<td>New Zealand</td>
<td>0.52</td>
<td>16,090,421 NZ$</td>
<td>24,170,000</td>
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<td>Philippines</td>
<td>0.15</td>
<td>4,600,000 $</td>
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<td>Singapore</td>
<td>0.40</td>
<td>12,144,872 NT$</td>
<td>397,559,800</td>
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<td>Thailand</td>
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<td>91,910,000</td>
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<tr>
<td>Regional</td>
<td>55.98</td>
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<td>1,581,228,930</td>
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<td>1. Total Basic Contribution</td>
<td>82.83</td>
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<td>2,332,045,952</td>
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<td>2. Supplemental Contribution</td>
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<td>3,108,251</td>
<td>8,996,151</td>
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<td>3. Structural Gap</td>
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<td>4. Contribution Sharing Basis</td>
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<td>5. Supplemental Contribution</td>
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<td>6. Total Donor Contribution</td>
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<td>7. OCR Transfer</td>
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<td>8. Income from Liquidity Investment</td>
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<td>213,000,000</td>
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<td>9. Others</td>
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<td>10. Total Replenishment Size</td>
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<td>4,060,942,103</td>
<td></td>
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</tbody>
</table>


Note: Numbers may not sum precisely because of rounding.

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

b Some donors indicated their intention to participate in the accelerated note encashment program: (i) Finland, India, New Zealand, Philippines, and Spain to increase their contribution shares; (ii) Azerbaijan; Brunei Darussalam; Canada; France; Indonesia; Japan; Republic of Korea; Singapore; Switzerland; and Taipei, China to meet their contribution shares; and (iii) the United States with the option on the use of the investment income to be decided.

c Each of Hong Kong, China and Kazakhstan has indicated its desire or intention to contribute to the replenishment, subject to obtaining the authorization of its legislature, with the amount to be confirmed.

d Malaysia will not be able to take a decision on its pledge until all necessary approvals are obtained.

e Contribution from Germany in ADF 13 (€8,119,656).

f Subject to annual approval of the Board of Governors of the Asian Development Bank (ADB).

g Refer to partial releases of ADF 12 set-asides for Disaster Response Facility and reserves in changes in debt distress.

Source: ADB.
B. Contribution Payment

116. The ADF 13 contribution payment is expected to be made in installments over the four calendar years of ADF 13 from 2021 to 2024. Installments may be made in cash or by the deposit of non-negotiable non-interest-bearing notes or similar obligations. The currency of payment shall be in a freely convertible currency.

C. Encashment Schedule

117. **Standard encashment schedule.** A standard encashment schedule has been adopted for promissory notes for donor contributions for each replenishment. Donors agreed to adopt the 11-year standard encashment schedule for ADF 13 (Table 5). The agreed schedule accounts for the weighted cash flows of the following components: (i) projected disbursements of grants approved in the ADF 13 period, (ii) allocation of 22.5% of the total ADF 13 financial resources for policy-based grants and 77.5% of the resources provided as project grants, and (iii) annual transfers to the TASF totaling $517.0 million. Projected grant disbursements are based on a historical disbursement pattern. The TASF transfer is assumed to be made in four equal annual transfers based on contributions received, in line with the current practice adopted for TASF transfers.

<table>
<thead>
<tr>
<th>Year</th>
<th>ADF Grant</th>
<th>TASF</th>
<th>Standard Encashment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6.3</td>
<td>25.0</td>
<td>10.4</td>
</tr>
<tr>
<td>2</td>
<td>9.6</td>
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<tr>
<td>3</td>
<td>13.3</td>
<td>25.0</td>
<td>15.9</td>
</tr>
<tr>
<td>4</td>
<td>17.0</td>
<td>25.0</td>
<td>18.8</td>
</tr>
<tr>
<td>5</td>
<td>13.2</td>
<td></td>
<td>10.3</td>
</tr>
<tr>
<td>6</td>
<td>11.8</td>
<td></td>
<td>9.2</td>
</tr>
<tr>
<td>7</td>
<td>9.4</td>
<td></td>
<td>7.3</td>
</tr>
<tr>
<td>8</td>
<td>6.5</td>
<td></td>
<td>5.1</td>
</tr>
<tr>
<td>9</td>
<td>4.5</td>
<td></td>
<td>3.5</td>
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<td>10</td>
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</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

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

*a* Figures are based on the weighted average of ADF financing requirement and the annual transfer of TASF allocation totaling $517.0 million.


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86 More information is available in the Board of Governors’ Resolution of ADF 13.

87 Where the currency of payment differs from the unit of obligation, the amount of each installment payment in respect of the contribution shall be determined based on the exchange rates used by ADB for translation purposes in its book of accounts at the time of each payment. The donor shall inform ADB of the planned payment date in writing after it receives the payment request. Then, ADB will provide the equivalent amount in the agreed currency of payment 3 days before payment, and the donor shall deposit the payment on or before the indicated date. Any discrepancy in the payment amount received, vis-à-vis ADB’s advised amount because of exchange rate fluctuations caused by a late payment, will then be incorporated in the subsequent payment.

88 Policy-based lending from ADB’s concessional resources are subject to the ceiling of 22.5% of total concessional resources on 3-year moving average.
118. At a donor’s request, a customized encashment schedule that is neutral in terms of financial impact on the ADF can be established.

119. **Accelerated note encashment program.** Donors agreed to include an accelerated note encashment program (ANE) in line with past replenishments. Donors may decide to accelerate their encashment schedules and use the expected investment income earned for one of the following options:

(i) meet contribution share;
(ii) increase contribution share;
(iii) provide supplemental contributions to reduce the structural gap,\(^{89}\) without attribution to their individual share; or
(iv) pay for contribution arrears in past replenishments.

120. A uniform discount rate of 1.4% per year will be adopted for all ANE participants regardless of currencies contributed to determine applicable credits or discounts based on the donors’ selection of the ANE options and preferred payment period, i.e., 1, 2, 3, or 4 years. The applicable ANE discounts and credits under the payment options are in Table 6.

121. For the option to meet or increase contribution shares, the projected investment income will be reflected as part of the gross contributions of individual donors in the financing framework. Under the option to provide supplemental contributions to reduce the structural gap, projected investment income will be presented as a separate line below the total contributions line in the ADF 13 contribution table. Thus, it will reduce the structural gap but will not affect individual donor contribution shares.

122. Under the option to pay for contribution arrears in past replenishments, the application of the credit to reduce the contribution arrears will be determined and recognized after full payment has been received, and should be applied first to the longest outstanding contribution (on first-in, first-out basis).\(^{90}\)

123. A donor may confirm its participation in the ANE program at the time of (i) submitting its instrument of contribution (IOC); or (ii) making installment payments. In the case of (i), the IOC should indicate the donor’s agreement to apply the investment income as well as number or amount of payments. In case of (ii), a donor should notify ADB in writing after the submission of the IOC but prior to each installment payment due date. In this case, the projected investment income will be adjusted to the donor’s contribution when the payment is received.

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\(^{89}\) Represents a cumulative effect of contribution share reductions by various donors over several previous replenishments. However, it does not cause a real financing gap to ADF.

\(^{90}\) The sequence in which contribution arrears would be reduced will be at the discretion of ADB.
Table 6: Asian Development Fund 13 Accelerated Encashment Schedule
(% of total donor contributions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Standard Encashment Rates</th>
<th>Accelerated Encashment Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>Option 1 (1 year)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Option 2 (2 years)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Option 3 (3 years)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Option 4 (4 years)</td>
</tr>
<tr>
<td>1</td>
<td>10.40</td>
<td>100.00</td>
</tr>
<tr>
<td>2</td>
<td>13.00</td>
<td>50.00</td>
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<tr>
<td>3</td>
<td>15.90</td>
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<tr>
<td>4</td>
<td>18.80</td>
<td>25.00</td>
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<td>5</td>
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<td>34.00</td>
</tr>
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<td>6</td>
<td>9.20</td>
<td>25.00</td>
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<td>8</td>
<td>5.10</td>
<td>25.00</td>
</tr>
<tr>
<td>9</td>
<td>3.50</td>
<td>25.00</td>
</tr>
<tr>
<td>10</td>
<td>3.40</td>
<td>25.00</td>
</tr>
<tr>
<td>11</td>
<td>3.10</td>
<td>25.00</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
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<tr>
<td></td>
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<td>100.00</td>
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<td></td>
<td></td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100.00</td>
</tr>
</tbody>
</table>

Discount Rate | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 |
NPV           | 94.55| 99.20| 98.51| 97.82| 97.16|

Donors participating in accelerated encashment will receive either a credit or a discount (% of face value). a

(i) Credit: (NPV[b] – NPV[a] / NPV[a])
4.91 4.19 3.46 2.76
(ii) Discount: (NPV[b] – NPV[a] / NPV[b])
4.68 4.02 3.34 2.69

ADF = Asian Development Fund; NPV = net present value.
Note: Figures are based on ADF financing requirement and the annual transfer of Technical Assistance Special Fund totaling $517.0 million.

a Credit will be used when a donor opts to increase its share, provide supplemental contributions, or pay for contribution arrears in past replenishments. The discount will be used when a donor opts to meet its share.


IX. MANAGING ASIAN DEVELOPMENT FUND 13 IMPLEMENTATION

A. Asian Development Fund 13 Implementation Plan

124. ADB is committed to allocate adequate staff and TA resources for ADF 13 implementation, including to ensure successful support to FCAS and SIDS. In November 2019, ADB adopted a new corporate results framework to align the results framework to Strategy 2030 and to strengthen its results management system. ADF 13 will strongly contribute to achieving the Strategy 2030 targets detailed in the new framework, including targets on climate finance, gender equality, health, education and non-sovereign operations. A list of ADF 13 implementation actions is in Appendix 7. These actions aim to support the achievement of development outcomes that are measured through the ADB Corporate Results Framework.

B. Assessing and Reporting Progress during Implementation the Asian Development Fund 13

125. ADB will continue to assess and report on progress in implementing the ADF and COL programs through the annual development effectiveness review (DEfR). As in the past, ADB will use the DEfR to identify areas of ADF and COL operations needing adjustment, which will be reflected in the annual operational planning and 3-year rolling WPBF. The DEfR will be submitted annually to the Development Effectiveness Committee of the ADB Board of Directors for discussion. The review and a summary by the Committee Chair will be submitted for the ADB
Board of Directors to discuss and take appropriate actions. Results of the review will be presented during ADB’s annual meeting.

126. ADF donors and ADB Management will continue to review the implementation of the ADF and COL programs annually, on the sidelines of the ADB annual meeting, and more comprehensively at ADF 13 midterm review. The ADF 13 midterm review be held during the first quarter of 2023. During the ADF 13 midterm review, the overall ADF 13 framework will be reviewed, including the response to the COVID-19 crisis and its consequences.

C. Long-Term Vision of the Asian Development Fund

127. Several donors reiterated their interest in discussing a long-term vision for ADF grants and ADB concessional lending, including a wider review of the needs for ADF grants, and the most efficient and effective way to meet the region’s need for concessional finance, including through consideration of fragility and vulnerability, and the implications for OCR resources under different net income transfer scenarios. It was agreed to continue this important discussion immediately after the ADF 13 replenishment negotiations. A paper on the future of ADF grants and concessional lending to DMCs and broader ADB financial sustainability will be discussed at the 2021 donors’ annual consultation meeting.\textsuperscript{92}

\textsuperscript{91} The discussion will build on the OCR-ADF merger analysis as well as on the analysis presented during the 2019 ADF 12 donors consultation meeting.

\textsuperscript{92} The determination of future COL levels and allocations, OCR’s net income transfers and ADB’s financial sustainability will require the involvement of the Board of Directors.
ADF AND COL COUNTRIES AND EXPECTED COUNTRY CLASSIFICATION DURING THE ASIAN DEVELOPMENT FUND 13 PERIOD

1. Country classification is determined by two criteria: gross national income (GNI) per capita and creditworthiness. The graduation policy of the Asian Development Bank (ADB)\(^1\) uses the same operational cutoff as the International Development Association (IDA) to determine eligibility for concessional resources.\(^2\) The GNI per capita operational cutoff is $1,185 at 2019 prices. The creditworthiness assessment is a multi-dimensional rigorous evaluation procedure combining quantitative and qualitative indicators, which takes into account country economic growth and development prospects, including social development, poverty, vulnerability, fiscal policy and public debt burden, current and capital account vulnerability, economic structure, monetary and exchange rate policy, and financial sector development, among others.

2. The 25 Asian Development Fund (ADF) and concessional ordinary capital resources lending (COL) countries refer to group A and group B countries (Table 1).\(^3\) Developing member countries (DMCs) identified as gap countries by the IDA\(^4\) are group A countries ineligible for the ADF grants. Other group A countries are eligible for ADF grants and COL or their blending. Group B DMCs are eligible for a blend of concessional loans and regular ordinary capital resources (OCR). Eligibility for ADF grants is mainly for group A countries. Access to ADF grants and COL for group A countries is determined by the risk of debt distress.\(^5\) ADF grants are also provided to address several challenges requiring some concessiality.

3. The bulk of the demand for ADF grants depends on the risk of debt distress of group A DMCs. Currently, of the group A DMCs, 10 are at high risk of debt distress: 9 receive 100% grant allocation; 1 receives 50% ADF grant under the application of the nonconcessional borrowing policy; 3 are at moderate risk and receive 50% ADF grant; and 2 are at low risk and receive 0% grant. Despite the coronavirus disease (COVID-19) crisis, it is not anticipated that these group A DMCs will dramatically change their debt outlook soon, but ADB continues to keep a close watch on the DMCs most at risk.

4. The 10 group A small island developing states (SIDS) have all been above the income threshold for some time but still lack creditworthiness and are assessed at high or moderate risk of debt distress. Reclassification considerations are in abeyance until there is a clearer path to sustainability.

5. Among the group A non-SIDS DMCs, two have already crossed the income threshold for ADF eligibility and may be expected to become gap countries during ADF 13.

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\(^2\) Concessional resources were formerly referred to as ADF resources before the combination of ADF lending operations with the ordinary capital resources (OCR) balance sheet, which became effective on 1 January 2017.

\(^3\) Group C countries have access only to regular OCR lending. Purely for purposes of diversifying the financing terms of regular OCR sovereign lending operations in regular OCR-only borrowing countries, per capita income thresholds in the World Bank classification will be used to differentiate the countries of various income status. Four groups—C1, C2, C3, and C4—will be created in 2021. India does not have access to concessional assistance and is a regular OCR-only borrowing country. For the classification of all ADB’s DMCs, please refer to https://www.adb.org/sites/default/files/public-sector-financing/lending-policies.

\(^4\) IDA gap countries have had GNI per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as such by the IDA. The operational cutoff is $1,185 (2019 prices).

\(^5\) Group A countries at high risk of debt distress (grant-only countries) are eligible for 100% ADF grants, those at moderate risk of debt distress (ADF blend countries) for 50% ADF grants and 50% COL, and those at low risk of debt distress (concessional OCR-only countries) for COL only.
(i) Cambodia is at low risk of debt distress and while one of the more severely and immediately affected by the COVID-19 crisis, it is expected to be capable of maintaining a low risk of debt distress. Its transition to gap is expected to have minimal impact on the country.

(ii) The Kyrgyz Republic, however, is at moderate risk of debt distress and may have difficulty adjusting to an abrupt transition. An early engagement to strengthen the country’s public financial management is considered, in line with the planned shift to a more pro-active approach to debt sustainability.

6. No country is predicted to be reclassified from group A to group B during ADF 13.
## INDICATIVE ASIAN DEVELOPMENT FUND 13 COUNTRY ALLOCATION

<table>
<thead>
<tr>
<th>Region and Country</th>
<th>ADF 12 Actual Allocation ($ million)</th>
<th>ADF 13 Estimated Allocation ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central and West Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Afghanistan</td>
<td>1,389</td>
<td>1,409</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>890</td>
<td>884</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>165</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>334</td>
<td>427</td>
</tr>
<tr>
<td>South Asia</td>
<td>47</td>
<td>91</td>
</tr>
<tr>
<td>Maldives</td>
<td>47</td>
<td>91</td>
</tr>
<tr>
<td>East Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Pacific</td>
<td>347</td>
<td>483</td>
</tr>
<tr>
<td>Kiribati</td>
<td>42</td>
<td>68</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>37</td>
<td>54</td>
</tr>
<tr>
<td>Micronesia, Federated States of</td>
<td>39</td>
<td>55</td>
</tr>
<tr>
<td>Nauru</td>
<td>34</td>
<td>47</td>
</tr>
<tr>
<td>Samoa</td>
<td>57</td>
<td>73</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>31</td>
<td>41</td>
</tr>
<tr>
<td>Tonga</td>
<td>46</td>
<td>65</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>35</td>
<td>48</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>24</td>
<td>32</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Country Allocations</td>
<td>1,783</td>
<td>1,983</td>
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<tr>
<td>Set-Asides and/or Thematic Pool</td>
<td>775</td>
<td>671</td>
</tr>
<tr>
<td>Pilot Private Sector Window</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>Disaster (and Pandemic) Response Facility</td>
<td>225</td>
<td>256</td>
</tr>
<tr>
<td>Debt Distress Reserves</td>
<td>221</td>
<td>224</td>
</tr>
<tr>
<td>Total</td>
<td>3,183</td>
<td>3,198</td>
</tr>
</tbody>
</table>

### Memorandum Items:
- **FCAS**: 1,110 ($ million) in ADF 12, 1,197 ($ million) in ADF 13
- **SIDS**: 394 ($ million) in ADF 12, 575 ($ million) in ADF 13

**ADF** = Asian Development Fund, **FCAS** = fragile and conflict-affected situations, **SIDS** = small island developing states.

**Notes:**

1. Asian Development Fund (ADF) 12 set-asides include disaster risk reduction, regional pool, and regional health security. Total ADF 12 ADF grants include allocations to Bhutan and Lao People's Democratic Republic, which have been classified as International Development Association (IDA) gap countries and are ineligible for ADF grants.
2. Effective ADF 13 country allocations will be computed at the beginning of the ADF13 period based on the 2020 country performance assessment.
3. Following the alignment with the Sustainable Development Finance Policy (SDFP), effective country allocations during ADF 13 may be smaller if countries do not meet agreed policy actions. Maldives ceased to be under the IDA Non-concessional Borrowing Policy (NCBP) remedy, which was phased out on 1 July 2020. Under the assumption that the country remains at high risk of debt distress, Maldives will receive 100% of its allocation in ADF grants under ADF 13 and will be subject to potential SDFP set-aside should agreed policy actions are not met.

4. The Kyrgyz Republic is projected to be classified as an IDA gap country and becomes ineligible for ADF grant country allocation during ADF 13.

5. ADF grant-eligible countries that are in fragile and conflict affected situations include Afghanistan, Kiribati, the Marshall Islands, Micronesia, Nauru, Solomon Islands, and Tuvalu.

6. ADF grant-eligible small island developing states include Kiribati, Maldives, the Marshall Islands, Micronesia, Nauru, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

7. Numbers may not sum precisely because of rounding.

ASIAN DEVELOPMENT BANK APPROACH TO GENDER MAINSTREAMING IN OPERATIONS

1. **Background.** The Asian Development Bank (ADB) has a well-regarded gender mainstreaming system in place. ADB is among the first multilateral development banks (MDBs) to have adopted a rigorous gender mainstreaming classification system in its investments, in 2001, which has further evolved to be aligned with multiple investment modalities. Since 2008, ADB has set gender mainstreaming at entry target for sovereign operations. ADB is the first MDB to have introduced in 2012, the system of tracking gender equality results during project implementation, to report on the gender-specific rating at project completion in the corporate development effectiveness review, for ADB and Asian Development Fund (ADF) and/or concessional ordinary capital resources lending (COL) operations. ADB has generally met these targets with some annual fluctuations.¹

2. **Four-tier gender categories.** Each ADB operation is categorized into one of four categories, based on the extent to which gender equality issues are integrated into designs:²

   (i) **Gender equity theme:** The project improves gender equality and/or women’s empowerment at the outcome level (as well as at the output level); e.g., micro, small and medium-sized enterprises support project with substantial empowerment of women-led enterprises and individual women entrepreneurs.

   (ii) **Effective gender mainstreaming:** The project substantially integrates gender equality results at the output level but not in the outcome; e.g., a metro project, which supports women’s employment in metro operations and integrates designs meeting women’s mobility and safety needs.

   (iii) **Some gender elements:** The project incorporates a few proactive gender design elements supporting women’s economic empowerment, women-friendly access to services, participation in decision-making and/or leadership, and/or building women’s resilience against external shocks. But the elements are not sufficient to be effective gender mainstreaming, e.g., a transmission line project with a few pilot scholarships for high school graduates for future skilled jobs in the power sector.

   (iv) **No gender elements:** The project includes no proactive gender design elements. This does not mean that it has no positive indirect gender equality benefits. Also, addressing gender dimensions within the safeguard requirements is mandatory but if the projects does not combine them with a few proactive gender design elements, the project is considered as having no gender element, e.g., a railway that will only procure rolling stock.

3. Historically, the first two categories combined (projects with gender equity and mainstreaming) have been used to measure ADB’s annual gender mainstreaming performance (by committed number of operations, not by volume). Project gender category is identified during the country operational business plan stage. Projects belonging to the top two tiers are required to go through detailed gender analysis during due diligence (with the lower two tiers covered by a rapid gender analysis), including the collection of baseline gender data against the project’s gender targets.

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and to prepare a project gender action plan (GAP). Project GAPs are utilized to track gender equality results during the implementation, which are reported periodically in the executing agencies or borrowers or clients’ project progress reports. At project completion, a final gender rating is assessed based on the GAP achievements presented in project completion reports (sovereign) or extended annual review reports (nonsovereign).

4. **New approaches in Strategy 2030.** Under Strategy 2030 and the updated Gender Operational Plan 2019–2024, ADB pursues a two-track approach: (i) scaling up gender mainstreaming, by increasing the existing targets and expanding them to include nonsovereign operations and the some gender elements category; and (ii) integrating more systematically Sustainable Development Goal (SDG) 5 transformative gender agenda into ADB operations. This two-track approach will be critical to tackle the coronavirus disease (COVID-19) crisis.

5. ADF 13 is aligned with this two-track approach, with the country allocation supporting gender mainstreaming and the thematic pool increasing the number of gender equity theme projects addressing SDG 5 transformative gender agenda. Table A3 summarizes the comprehensive set of gender-related ADB operations targets.

### Table A3: Gender Targets in Strategy 2030 (2019 onward)

<table>
<thead>
<tr>
<th>Corporate Results Framework</th>
<th>Baseline Year</th>
<th>Baseline Value</th>
<th>2024 Target</th>
<th>2030 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 2A. Results from Completed Operations—Strategy 2030 Operational Priority Results</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>operational priority 2: Accelerating progress in gender equality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Skilled jobs for women generated (number)</td>
<td>....</td>
<td>....</td>
<td>....</td>
<td>....</td>
</tr>
<tr>
<td>2. Women and girls completing secondary and tertiary education and/or other training (number)</td>
<td>....</td>
<td>....</td>
<td>....</td>
<td>....</td>
</tr>
<tr>
<td>3. Women represented in decision-making structures and processes (number)</td>
<td>....</td>
<td>....</td>
<td>....</td>
<td>....</td>
</tr>
<tr>
<td>4. Women and girls with increased time savings (number)</td>
<td>....</td>
<td>....</td>
<td>....</td>
<td>....</td>
</tr>
<tr>
<td>5. Women and girls with increased resilience to climate change, disasters, and other external shocks (number)</td>
<td>....</td>
<td>....</td>
<td>....</td>
<td>....</td>
</tr>
<tr>
<td><strong>Level 2B. Results from Completed Operations—Quality of Completed Operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Completed operations delivering intended gender equality results (%) (sovereign and nonsovereign)</td>
<td>RY2016–RY2018</td>
<td>75</td>
<td>80</td>
<td>....</td>
</tr>
<tr>
<td><strong>Level 3C. Strategic Alignment (Strategy 2030 priorities promoted)</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Committed operations classified gender equity theme or effective gender mainstreaming (%) (sovereign and nonsovereign)</td>
<td>2016–2018</td>
<td>47</td>
<td>50</td>
<td>55</td>
</tr>
<tr>
<td>2. Committed operations classified gender equity theme, effective gender mainstreaming, or some gender elements (%) (sovereign and nonsovereign)</td>
<td>2016–2018</td>
<td>70</td>
<td>71</td>
<td>75</td>
</tr>
</tbody>
</table>

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### Corporate Results Framework

<table>
<thead>
<tr>
<th>Results Framework Indicator</th>
<th>Baseline Year</th>
<th>Baseline Value</th>
<th>2024 Target</th>
<th>2030 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADF 13 Targets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. ADF 13 will continue to strongly promote gender equality with 60% of ADF 13 grants (in volume of commitments) supporting gender mainstreaming (classified <em>gender equity theme</em> or <em>effective gender mainstreaming</em>) over the 2021–2024&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2016–2019&lt;sup&gt;b&lt;/sup&gt;</td>
<td>55</td>
<td>60&lt;sup&gt;c&lt;/sup&gt; (ADF 13 target)</td>
<td>....</td>
</tr>
<tr>
<td>2. Under ADF 13, with additional support from the thematic pool, the number of projects classified <em>gender equity theme</em> will increase 30% more than under the ADF 12</td>
<td>2016–2019&lt;sup&gt;c&lt;/sup&gt;</td>
<td>12</td>
<td>16&lt;sup&gt;c&lt;/sup&gt; (ADF 13 target)</td>
<td>....</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, RY = reporting year.

<sup>a</sup>This ADF target is at least as ambitious as the institutional target in Strategy 2030, which is expressed in terms of number of operations and cover both sovereign and non-sovereign operations by 2030.

<sup>b</sup>Latest available 4-year data.

<sup>c</sup>Latest available 4-year data. The ADF 13 target will be adjusted in 2021 to include 2020 data.

IMPLEMENTATION OF THE ASIAN DEVELOPMENT FUND 13 THEMATIC POOL OF GRANT RESOURCES

1. Strategic scope of the Asian Development Fund 13 thematic pool. The thematic pool will be used to respond to the main challenges in the poorest and most vulnerable developing member countries (DMCs), in alignment with Strategy 2030 with a focus on the following strategic areas: (i) fostering regional cooperation and integration (RCI), including the provision of regional public goods (RPGs); (ii) supporting disaster risk reduction (DRR) and climate adaptation; and (iii) achieving the Sustainable Development Goal (SDG) 5’s transformative gender agenda.

2. Catalytic role. The provision of Asian Development Fund (ADF) grants from the thematic pool will increase the awareness of governments and unlock projects that otherwise would not take place. Project eligibility criteria will target projects with large development impact (even if financial returns are low), and underinvested activities with positive externalities.

3. Country coverage. The thematic pool will support projects in the 25 ADF and concessional ordinary capital resources lending (COL) countries—group A countries, including International Development Association (IDA)-gap countries, and, on a very selective basis, group B countries. Priority will be given to fragile and conflict-affected situations (FCAS) and small island developing states (SIDS). A maximum of 10% of the thematic pool resources will support projects in group B countries or involving group B countries, in the case of multi-country projects. Project eligibility criteria will be more stringent for projects in group B countries. Different leveraging ratios will be required for projects in group A countries and for projects in group B countries.

4. Project selection and prioritization. The thematic pool will be allocated following a project selection and prioritization process, where a scorecard will be introduced (Table A4.1–Table A4.5). The ADB regional departments will submit project proposals in the form of a concept proposal with required information in the area for scoring. The submitted proposals will be screened based on a set of eligibility criteria. Each project meeting the eligibility criteria will be scored by an ADB internal committee composed of staff members from ADB’s Sustainable Development and Climate Change Department, including gender and FCAS experts and the Strategy, Policy and Partnerships Department. The assessment and scoring will be informed by cross technical peer reviews from regional departments. The eligible projects will be assigned scores based on: (i) the project’s development impact in the relevant strategic area(s), (ii) location in countries with improved or prudent debt management, (iii) location in countries where portfolio performance is high, (iv) multi-country and multi-thematic, and (v) leverage of other financing sources and innovativeness. A weighted bonus point will be given for projects in FCAS and a weighted bonus point will be given for projects in SIDS. Projects with the highest scores will get funds from the thematic pool. Projects with a score below 1 will be excluded. A regional project will be assessed using the average of the scores of all group A and group B countries involved in the project. Regional projects with more participating group A countries will be prioritized.2

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1 The ADF 13 thematic pool will support the following regional public goods: environmental preservation such as ocean health, and biodiversity and ecosystems services, and regional health security, with attention to universal health coverage.

2 The criteria will be updated, if necessary, during the ADF 13 mid-term review, based on actual experience of implementation and donors’ feedback.
5. **Canceled and delayed projects.** If projects selected to be supported by the thematic pool drop out of the pipeline, ADF grants from the thematic pool will be returned to the pool for reallocation during the cycle. If an initially selected and prioritized project is not committed in approximately 2 years, the ADF grant resources allocated to the project will be returned to the thematic pool resources for further allocation, together with remaining funds based on project selection and prioritization.

6. **Monitoring and reporting.** Utilization of the thematic pool will be reported to donors during the annual donor consultation meetings and reviewed at the midterm of ADF 13.

### Table A4.1: Project Eligibility Criteria for Projects on Regional Cooperation and Integration and Regional Public Goods

<table>
<thead>
<tr>
<th>In Group A Countries</th>
<th>In Group B Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stand-alone projects and discrete project components and/or outputs are eligible if they pertain to the three strategic priorities outlined in the new RCI Operational Plan for 2019–2024: (i) greater and higher-quality connectivity between economies, (ii) expanded global and regional trade and investment opportunities, and (iii) increased and diversified regional public goods. Focus will be given to environmental protection and sustainable management of shared natural resources, which include ocean health, and biodiversity and ecosystem services, and to regional health security.</td>
<td>Stand-alone projects and discrete project components and/or outputs pertaining only to increased and diversified RPGs are eligible. Focus will be given to environmental protection and sustainable management of shared natural resources, which include ocean health, and biodiversity and ecosystem services, and regional health security. Only projects in group B countries with prudent (average score of relevant CPA criteria is above 3 out of 6) or improved (average score of the latest relevant CPA criteria has increased from the previous assessment) fiscal, debt, and budget management will be eligible.</td>
</tr>
<tr>
<td>All projects must have been classified as RCI following assessment through the RCI scorecard. It considers (i) the relevance of the project to regional agreements and strategies; (ii) the existence of cross-border economic spillovers; and (iii) wider benefits such as regional harmonization of standards, technology transfer, and knowledge sharing.</td>
<td></td>
</tr>
</tbody>
</table>

CPA = country performance assessment, RCI = regional cooperation and integration, RPGs = regional public goods.
Source: Asian Development Bank
Table A4.2: Project Eligibility Criteria for Projects Supporting the Provision of Regional Public Goods

<table>
<thead>
<tr>
<th>Criteria for Regional Health Security</th>
<th>Criteria for Environmental Protection and Sustainable Management of Shared Natural Resources (which include ocean health, and biodiversity and ecosystem services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stand-alone projects and discrete project components and/or outputs supporting one or more of the following:</td>
<td>Stand-alone projects and discrete project components and/or outputs supporting one or more of the following:</td>
</tr>
<tr>
<td>(i) The project strengthens capacity to prevent, detect and respond to human and animal disease outbreaks before they become pandemics.</td>
<td>(i) protection, restoration and/or enhancement of terrestrial, coastal and marine ecosystems and biodiversity.</td>
</tr>
<tr>
<td>(ii) The project develops a robust health system and financing for moving towards universal health coverage, thereby contributing to containing outbreaks before they become pandemics.</td>
<td>(ii) sustainable management of land, forest, water and marine resources; and</td>
</tr>
<tr>
<td>(iii) The project supports region-wide universal health coverage schemes that will strengthen financing and delivery of region-wide prevention, detection, and treatment of communicable and other diseases of migrant workers and other non-nationals.</td>
<td>(iii) enhanced resource efficiency and/or pollution control.</td>
</tr>
<tr>
<td>(iv) The project strengthens capacities for transparent and timely information sharing with regional and global partners during outbreaks, which is critical to mitigate their spread and impact.</td>
<td>Examples:</td>
</tr>
<tr>
<td>(v) The project supports regional health cooperation, including region-wide training of the health workforce; pooled procurement of and logistic systems for medicines, diagnostics, and vaccines; and region-wide tele-medicine, tele-radiology, and tele-pathology systems, which help address communicable diseases.</td>
<td>(i) The project protects or restores critical ecosystems such as coral reefs, seagrass beds, or mangrove forests, especially if planned to restore ecological connectivity.</td>
</tr>
<tr>
<td>(vi) The project addresses country-level and region-wide anti-microbial resistance and inappropriate use of antibiotics in humans and animals.</td>
<td>(ii) The project uses nature-based or integrated solutions to protect atolls, small island developing states, and vulnerable coastal cities against climate impacts by combining eco-sensitive engineering with mangrove forest or coral reef rehabilitation.</td>
</tr>
<tr>
<td>(vii) The project strengthens health infrastructure facilities that focuses on addressing communicable diseases in border areas.</td>
<td>(iii) The project rehabilitates island, coastal or river-side landfills leaking chemicals and wastes into the ocean.</td>
</tr>
<tr>
<td>(viii) The project enhances laboratory capacities that support surveillance and management of communicable diseases.</td>
<td>(iv) The project keeps plastics out of the ocean.</td>
</tr>
<tr>
<td>(ix) The project helps increase collaboration among relevant sectors (e.g., human and animal health, finance, agriculture, security, defense, law enforcement, development, foreign affairs, research), and non-government partners. This includes helping prevent transmission of diseases from animals to humans, and from humans to animals; and other region-wide OneHealth interventions that jointly address human and animal health concerns.</td>
<td>(v) The project supports ecosystem-based fisheries management to improve food security for coastal communities.</td>
</tr>
<tr>
<td>(x) The project sustains programs on vaccine-preventable diseases, malaria, tuberculosis, and HIV/AIDS, particularly after the reduction of Global Fund financing support.</td>
<td>(vi) The project integrates biodiversity management into urban and rural development strategies.</td>
</tr>
<tr>
<td></td>
<td>(vii) The project supports reforestation or riparian planting to reduce soil erosion and the sedimentation of coastal ecosystems.</td>
</tr>
<tr>
<td></td>
<td>(viii) The project reverses the spread of invasive species, particularly in small island states where this issue is more prevalent.</td>
</tr>
</tbody>
</table>

### Table A4.3: Project Eligibility Criteria for Projects Addressing Disaster Risk Reduction and Climate Adaptation

<table>
<thead>
<tr>
<th>In Group A Countries</th>
<th>In Group B Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stand-alone projects with disaster risk reduction as their primary objective (e.g., school seismic retrofitting); discrete components and/or outputs of projects (e.g., development of a flood early warning system as part of an urban development projects); and/or incremental cost in strengthening the resilience of infrastructure investments in case of geophysical events.</td>
<td>Same as for group A and, recognizing that a large proportion of the poor and vulnerable in group B countries live in high-risk areas and are dependent on climate-sensitive sectors for their livelihoods, additional ADF grants from the thematic pool will support only eligible projects that focus explicitly on building resilience of the poorest and most vulnerable by (i) piloting innovative solutions to build resilience (e.g., use of ecosystem-based solutions for coastal defense, use of high-level technology to improve early warning systems, use of traditional earthquake resistant construction techniques to retrofit schools and hospitals); and/or (ii) leveraging additional climate and/or disaster finance (including finance from the private sector) to strengthen resilience.</td>
</tr>
<tr>
<td>Stand-alone projects with climate adaptation as the primary objective (e.g., climate smart agriculture); and discrete adaptation components and/or outputs of projects (e.g., integrating climate adaptation considerations into road asset management systems) are eligible.</td>
<td>Only projects in group B countries with prudent (average score of relevant CPA criteria is above 3 out of 6) or improved fiscal, debt, and budget management (average score of the latest relevant CPA criteria has increased from the previous assessment) will be eligible.</td>
</tr>
<tr>
<td>Incremental costs in strengthening climate resilience of infrastructure investments are not eligible as these costs are addressed through climate mainstreaming efforts.</td>
<td>---</td>
</tr>
</tbody>
</table>


### Table A4.4: Project Eligibility Criteria for Projects Addressing on the Sustainable Development Goal 5 Transformative Gender Agenda

<table>
<thead>
<tr>
<th>In Group A Countries</th>
<th>In Group B Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stand-alone projects or distinct outputs of projects targeting one or more of the following strategic areas are eligible:</td>
<td>Same as for group A countries, and projects should take place in countries in the bottom tier of the OECD Social Institution and Gender Index or the World Economic Forum Global Gender Gap Report.</td>
</tr>
<tr>
<td>(i) eliminating violence against women and girls(^a) (e.g., building a gender-based violence survivors’ shelter, building a country system to deal with sexual harassment, exploitation, and abuse following the principles of the joint MDB heads’ statement);</td>
<td>In case of lack of data, CPA scores and country gender assessments will be used.</td>
</tr>
<tr>
<td>(ii) reduction and rebalance of unpaid care and domestic work (e.g., building and operating affordable and sustainable childcare facilities and services, in urban and rural areas);</td>
<td>Only projects in group B countries with prudent (average score of relevant CPA criteria is above 3 out of 6) or improved (average score of the latest relevant CPA criteria has increased from the previous assessment) fiscal, debt and budget management will be eligible.</td>
</tr>
<tr>
<td>(iii) women’s participation in decision-making and leadership (e.g., supporting women’s “meaningful” participation in decision-making resulting in changes in public sector and corporate behavior);</td>
<td></td>
</tr>
<tr>
<td>(iv) sexual and reproductive health and rights (e.g., supporting menstrual hygiene education and facilities at school);</td>
<td></td>
</tr>
<tr>
<td>(v) access to economic and productive resources, information and communication technology (e.g., promoting agriculture and housing land and other assets); and</td>
<td></td>
</tr>
<tr>
<td>(vi) legal or institutional reforms to protect women’s rights and change gendered social norms (e.g., supporting legal, institutional, and governance reforms to remove gender-discriminatory provisions and gender stereotypes).</td>
<td></td>
</tr>
</tbody>
</table>

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Standard activities mainstreamed into projects are not eligible.

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\(^a\) Utilizing of ADF 13, ADB is committed to preventing the sexual exploitation and abuse, and sexual harassment agenda by implementing its normal policies and procedures, including but not limited to its procurement, financial management, disbursement, safeguard, and results management policies; and its commitments to prevent sexual exploitation and abuse and sexual harassment, within its own institutions and in its operations.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Source of the Score</th>
<th>Weight</th>
<th>Scale (0–3 Points)</th>
</tr>
</thead>
</table>
| 1. Located in countries with prudent or improved fiscal, debt and budget management | Aggregate of criteria 2 and 3 (fiscal policy and debt policy and management) and criteria 13 and 14 (quality of budgetary and financial management budget and revenue and efficiency of revenue mobilization) of the existing CPA | 30% | 3 points if average score has improved and if the score is above 3  
2 points if average score has improved  
2 points if average score is stable and above 3  
1 point if average score has decreased and is above 3  
1 point if average score is stable and below 3  
0 points if average score has decreased and below 3 |
| 2. Development impact in the relevant strategic area(s) | Rated by the committee based on qualitative assessment informed by the project proposal | 20% | 3 points for projects with relatively higher development impact  
2 points for projects with medium development impact  
1 point for projects with relatively lower development impact |
| 3. Located in countries with higher country portfolio performance | Criteria 17 of the CPA | 10% | 3 points if portfolio performance indicator is 4.5  
2 points if portfolio performance indicator is 4.0  
1 point if portfolio performance indicator is 3.5  
0 points if portfolio performance indicator is 3.0 |
| 4. Multi-country projects and multi-thematic projects | Assessed based on proposal | 10% | 3 points for multi-country projects addressing more than 1 strategic area  
2 points for multi-country projects addressing 1 strategic area  
2 points for single country project addressing more than 1 strategic area  
0 points otherwise |
<table>
<thead>
<tr>
<th>Criterion</th>
<th>Source of the Score</th>
<th>Weight</th>
<th>Scale (0–3 Points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Leveraging</td>
<td>Calculated based on proposal</td>
<td>10%</td>
<td>3 points if country allocation and other sources, including commercial sources, are leveraged and fund more than 1/2 of the project cost in group A countries and more than 5/6 for project in group B.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2 points if country allocation and other sources, including commercial sources, are leveraged and fund between and 1/3 to 1/2 of the project cost in group A countries and from 3/4 to 5/6 in group B.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1 point if country allocation and other sources, including commercial sources, are leveraged and fund at least 1/3 of the project cost in group A countries and 3/4 in group B.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0 points if the country allocation funds 1/3 of the project cost in group A countries and 3/4 in group B and no other sources are leveraged.</td>
</tr>
<tr>
<td>6. Innovativeness</td>
<td>Rated by the committee</td>
<td>10%</td>
<td>3 points for projects pilot testing innovative solutions in at least two of the following areas: financing solutions, technical design, implementation arrangements, and collaboration and knowledge partnerships.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2 points for projects pilot testing innovative solutions in technical design.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1 point for projects pilot testing innovative solutions in implementation arrangements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0 points otherwise.</td>
</tr>
<tr>
<td>7. FCAS and</td>
<td></td>
<td>10%</td>
<td>1 additional point if the project takes place in an FCAS or a SIDS.</td>
</tr>
<tr>
<td>SIDS</td>
<td></td>
<td></td>
<td>2 points if the project takes place in SIDS, which is also FCAS.</td>
</tr>
</tbody>
</table>

CPA = country performance assessment, FCAS = fragile and conflict-affected situations, SIDS = small island developing states.

ASIAN DEVELOPMENT BANK PRIVATE SECTOR WINDOW

1. The Asian Development Bank-Private Sector Window (ADB-PSW) will offer a source of funding otherwise unavailable to support ADB private sector operations (PSO) and enable the expansion of the scope and range of ADB PSO in group A countries. The ADB-PSW will promote and support PSO in group A countries by helping mobilize, catalyze, and encourage private sector investments through three types of blended concessional financing solutions: local currency; blended finance; and loan guarantee. These solutions take into account the experiences of and lessons learned from the International Development Association (IDA) and the African Development Bank (AfDB) in developing and implementing their respective PSWs as well as from the use of existing concessional funds for PSO in ADB. The ADB’s Blended Finance Committee (BFC) will determine the eligibility and oversee all decisions for the use of ADB-PSW resources.

2. The local currency solution (LCS) will serve as a tool to mitigate and protect against potential losses because of local currency exposure, which will encourage and enable the local currency lending, that is critical for group A countries (Figure A5.1). Potential transactions to be considered include the provision of credit lines and facilities to local commercial lenders and financial institutions (including local development banks) to support local currency lending to small and medium-sized enterprises or other projects.

3. Second, the blended finance solution (BFS) is designed to improve the commercial viability of projects by reducing the cost of financing, which is often extremely high or prohibitive in group A countries (Figure A5.2). The BFS will be considered for private sector projects and activities that are well-designed and reasonably expected to service financing and/or deliver capital returns but face financial viability gaps. The solution is expected to support project finance or public-private partnership transactions in renewable energy; agribusiness (e.g., processing and storage facilities); and social infrastructure (e.g. university facilities, healthcare facilities, and pharmacies).

Figure A5.1: Local Currency Solution

[Diagram showing the local currency solution (LCS) with ADB-PSW, Borrower, Project, Governance and administration, Reimbursement request, Loan (converted to local currency at financial close), Local Currency Proceeds, Local Currency Revenue, Local Currency Repayment, Co-lenders, ADB (PSOD), Lenders, Reimbursement, and Governance and administration connections.]

4. Lastly, the loan guarantee solution (LGS) intends to improve the risk profile of a project or a financial intermediary (Figure A5.3). It will back-stop first-loss call, due to credit loss or default, to improve the risk profile of transactions, enabling better pricing and access to affordable financing. The LGS can be applied to assist ADB in crowding in co-lenders to finance underlying funding that locally-domiciled banks’ require to provide local currency loans at extended loan tenors to ADB-led projects. The assistance will facilitate longer-term financing required in critical sectors such as infrastructure and financial institutions. Often, local banks are constrained from lending for longer durations by regulatory limitations on their capital use, or by their own lack of access to long-term funding in their domestic market.
5. The ADB-PSW, guided by ADB’s Strategy 2030, will pursue a coordinated approach across ADB’s operations to expand its support in frontier markets and/or new sectors. It will support a pipeline of transactions across a range of sectors, including health; education\(^1\); agribusiness; tourism; and nontraditional energy infrastructure (e.g., water, urban sanitation, information communication and technology, and transport). ADB will build on its existing blended concessional finance platforms (i.e., where concessional finance is used to support PSO), which have been in operation since 2012.

6. ADB will implement stringent governance procedures to regulate the use of the ADB-PSW. As with its assessment of all transactions using concessional resources for PSO, ADB’s independent BFC will take rigorous steps in its decision-making process to safeguard the allocation and deployment of ADB-PSW resources to ensure that they are being utilized only for transactions that meet the ADB-PSW eligibility criteria. The BFC will review each proposed ADB-PSW transaction at the concept and final review stages to determine the transaction’s adherence to the principles of additionality, minimum concessionality, crowding-in, commercial sustainability, reinforcement of markets, and promotion of high standards, each in accordance with the European Development Finance Institutions Blended Finance Principles (DFI Principles)\(^2\). Transactions that do not meet the required eligibility criteria or that do not otherwise satisfy the DFI Principles will not be endorsed for further consideration. ADB will report the status of ADB-PSW implementation to the ADF donors in line with the reporting requirements of other concessional trust funds administered by ADB, and regulated by the BFC, and disclose relevant information to the public in accordance with the proposed disclosure framework.

7. To address the calls for greater transparency and information sharing and show ADB’s strong commitment to transparency, ADB has developed a disclosure framework for ADB-PSW transactions. In developing this framework, ADB has considered both its current disclosure practices and those of peer institutions\(^3\). ADB will disclose the following information for ADB-PSW transactions: (i) the nominal grant element of ADB-PSW support, (ii) the total project cost and/or total ADB loan (or equity) committed for the individual ADB-PSW blended finance solution, (iii) the rationale for supporting the transaction with concessional resources, (iv) the additionality that the ADB-PSW offers, (v) the development impact the transaction is expected to deliver and (vi) arguments used to estimate the minimum amount of subsidy needed to catalyze the transaction (minimum concessionality). Similarly, the contingent support to be provided by ADB-PSW’s local currency solution and LGS, was considered. Together with the total ADB loan committed and the total project cost, an upper nominal limit will be disclosed for these transactions. The disclosure approach will demonstrate to donors and the public that ADB is deploying grant resources to private sector projects that not only meet the DFI Principles but also contribute high development impacts to the relevant community.

8. The implementation progress of the ADB-PSW solutions and the utilization of resources will be reviewed and discussed with donors at the midterm of ADF 13.

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\(^1\) ADB Private Sector Window (PSW) support should create opportunities for equitable access to education. Potential ADB-PSW projects will specifically address this aspect and will be assessed accordingly in the context of affirming the eligibility criteria.


\(^3\) ADB has coordinated with its peer institutions to assess the various approaches to disclosure for concessional resources for PSO.
ASIAN DEVELOPMENT FUND 13 PROJECTED ADMINISTRATIVE EXPENSES

1. Article 10.3 of the Agreement Establishing the Asian Development Bank (the Charter)\(^1\) requires the Asian Development Fund (ADF) to bear the administrative expenses associated with its operations. The administrative expenses of the Asian Development Bank (ADB) are allocated to the ADF and ordinary capital resources (OCR) in accordance with the allocation framework approved by the ADB Board of Directors in 2003.\(^2\) In line with the allocation framework, the allocation of ADB administrative expenses is determined based on the expenses of related departments (operational and supporting) and the number of committed\(^3\) sovereign loans and grants. The allocation exercise is being done quarterly.

2. ADF 13 administrative expenses for 2021–2024 are estimated based on the following assumptions and methodology:

(i) **Assumptions**

(a) **Administrative expense growth.** ADB’s overall indicative budget growth of 5.4% for 2021 and 5.3% for 2022 is based on the 2020–2022 work program and budget framework.\(^4\) The budgeted growth for 2023–2024 is reduced to 4.0% from 4.3% used in *ADF 13 Financing Framework Update*,\(^5\) reflecting further estimated cost savings from efficiency improvement initiatives.

(b) **Number of committed ADF projects.** The overall number of committed ADF projects during the ADF 13 cycle is expected to increase compared to ADF 12 in line with the expanded scope of operations. In particular, the increase in resource allocation to small island developing states will have a significant impact since their average project size is relatively small.

(ii) **Methodology.** In line with the allocation framework (footnote 2), allocation of ADB administrative expenses between the OCR and ADF windows is based on a two-step process:

(a) First: segregating work units to groups based on its attributions to ADF or OCR operations. Operation expenses that do not provide support to ADF operations are excluded from the ADF allocation. For example, in 2019, 100% of Private Sector Operations Department and Treasury Department Funding Division expenses were allocated to OCR.

(b) Second, remaining administrative expenses are allocated according to the number of committed projects over 3 years. For example, to determine the allocation of administrative expenses in 2019, the number of committed projects in 2017–2019 was used.

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\(^3\) Prior to 2018, the number of approved projects was used.


3. Table A6 presents the projected administrative expenses allocated to the ADF 13 period. Based on the assumptions and methodology described in para. 2, the projected administrative expenses during ADF 13 range is projected to be $346.0 million, which is a 2.9% increase from ADF 12 in nominal terms.

4. As the expected annual increase in the number of ADF projects is smaller than the increase in the number of OCR projects, the share of ADF administrative expenses to total ADB administrative expenses is expected to decrease from 11.2% under ADF 12 to 9.5% under the ADF 13.

<table>
<thead>
<tr>
<th>Item</th>
<th>ADF 12 ($ million)</th>
<th>ADF 13 $ million</th>
<th>% Change from ADF 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>336.2</td>
<td>346.0</td>
<td>2.9</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.

*a* Represents projected amounts based on a set of assumptions. Payments will be based on actual share and are determined quarterly during 2021–2024.

Source: Asian Development Bank Treasury Department.

5. Actual administrative expenses are allocated quarterly. If actual ADF administrative expenses during ADF 13 period are lower than the projected level, excess funds will be added for operational commitments.

**ASIAN DEVELOPMENT BANK EFFICIENCY IMPROVEMENT AND COST SAVINGS**

6. ADB is changing and continues to improve the way it works by using resources better to ensure that the budget is aligned with Strategy 2030 priorities. ADB continues to look for opportunities to improve efficiency. The key areas expected to generate substantial efficiency gains are improvements in ADB’s underlying information technology and the streamlining of business processes. ADB recently implemented several institutional reforms to improve its efficiency, such as:

(i) ADB’s digital transformation using modern and secure information technology systems and digital processes;

(ii) human resource reforms to reinforce the One ADB approach and support faster recruitment of skills in priority areas and strengthen talent management to respond to clients’ needs more flexibly;

(iii) performance management reforms; and

(iv) the promotion of diversity and inclusion.

7. To achieve higher staff productivity and other cost savings, ADB continues to improve corporate management and administration through proactive management related of

(i) staff optimization; and

(ii) institutional procurement and contract negotiations.

8. Departmental efficiency gains are being systematically monitored and will continue to inform decisions on budget allocations as follows:

(i) the strengthened workforce analysis exercise captures the productivity upgrades of different departments, including staff productivity improvements from information technology and process reforms; and

(ii) the enhanced departmental highlights process enables departments to better capture their efficiency measures and results.
9. Reforms that ADB is planning to implement include the following:
   (i) a comprehensive review of compensation and benefit policies;
   (ii) increased investment in training, learning, and development to build staff capacity to deliver the Strategy 2030 operational priorities; and
   (iii) a review of the resident missions’ roles and capacity to sharpen ADB’s client orientation.
## ASIAN DEVELOPMENT FUND 13 IMPLEMENTATION PLAN

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Key Action</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCAS</td>
<td>1. The volume of ADF grants for FCAS countries during ADF 13 will be increased by 8% in comparison to ADF 12.</td>
<td>2024</td>
</tr>
<tr>
<td></td>
<td>[Baseline: $1,110 million during the ADF 12 period (2017–2020)]</td>
<td></td>
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<tr>
<td></td>
<td>2. TASF 7 support for FCAS countries will be increased by 50% in comparison to TASF 6 support under ADF 12.</td>
<td>2024</td>
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<td></td>
<td>[Baseline: $53 million during the ADF 12 period]</td>
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<td></td>
<td>3. A new FCAS strategic approach(^a) will be drafted by end of 2020 and approved in Q1 2021, including an operational implementation plan and provisions for monitoring and evaluating progress by the ADF 13 midterm review.</td>
<td>2020–2021</td>
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<td></td>
<td>4. 120 ADB staff members will be offered training and workshops to gain deeper understanding of contextual issues, differentiated approaches and tools. Training needs assessments will lead-up to the design of training modules and capacity-building activities. An online resource center will serve as a hub for continuous knowledge dissemination and sharing.</td>
<td>2021</td>
</tr>
<tr>
<td></td>
<td>[Baseline: not applicable; FCAS training will resume in 2020]</td>
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<td></td>
<td>5. 60% of FCAS countries will have completed a fragility assessment (based on the new FCAS approach), which will inform the implementation of the existing and the preparation of new CPSs during the ADF 13 period (2021–2024).</td>
<td>2024</td>
</tr>
<tr>
<td></td>
<td>[Baseline: not applicable as the new approach will be finalized by 2021]</td>
<td></td>
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<tr>
<td>SIDS</td>
<td>6. The volume of ADF grants for SIDS under ADF 13 will be increased by at least 45% in comparison to ADF 12.</td>
<td>2024</td>
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<td></td>
<td>[Baseline: $394 million during the ADF 12 period (2017–2020)]</td>
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<td></td>
<td>7. TASF 7 support for SIDS will be increased by 40% in comparison to TASF 6 support under ADF 12.</td>
<td>2024</td>
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<tr>
<td></td>
<td>[Baseline: $80 million during the ADF 12 period (2017–2020)]</td>
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<tr>
<td>Infrastructure</td>
<td>8. 100% of the infrastructure projects supported by ADF 13 will be fully in line with “G20 Principles for Quality Infrastructure Investment”, as measured using the 2019–2024 corporate results framework indicator “operations that are green, sustainable, inclusive, and resilient”.</td>
<td>2021–2024</td>
</tr>
<tr>
<td>investment</td>
<td>[Baseline: not applicable]</td>
<td></td>
</tr>
<tr>
<td>Focus Area</td>
<td>Key Action</td>
<td>Timeframe</td>
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|                               | 9. ADB will support group A countries, where possible through targeted TA and/or investment projects on raising awareness and providing training on mainstreaming value for money into public procurement. ADB will support the development of a knowledge exchange network across these countries promoting life-cycle cost analysis and qualitative evaluation techniques and tools, with an emphasis on infrastructure procurement. At least five group A countries will be supported.  
[Baseline: not applicable]  | 2024  |
| Climate change                | 10. The share of ADF 13 financing for climate adaptation and mitigation will be at least 35% (in volume).  
|                               | 11. At least 65% of committed ADF 13 operations (in number of projects) will support climate mitigation and adaptation by 2024.  
| Gender equality               | 12. ADF 13 will continue to strongly promote gender equality with 60% of ADF 13 grants (in volume of commitments) supporting gender mainstreaming (classified “gender equity theme or effective gender mainstreaming) over the 2021–2024 period.  
|                               | 13. Under ADF 13, with additional support from the thematic pool, the number of projects classified “gender equity as a theme” (GEN) will increase by a third in comparison to ADF 12.  
[Baseline: 9 projects (2016–2019)]  | 2024  |
| RPGs                          | 14. The number of operations addressing the provision of regional public goods* financed by ADF 13 will double.  
[Baseline: 6 operations during the ADF12 period (2017–2020)]  | 2024  |
| RPGs                          | 15. Support at least 4 countries to implement and/or update their national biodiversity strategies and action plans or similar action plans on terrestrial or marine ecosystem health, focusing on cross-boundary issues or impacts, through new ADF supported activities during ADF 13.  
[Baseline: not applicable]  | 2024  |
| Regional health security      | 16. The volume of ADF grants for Regional Health Security during ADF 13 will be doubled in comparison to ADF 12.  
[Baseline: $53 million during the ADF12 period (2017–2020)]  | 2024  |
| Universal health coverage     | 17. At least 10 group A or B countries will be supported by ADF 13 grants to improve health system, including introduction/enhancement of universal health coverage.  
[Baseline: 8 group A or B countries (2017–2019)]  | 2024  |
<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Key Action</th>
<th>Timeframe</th>
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<tbody>
<tr>
<td>Private sector operations</td>
<td>18. Every $1.0 of ADB Private Sector Window resources will mobilize approximately $2.5 of private capital in group A countries. [Baseline; not applicable]</td>
<td>2024</td>
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<tr>
<td></td>
<td>19. ADB operations in frontier economies and/or new sectors will reach 55% thanks to the support of the ADB-PSW and other instruments. [Baseline: 48% (2016–2018)]</td>
<td>2024</td>
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<td>20. At least 50% of non-sovereign operations will be in the new sectors prioritized under the ADB-PSW proposal. [Baseline; not applicable]</td>
<td>2024</td>
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<tr>
<td>Strengthening debt sustainability</td>
<td>21. TASF 7 resources supporting fiscal policy, debt management, and debt transparency will be at least doubled under ADF 13 in comparison to ADF 12. [Baseline: $24 million during TASF 6 (2017–2020)]</td>
<td>2024</td>
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<td></td>
<td>22. 100% of group A countries will be supported to implement debt management strategies, bolster fiscal risk assessments and debt management capacity, and enhance debt transparency through at least one TA or one project or policy-based lending. [Baseline: not applicable]</td>
<td>2024</td>
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<td>23. ADB will implement the Core Principles of Sustainable Financing in alignment with the IDA SDFP. [Baseline; not applicable]</td>
<td>2024</td>
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<td>Governance and capacity</td>
<td>24. Analysis of existing problems and countries’ potential to increase domestic resource mobilization will continue to be integrated into 100% of CPSs or country performance assessments (CPAs) of group A countries. [Baseline: 100%]</td>
<td>2024</td>
</tr>
<tr>
<td>development</td>
<td>25. 100% of TASF 7 will support low income countries (LIC), lower middle-income countries (LMIC), FCAS countries, and SIDS; and 84% of the total TASF (including TASF 7 and TASF [income transfer]) will support LIC, LMIC, FCAS countries, and SIDS. [2019 Baseline: 100% (TASF 6) and 82% (TASF 6 and TASF-income transfer)]</td>
<td>2021–2024</td>
</tr>
</tbody>
</table>


a The new FCAS approach will cover SIDS because FCAS and SIDS face similar challenges, and likely solutions for FCAS and SIDS are similar.

b All ADF-financed investment projects must complete a strategic procurement planning exercise.
Projects contributing to climate change adaptation will strengthen disaster resilience to the extent that they increase resilience to extreme weather events.

This ADF target is at least as ambitious as the institutional target in Strategy 2030, which is expressed in terms of number of operations and cover both sovereign and nonsovereign operations by 2030.

This key action and corresponding baseline exclude operations supporting regional health security as key action #16 already tracks the volume of ADF grants for Regional Health Security during ADF 13.

Refers to share of new resources available during ADF 13, excluding regional knowledge TA benefiting DMCs. 2020 country classification is used as reference.

I. INTRODUCTION

1. The ongoing coronavirus disease (COVID-19) pandemic is severely affecting Asian Development Bank (ADB) developing member countries (DMCs), particularly conflict-affected situations (FCAS) countries and small island developing states (SIDS) and poor, and vulnerable groups. The magnitude of the social and economic losses of DMCs will depend on how the outbreak evolves, which remains highly uncertain.

2. ADB Management and Asian Development Fund (ADF) donors agreed on a provisional framework for ADF 13 at the second replenishment meeting on 11–12 February 2020. Following the outbreak of the COVID-19 pandemic, ADB has reviewed the ADF 13 framework to ascertain its continued relevance and effectiveness. The review explored the development challenges and needs of ADF and concessional ordinary capital resources lending (COL) countries, which have emerged or become more prominent during the COVID-19 pandemic. The review subsequently assessed if key elements of the provisional ADF 13 framework effectively address those development challenges and needs or if restructuring of the framework is required.

3. The review finds that the ADF 13 framework remains relevant and instrumental. While the COVID-19 pandemic has created some new challenges, it has above all escalated exiting ones. Key features of the ADF 13 framework are forward looking and capture the particular development challenges and needs highlighted by the COVID-19 pandemic. The ADF 13 framework is also able to address unforeseen developments due to its built-in flexibility. This appendix summarizes the findings of the review.

II. ASIAN DEVELOPMENT FUND 13 STRATEGIC DIRECTIONS AND GRANT ALLOCATION FRAMEWORK

4. Continuing to support quality infrastructure and good governance and alleviating the negative impact of the COVID-19 pandemic (cross-cutting areas), ADF 13 will give special attention to six areas to respond to the main challenges in the poorest and most vulnerable DMCs, in alignment with Strategy 2030. Figure A8.1 summarizes the linkages between Strategy 2030; the ADF 13 cross-cutting areas; the ADF 13 areas for special attention, and the ADF 13 allocation framework. Figure A8.2 outlines the ADF 13 grant allocation framework.

5. The ADF 13 strategic directions and resource allocation framework remain relevant and instrumental to respond to the impact of the COVID-19 pandemic and help to build the foundations of an inclusive and sustainable economic recovery in countries by (i) providing substantial funding amounts, particularly to SIDS and FCAS, and facilitate change of investment priorities, (ii) providing more health-related assistance and emergency response, (iii) supporting countries with deteriorating debt sustainability, (iv) addressing adverse gender impact, (v) addressing obstacles to private sector investments, (vi) strengthening thematic support for climate and disaster resilience during COVID-19 recovery, and (vii) increasing flexibility for enhanced responsiveness to unforeseen developments and country needs.

6. The current funding framework is balancing financing needs of ADF countries and donor’s constrained ability to supply funds in lieu of constraining the COVID-19 impact on their societies. Uncertainty about the economic and social outlook and scale of additional financing needs of ADF countries has significantly increased since ADF 13 was negotiated with donors. It will therefore be
critical to closely monitor how development needs evolve and the funding framework for ADF 13 supports the ADF countries in response to the unprecedented crisis.

Figure A8.1: Tackling the COVID-19 Pandemic and Building Sustainable and Inclusive Recovery in line with Strategy 2030 with ADF 13


Figure A8.2: Asian Development Fund 13 Grant Allocation Framework

AFG = Afghanistan, RCI = regional and cooperation integration, RHS = regional health security, RPGs = regional public goods, SDG = Sustainable Development Goal, SIDS = small island developing states.

III. IMPACT OF COVID-19 PANDEMIC ON ADF AND COL COUNTRIES AND ADB’S INITIAL RESPONSE

7. The ongoing COVID-19 pandemic is severely impacting on ADF and COL countries by creating some new challenges and exacerbating existing challenges:

(i) FCAS and SIDS have been particularly affected by the COVID-19 pandemic and will require substantial financing to cover increasing needs and meet a change of investment priorities to build a sustainable and inclusive economic recovery.

(ii) ADF and COL countries face additional requirements for health sector investments, epidemic and pandemic prevention and response, and regional health security following the outbreak of the COVID-19 pandemic. Adopting a regional approach to strengthening health security and preparedness helps to achieve more effective prevention and control strategies, while requiring cooperation among international organizations such as multilateral development banks and the World Health Organization, and governments.

(iii) Increasing debt vulnerabilities in developing countries, which had been a growing concern, are expected to worsen as the COVID-19 pandemic triggers a severe slowdown of economic activity, fall in public revenue, and increase in public expenditure. If the risk of debt distress increases for group A countries, demand for ADF grants will increase. If the Kyrgyz Republic will not be as currently expected classified as gap country during ADF 13, and remain at moderate risk of debt distress or be downgraded to high risk of debt distress; and Solomon Islands and Vanuatu be downgraded from moderate to high risk of debt distress in 2020, demand for ADF grants under ADF 13 would increase.

(iv) The COVID-19 pandemic adversely affects women with increased risks of gender-based violence (particularly domestic violence); heavier burden of unpaid care and domestic work; and gender inequalities in intra-household cash transfer allocation and access to livelihoods, jobs, and financial (including insurance) services, among others.

(v) The COVID-19 pandemic has significantly affected the private sector, which has translated to significant job losses and larger obstacles to private sector investments—especially in group A countries. Sectors, which were significantly impacted by the COVID-19 pandemic include, among others, health, agribusiness and tourism.

(vi) The potential double impact of simultaneous pandemic and extreme weather or geophysical shocks adds fiscal pressures and is likely to lead to reduced government resource allocations for climate and disaster resilience, with governments instead choosing to focus on more immediately pressing spending needs to address the health crisis and its social and economic impact.

8. ADB responded to the COVID-19 pandemic with a $20 billion response package including $2.3 billion concessional resources, of which about $1.58 billion ADF grants and COL are mobilized through substantial reprogramming of 2020 country allocations and savings from ongoing projects. Reprogramming of ADF 12 country allocations is particularly important because processing of pre-crisis county programs has proved unfeasible due to the adverse impact of the pandemic on short-term absorption capacity of DMCs following the lockdown of institutions. An additional $100 million ADF grants and $604 million COL have been made available from the ADF 12 disaster and response
facility (DRF) and COL reserve. As of 21 May 2020, $65 million ADF and $425 million COL have been approved for COVID-19 response operations for ADF and COL countries.

9. In view of the available resources mobilized for COVID-19 response operations, including reprogramming of 2020 country programs and savings from ongoing projects, ADB will continue to assess demand for ADF 12 grants. The proposal to carry-over $337 million unused ADF 12 resources for ADF 13 replenishment will be maintained as of now.

IV. ADF 13 RESPONSE TO THE COVID-19 PANDEMIC

10. Key features of the ADF 13 framework due to its forward-looking nature are able to capture the particular development needs highlighted by the COVID-19 pandemic. The ADF 13 framework is also able to address unforeseen developments due to its built-in flexibility.

A. Substantial funding amounts, particularly for SIDS and FCAS

11. The performance-based allocation (PBA) system as main principle under ADF 12 to determine country allocations incorporates a positive effect of the severity of the COVID-19 pandemic on the amount of country allocations by including gross national income per capita as variable in the PBA formula. The PBA system will be retained under ADF 13. A rising country allocation share to 62% of total ADF grants under ADF 13 from 59% under ADF 12 increases the financial envelope for multi-year programming to directly respond to country specific needs and changes of investment priorities.

12. The volume of ADF grants for FCAS and SIDS under ADF 13 will be boosted by introduction of the economic vulnerability premium and continuation of the special support to Afghanistan.

- The volume of ADF grants for FCAS countries during ADF 13 will increase by 8% in comparison to ADF 12. Technical Assistance Special Fund (TASF) 7 support for FCAS countries will increase by 50% in comparison to TASF 6 support under ADF 12.
- The volume of ADF grants for SIDS under ADF 13 will increase by about 45% in comparison to ADF 12, while TASF 7 support for SIDS will increase by 40% in comparison to TASF 6 support under ADF 12.

B. Health-related assistance and emergency response

13. Under the thematic pool, the strategic area of addressing regional cooperation and integration and regional public goods will support regional health security (RHS) in group A countries and (selectively) in group B countries. Overall, the support for RHS is proposed to be doubled in comparison to ADF 12. ADF 13 grants will also support group A and (selectively) B countries to improve their health system, including introduction and enhancement of universal health coverage. TASF 7 will finance economic and health sector assessments, strengthening of health security capacity, and support for social protection systems.

14. The expanded Disaster and Pandemic Response Facility (DRF+) will cover health emergencies. ADF countries at high and moderate risk of debt distress are eligible for disaster and pandemic responses based on the severity of the emergency. In case of very severe disasters with damages and losses exceeding 10% of gross domestic product, COL-only group A countries may have access to some grant resources.
C. Support for countries with deteriorating debt sustainability

15. ADF 13 is introducing a comprehensive package to enhance public debt sustainability through (i) aligning with the International Development Association (IDA) 19 Sustainable Development Finance Policy assessments and incentive system, replacing the static 20% discount on ADF grants with an interactive incentive system, (ii) rewarding improvements in public financial management with preferential access to the thematic pool and (iii) introducing TASF 7 set-aside for ADF and COL countries for support of public debt management for an amount of $52 million countries. The set-aside will focus on the areas of fiscal, debt, and budget management with a particular emphasis on challenges related to the COVID-19 pandemic in ADF countries at high and moderate risk of debt distress.

16. Debt sustainability analyses are being updated and no change in debt distress classification of any group A country has been confirmed. Some simulations have been conducted, assuming the Kyrgyz Republic remains a country at moderate risk of debt distress under ADF 13, rather than being classified as IDA gap country, and Solomon Islands and Vanuatu are downgraded from moderate to high risk of debt distress in 2020. These changes from the original projection would result in additional demand for ADF grants by about $128 million under ADF 13, which would be covered by the debt distress reserve. If the Kyrgyz Republic is further downgraded to high risk of debt distress and Solomon Islands and Vanuatu are downgraded to high risk of debt distress in 2020, demand for ADF grants would increase by $232 million. This additional demand would fully utilize the debt distress reserve and PBA allocations across ADF countries would slightly need to adjust to meet the gap. None of the two group A countries currently at low risk of debt distress (Cambodia and Nepal) and three IDA gap countries (Bhutan, Lao People’s Democratic Republic and Myanmar) are expected to become eligible for ADF grants during ADF 13.

D. Address adverse gender impact

17. ADF 13 will mitigate the adverse impact of the COVID-19 pandemic on women through (i) enhanced gender mainstreaming and (ii) focused thematic pool support to the SDG 5 transformative gender agenda. ADF 13 will continue to strongly promote gender equity with 60% of ADF 13 grants (in volume of commitments) supporting gender mainstreaming. ADB will continue to support gender equity and women’s empowerment in projects that address quality infrastructure investments, FCAS and SIDS, disaster resilience and climate change impacts, regional cooperation and integration (RCI) including regional public goods (RPGs), private sector operations and debt sustainability.

18. The eligibility criteria for ADF grants from the thematic pool for the SDG 5 transformative gender agenda in responding to the adverse effects of the COVID-19 pandemic on women target women from vulnerable households as beneficiaries of eliminating violence against women and girls, reducing and rebalancing unpaid care and domestic work, and undertaking reforms to ensure women’s access to economic and productive resources, information and communication technology.

E. Address obstacles to private sector investments

19. The ADB-Private Sector Window (PSW) will enable ADB to support private sector growth in challenging economies, including FCAS and SIDS, and sectors that were significantly impacted by the COVID-19 pandemic and have high development impact, such as health, agribusiness, and tourism. The need for de-risking solutions offered under the ADB-PSW has increased as businesses try to access financing to ‘kick-start’ and rebuild operations that have been adversely impacted by the pandemic.
F. Strengthen thematic support for climate and disaster resilience during COVID-19 recovery

20. It is critical to strengthen support for climate and disaster resilience during recovery from the COVID-19 pandemic if fiscal pressures lead to reduced government resource allocations for climate and disaster resilience. The thematic support for climate and disaster resilience under ADF 13 will complement government programs for financial and economic recovery by supporting (i) building back better resilient infrastructure and basic services including health to deal with future crises; and (ii) building longer-term resilience such as by promoting climate-friendly value chains, adaptive social protection systems, and disaster insurance products.

V. FLEXIBILITY OF ADF 13 FRAMEWORK WILL SUPPORT RESPONSE TO COVID-19 PANDEMIC

21. Mechanisms built in the ADF 13 framework to better respond to changing situations and country needs include converting biennial country allocations to indicative four years’ country allocations with annual updates. The new allocation mechanism strikes an appropriate balance between predictability of resource allocations to facilitate country programming and flexibility to adjust resource allocations across eligible DMCs by incorporating the social and economic impact of the COVID-19 pandemic through annual updates. Predictability and flexibility of the resource allocation mechanism under ADF 13 will help to maximize resource utilization.

22. The increased country allocation share of total ADF grants under ADF 13 will provide more flexibility to address a change of investment priorities (para 10). In addition, flexibility in supporting thematic priorities including RHS within the thematic pool compared to fixed set-asides under ADF 12 increases the overall flexibility of ADF 13. A review of the overall ADF 13 framework will be carried out at mid-term in early 2023 which provides an opportunity for ADF Donors and ADB Management to review and adjust major components of the ADF 13 framework.

VI. CONCLUSION

23. The ongoing COVID-19 pandemic is severely impacting ADF and COL countries. While the pandemic has created some new challenges, it has above all escalated exiting ones. Key features of the ADF 13 framework are forward looking and capture the particular development needs highlighted by the COVID-19 pandemic. The ADF 13 framework is also able to address unforeseen developments due to its built-in flexibility.

24. The ADF 13 framework remains relevant and instrumental to respond to the impact of the COVID-19 pandemic and helps to build the foundations of an inclusive and sustainable economic recovery in ADF and COL countries by (i) providing substantial funding amounts, particularly for SIDS and FCAS, and facilitate change of investment priorities, (ii) providing more health-related assistance and emergency response, (iii) supporting countries with deteriorating debt sustainability, (iv) addressing adverse gender impact, (v) addressing obstacles to private sector investments, (vi) strengthening thematic support for climate and disaster resilience during COVID-19 recovery, and (vii) increasing flexibility to better respond to unforeseen developments and country needs.

25. The current funding framework is balancing financing needs of ADF countries and donor's constrained ability to supply funds in lieu of constraining the COVID-19 impact on their societies. Uncertainty about the economic and social outlook and scale of additional financing needs of ADF countries has significantly increased since ADF 13 was negotiated with donors. It will therefore be
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