<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ADF</td>
<td>Asian Development Fund</td>
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<tr>
<td>AER</td>
<td>Annual Effectiveness Review</td>
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<tr>
<td>ANR</td>
<td>agriculture and natural resources</td>
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<tr>
<td>APPR</td>
<td>Annual Portfolio Performance Report</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>CAPE</td>
<td>country assistance performance evaluation</td>
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<tr>
<td>CoP</td>
<td>community of practice</td>
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<td>CPS</td>
<td>country partnership strategy</td>
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<tr>
<td>CWRD</td>
<td>Central and West Asia Regional Department</td>
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<tr>
<td>DEfR</td>
<td>Development Effectiveness Review</td>
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<tr>
<td>DMC</td>
<td>developing member country</td>
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<td>DVA</td>
<td>direct value-added</td>
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<td>EARD</td>
<td>East Asia Regional Department</td>
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<tr>
<td>EGM</td>
<td>effective gender mainstreaming</td>
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<tr>
<td>FCAS</td>
<td>fragile and conflict-affected situation</td>
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<tr>
<td>GACAP II</td>
<td>Second Governance and Anti-Corruption Action Plan</td>
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<td>GAP</td>
<td>Gender Action Plan</td>
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<td>GCD</td>
<td>good governance and capacity development</td>
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<td>GMS</td>
<td>Greater Mekong Subregion</td>
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<td>HRFSF</td>
<td>Human Resource Function Strategic Framework</td>
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<tr>
<td>ICT</td>
<td>information and communication technology</td>
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<td>IED</td>
<td>Independent Evaluation Department</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>KEXIM</td>
<td>Export-Import Bank of Korea</td>
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<td>KMAP</td>
<td>Knowledge Management Action Plan</td>
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<td>MAKE</td>
<td>Most Admired Knowledge Enterprises</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MDR</td>
<td>Managing for Development Results</td>
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<td>MFF</td>
<td>Multitranche Financing Facility</td>
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<td>MOPAN</td>
<td>Multilateral Organization Performance Assessment Network</td>
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<tr>
<td>OCR</td>
<td>Ordinary Capital Resources</td>
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<tr>
<td>OPS</td>
<td>Our People Strategy</td>
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<td>PDF</td>
<td>project development facility</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>PSD</td>
<td>private sector development</td>
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<td>PSM</td>
<td>public sector management</td>
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<td>PSO</td>
<td>private sector operations</td>
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<td>QAE</td>
<td>quality at entry</td>
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<tr>
<td>RAMP</td>
<td>risk assessment management plan</td>
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<tr>
<td>RCI</td>
<td>regional cooperation and integration</td>
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<td>SARD</td>
<td>South Asia Regional Department</td>
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<tr>
<td>SBP</td>
<td>streamlined business processes</td>
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<td>SERD</td>
<td>Southeast Asia Regional Department</td>
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<tr>
<td>SME</td>
<td>small and medium enterprise</td>
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<tr>
<td>SPS</td>
<td>Safeguard Policy Statement</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>TA</td>
<td>technical assistance</td>
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<tr>
<td>TAS</td>
<td>transaction advisory services</td>
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<tr>
<td>TFP</td>
<td>trade finance program</td>
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<tr>
<td>TSR</td>
<td>technical skills registry</td>
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<tr>
<td>WPBF</td>
<td>Work Program and Budget Framework</td>
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EXECUTIVE SUMMARY

Strategy 2020 was approved in 2008 as the Asian Development Bank’s (ADB) main corporation-wide strategy and planning document. It has given ADB a mandate and clear direction in its pursuit of its vision of an Asia and Pacific region free of poverty.

Scope of the Review: This review of progress on implementation of Strategy 2020 (progress review) is part of an overall midterm review of Strategy 2020. It assesses ADB’s success and progress in implementing the strategy during the 5 years since it was adopted. The progress review builds on monitoring of the strategy through development effectiveness and portfolio performance reviews. It also takes into account relevant findings of evaluation studies by ADB’s Independent Evaluation Department. The conclusions of external performance assessments, the results of perception surveys that relate to implementation of Strategy 2020, and feedback received from staff are also reflected.

The progress review uses four parameters to assess ADB’s implementation of Strategy 2020:

(i) alignment of ADB’s sector operations with Strategy 2020’s three development agendas of inclusive economic growth, environmentally sustainable growth, and regional integration, and the strategic selectivity and operational focus achieved under Strategy 2020 to pursue these agendas;

(ii) progress in embedding the five drivers of change of Strategy 2020—private sector development and operations, good governance and capacity development, gender equity, knowledge solutions, and partnerships—into ADB’s sector operations;

(iii) the quality of ADB’s operational performance during the Strategy 2020 period, as measured by project evaluations and ratings of completed and ongoing projects; and

(iv) the effectiveness of ADB’s institutional arrangements, including those related to staffing and skills levels and business processes, in facilitating the implementation of Strategy 2020.

The main findings of the progress review are as follows:

ADB improved its overall capability under Strategy 2020 to serve its developing member countries (DMCs). ADB’s operations (total new commitments for sovereign and non-sovereign operations, including guarantees but excluding cofinancing) rose to more than $65 billion during 2008–2012, the first 5 years of Strategy 2020 implementation. This partly reflects increased lending in response to the global financial crisis in 2008–2009. Operations during 2008–2012 represented an increase of about 75% over the 2003–2007 5-year period preceding the strategy’s adoption. Non-sovereign operations more than doubled over the same period (from an annual average of $777 million during 2003-2007 to $2 billion during 2008–2012). Combined with ADB’s support for knowledge and leveraging of additional resources, this assistance has supported faster growth in DMCs, helped fill their infrastructure gaps, and contributed to their progress on poverty reduction and the Millennium Development Goals (MDGs). External ratings of ADB’s performance have been positive.

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1 Nonsovereign operations refer to direct lending, guarantee or equity to a private entity or public entity without a sovereign guarantee.
(i) **ADB’s operational support is strongly aligned with Strategy 2020’s agendas.** ADB’s strategic agendas are mainstreamed in ADB’s country partnership strategies agreed with DMCs. Policies and operational plans adopted after Strategy 2020 support stronger alignment with these agendas.

(ii) **ADB’s support for infrastructure development is the main contributor to Strategy 2020’s agendas.** Infrastructure operations comprised 72% percent of ADB operations during 2008–2012, which supported economic growth. These operations improved the enabling environment for private sector investments, direct foreign investments, and pursuing innovations. Infrastructure investments supported inclusive growth by creating jobs and economic opportunities and linking the poor to markets. They provided access to basic services such as electricity, water supply and sanitation which, in turn, in rural areas decreased the work-burden for women and enabled children to study at home. Transport sector operations contributed to improving access to schools, medical services and hospitals. ADB’s support for infrastructure has also been its main contributor to the environmentally sustainable growth and regional integration agendas. There has been a clear shift to clean energy and energy efficiency projects, sustainable transport projects, and projects that support disaster and risk mitigation. Substantial investment in cross-border infrastructure is also enabling progress on regional integration.

(iii) **Strategy 2020’s agendas are also being supported through other ADB operations.** In education, there has been a shift in focus to tertiary and technical and vocational education to help DMCs increase productivity, employability and innovation. In the financial sector, regional cooperation has been emphasized through the regional infrastructure fund and regional bond market initiative. However, the share of assistance of education and finance in ADB’s total financing has declined during Strategy 2020 implementation from 4% to 3% and from 13% to 8%, respectively, comparing 2003–2007 with 2008–2012. ADB’s support for health, which also supports the inclusive growth agenda, has declined to less than 2% from 3%. ADB’s support for agriculture, as a share of total ADB financing, has remained at 2–3%.

(iv) **Drivers of change are increasingly reflected in operations.** Good progress has been made on scaling-up assistance for private sector development and private sector operations, a key driver of change under Strategy 2020 during 2008–2012. Private sector operations accounted for an average 15% of Ordinary Capital Resources (OCR) (in 2010–2012) annual approvals. Under the PPP operational plan, public-private partnerships have become an institutional priority for ADB. Good governance and capacity development is strongly embedded in CPSs and operations. Mainstreaming of gender equity has increased significantly. While progress on generation of knowledge solutions has been made, the efforts are still not adequately linked to operations and DMC needs. Knowledge dissemination requires systematic improvement. While significant progress has been made in promoting partnerships, Strategy 2020’s target of “having total annual direct cofinancing exceed the value of ADB’s stand-alone project financing” remains ambitious.

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2 Private sector development refers to mainly sovereign operations that support the enabling environment for the private sector in DMCs. Private sector operations refers to direct lending or equity to a private entity without a sovereign guarantee.
Project success rates and implementation needs to be improved. The success rates\(^3\) of completed projects have improved during 2008–2012, but have not yet reached the target of 80 percent set in Strategy 2020’s results framework. The quality-at-entry assessment of new projects, a leading indicator for project success, was rated satisfactory in 2012, although the assessment was somewhat less positive than in 2010. Performance of ongoing sovereign projects (projects that are approved but not completed) has improved, on average, from 2003–2007 to 2008–2012. But project performance declined during 2011–2012. This was partly because of the more rigorous monitoring system adopted in 2012. However, delays in project startup and implementation have been noted and require serious attention. Procurement processes are still prolonged. Steps are being taken to improve project readiness, procurement and implementation.

Streamlined business processes and institutional strengthening have improved ADB’s operational response time. ADB streamlined its business processes for preparing CPSs and processing projects in 2009.\(^4\) The new processes have significantly reduced the processing time and documentation, and strengthened the quality control process and made them more client focused. However, procedures and practices for project implementation, including procurement, have not significantly improved. The greater diversification of ADB’s lending instruments, such as the multitranche financing facility\(^5\) and the results-based financing for programs modality,\(^6\) has strengthened ADB’s capacity to respond to client needs. ADB has also realigned its organizational structure in important ways to improve its effectiveness. Steps taken in this direction include (i) enhancing the independence of ADB’s Operations Evaluation Department and renaming it the Independent Evaluation Department (IED), (ii) upgrading ADB’s risk management unit to the Office of Risk Management (ORM), (iii) establishing the Office of Anticorruption and Integrity, and (iv) upgrading the Central Operations Services Office to the Operations Services and Financial Management Department (OSFMD) to improve ADB’s portfolio functions and oversight.

Significant staff expansion has taken place but skills gaps remain. A major staff expansion program during 2010–2012 added 500 new positions at ADB and strengthened ADB’s capacity to implement Strategy 2020. The share of international women staff increased from 29% in 2010 to 34% in mid-2013. More resources, including staff, were deployed at resident missions to strengthen decentralization. However, skills shortages continue in specific technical areas and general project management. ADB’s work on infrastructure and other areas is more dependent on external consultants instead of in-house skills.

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


5 Adopted by ADB on 11 July 2008, after being piloted. This modality provides long term and flexible programmatic support to DMCs without the commitment costs associated with standalone projects.

6 Approved on a pilot basis on 6 March 2013, it supports government owned sector development programs and links disbursements directly to the achievement of program results.
I. INTRODUCTION

1. **Strategy 2020 is the overarching corporate strategy of the Asian Development Bank (ADB).**\(^1\) Approved in 2008, it replaced an earlier long-term strategic framework\(^2\) for 2001–2015 to become ADB’s paramount corporate-wide strategy and planning document. Affirming ADB’s vision as “An Asia and Pacific Free of Poverty”, Strategy 2020 sought to position ADB to successfully implement its mission of helping its developing member countries (DMCs) “reduce poverty and improve living conditions and quality of life.”

2. Strategy 2020 sought to make ADB operations more selective and focus on areas of ADB’s comparative advantages in light of existing and emerging challenges, and limited ADB resources. Reflecting these factors, the strategy promotes three strategic agendas: (i) inclusive economic growth, (ii) environmentally sustainable growth, and (iii) regional integration. To achieve these goals, five drivers of change would be embedded in ADB’s operations—private sector development and private sector operations, good governance and capacity development, gender equity, knowledge solutions, and partnerships. Selectivity and focus would be reflected in the targeted 80% of ADB’s operational focus on five core operational areas—infrastructure, environment, regional cooperation and integration, finance sector development, and education. Support for other areas of operation, such as health, agriculture, and disaster and emergency assistance, would be selectively provided.

3. **The implementation progress review assesses ADB’s performance so far in implementing Strategy 2020.**\(^3\) As the mid-point of Strategy 2020 approaches, ADB has initiated a midterm review (the review) with the objective of improving its relevance, responsiveness and effectiveness. The review will analyze lessons learned through the strategy’s implementation and the emerging challenges of DMCs. Key achievements, as well as areas for improvement, will be identified along with the need for any mid-course correction. As part of the midterm review, this implementation progress review report presents a consolidated assessment of progress and performance in the strategy’s implementation during 2008–2012. It consolidates annual reporting of progress on Strategy 2020 through ADB’s development effectiveness reviews (DEfRs),\(^4\) annual portfolio performance reports, and the annual effectiveness reviews of the Independent Evaluation Department (IED) and IED’s special and thematic evaluation studies. The results of surveys on perceptions of ADB’s performance have been taken into account. The progress review also draws on findings and lessons from external performance assessments undertaken by development partners.

4. **The progress review presents findings at a bank-wide level.** The scope of the progress review is limited to evaluating ADB’s performance under Strategy 2020. The progress review, therefore, does not provide directional perspectives and recommendations for any mid-term course-correction, although its findings will contribute to the formulation of ADB’s strategic proposals for the remaining years of Strategy 2020. These proposals will be included in the full midterm review report that will be finalized by the time of ADB’s next annual general meeting in May 2014. The progress review provides a bank-wide assessment of progress. For space

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\(^3\) The term “implementation progress review” has replaced the earlier “retrospective review” for greater clarity on the scope of this part of the midterm review.

considerations, it is not possible to include progress in each sub-region or individual developing member country (DMC) group. However, the progress review highlights specific considerations for ADB’s support for countries with fragile and conflict-affected situation (FCAS). It also notes country-level differences in project completion success rates. The full midterm report will further highlight the range of perspectives of DMC groups by distinguishing ADB’s strategic directions for middle-income countries.

5. The progress review adds to the findings of previous assessments. It is based on further analysis by and consultations with staff of ADB departments and offices, communities of practice, and Management. External consultations with stakeholders have begun and will continue to inform the full midterm review.

6. The progress review is organized as follows: Section II considers the alignment of ADB’s sector operations with the strategic agendas of Strategy 2020 and the progress made in implementing these agendas. Section III assesses the extent to which ADB became a selective and focused institution during 2008–2012. Section IV examines ADB’s progress on incorporating Strategy 2020’s five drivers of change in operations. Section V reports on project and portfolio performance to clarify ADB’s progress on achieving development results. Finally, section VI reviews progress made on institutional arrangements to support Strategy 2020’s implementation, including staffing, skills, and business processes.

II. PROGRESS ON STRATEGIC AGENDAS THROUGH ALIGNMENT OF SECTOR OPERATIONS UNDER STRATEGY 2020

ADB’s sector operations have become more strongly aligned with Strategy 2020’s agendas of inclusive economic growth, environmentally sustainable growth, and regional integration. Infrastructure sector investments are supporting inclusive economic growth by creating and expanding access to economic opportunities. However, ADB’s support for the non-infrastructure core areas and other areas of operations remains more limited, evidenced by the declining or static share of support for education, finance sector development, health, agriculture, and social protection. Clean energy, sustainable transport, and water interventions are directly supporting environmentally sustainable growth. Substantial investments in cross-border infrastructure are enabling progress on regional integration, but trade facilitation and regional public goods need more attention.

7. Overall, Strategy 2020 has improved ADB’s capability and positioning to respond to Asia and Pacific’s development challenges. While the midpoint of its implementation is too early for a definitive assessment of the impact of Strategy 2020, the strategy has boosted ADB’s capability and positioned it more effectively to help meet the development challenges of its DMCs. ADB’s development investments rose to more than $65 billion during 2008–2012 (the first 5 years of Strategy 2020), up 75% from the 2003–2007 5-year period preceding the strategy’s adoption. Combined with ADB’s support for knowledge and leveraging of additional resources, this assistance has supported faster growth in DMCs, helped fill their infrastructure gaps, and contributed to their progress on poverty reduction and the Millennium Development Goals (MDGs). ADB’s sharper focus on development effectiveness and results under Strategy 2020 has earned it a rating of “strong” for corporate strategy and mandate in the 2013 report of

5 The progress review uses a “before” and “after” analysis to assess progress under Strategy 2020 during the first 5 years of its implementation (2008–2012) compared to the 5 years before Strategy 2020 (2003–2007). For some analysis, where there are data constraints, such “before” and “after” comparisons are based on shorter time periods.
the Multilateral Organization Performance Assessment Network (MOPAN).\(^6\) Assessments by several other organizations and bilateral agencies have also rated ADB as one of the best performing development institutions in terms of providing value for money. In a 2012 external perceptions survey, 90% of external stakeholders reported that ADB was having an increasingly positive impact on development and held positive views of ADB’s impact on helping DMCs meet their development goals.\(^7\)

A. **Inclusive Economic Growth**

8. **ADB’s DMCs have grown robustly and reduced the incidence of poverty.** Demonstrating resilience in overcoming the global financial and economic crisis of 2008–2009, Asian economies continued to expand rapidly during 2008–2013, with an average real gross domestic product growth rate of 6%. National rates varied, but growth was widespread and covered all the subregions of Asia. This growth continued to reduce poverty and thereby move the region closer to Strategy 2020’s vision of a poverty-free region (para. 1). The percentage of the region’s population living below the $1.25-a-day poverty line and classified as the absolute poor fell from 23.9% in 2008 to 20.7% in 2010—the most recent year for which data is currently available (Table 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>$1.25/day Poverty</th>
<th>$2.00/day Poverty</th>
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<tbody>
<tr>
<td></td>
<td>Poverty Incidence</td>
<td>Number of Poor</td>
</tr>
<tr>
<td></td>
<td>(%)</td>
<td>(Million)</td>
</tr>
<tr>
<td>1990</td>
<td>54.5</td>
<td>1,479</td>
</tr>
<tr>
<td>2008</td>
<td>23.9</td>
<td>828</td>
</tr>
<tr>
<td>2010</td>
<td>20.7</td>
<td>733</td>
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9. **Rising inequality has tempered the impact of growth on poverty reduction.** Economic growth would have led to an even greater reduction in poverty during the review period had income distribution not become more skewed in several ADB DMCs. Income/consumption inequality increased in 10 of 24 DMCs for which consistent data is available between the early 1990s and late 2000s, including in the People’s Republic of China and India, which have the region’s and world’s largest populations of the poor. More inclusive growth and a more equal distribution of growth’s benefits would have raised more people out of poverty. As result, 733 million people in the region continued to live below the $1.25-a-day absolute poverty line in the region in 2010, and 1,615 million fell below the $2-a-day poverty benchmark. There has also been an increase in the number of vulnerable people who are at risk of slipping back into absolute poverty in case of downward fluctuations and volatility in their incomes.

10. **Unemployment remains high in the region and has not returned to pre-crisis levels.** The Global Employment Trends 2013 report of the International Labour Organization shows that unemployment is high in most of the subregions of Asia and the Pacific (Figure 1).\(^8\) A slowdown in growth in East Asia added about 6.8 million unemployed people during 2007–2012. South Asia experienced jobless growth that has been associated with improved labor

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productivity at the cost of job creation. Southeast Asia has bucked the overall trend, however, and growth there has produced a large decline in unemployment.

11. Although good progress has generally been made in the region on the MDGs, some DMCs are off-track and countries qualified to borrow from ADB’s Asian Development Fund (ADF) are furthest behind. ADB’s DMCs have achieved or are on schedule to achieve two-thirds of the MDG targets (footnote 4). But progress has been slow on MDGs related to health and selected environment-related targets, including reduction in carbon emissions and access to sanitation. Some of these targets will not be achieved by 2015. ADF DMCs are likely to fall short on more than half of the MDG targets. Large groups of the region’s poor population, still the largest in the world, remain excluded from formal social protection systems. Public spending for social protection remains low.

12. Overall, progress on inclusive economic growth in the region has been mixed and leaves room for improvement. Making economic growth more inclusive will require DMCs not only to sustain high growth but also to make faster progress on reducing inequalities in income and opportunities. They must deliver a greater number of better jobs in the formal economy, according to the International Labour Organization (footnote 8). They must address infrastructure gap in disadvantaged areas, improve human development outcomes by improving access to social services and ensuring stronger, sustainable safety nets and broader social protection systems. The current economic slowdown in several emerging economies poses a renewed risk to the pace of poverty reduction and job growth. This could, in turn, further impair inclusiveness in the region’s growth.

13. ADB’s support for inclusive economic growth has been operationalized at the country level through its country partnership strategy (CPS). Inclusive economic growth is increasingly a cornerstone in the framework of assistance in each CPS agreed with a DMC. As a result, ADB’s latest quality-at-entry survey (2012) rates 88% of CPSs satisfactory on integrating inclusive economic growth. However, concerns have been raised about coherence and consistency in presenting inclusive growth in CPSs. Country teams have also struggled to demonstrate clear pathways to inclusive growth. New staff guidelines were issued in 2013 to

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improve this situation.\textsuperscript{10} They clarified the definition, pillars, and pathways for inclusive economic growth; suggested improvements to CPS diagnostic work on inclusive growth; and provided inclusive growth indicators to monitor and report progress.

14. **ADB’s infrastructure investments have supported inclusive economic growth by creating and expanding access to economic opportunities.** ADB’s support for inclusive economic growth has mostly focused on its first two pillars: (i) creating and expanding economic opportunities, and (ii) improving access to economic opportunities. During 2009–2012, 49\% of ADB’s operations by number (62\% by volume) supported pillar 1 (creation and expansion of economic opportunities), 45\% by number (33\% by volume) supported pillar 2 (access to jobs and opportunities), and only 1\% by number and volume supported pillar 3 (social protection). Infrastructure investments accounted for 66\% of ADB’s support for the first pillar and 75\% for the second pillar during 2009–2012. This support improved the enabling environment for private sector investments, direct foreign investments, and pursuing innovations. ADB-assisted infrastructure development both directly and indirectly supported faster growth, poverty reduction, social development, and progress on the MDGs. It provided access to basic services such as electricity, water supply and sanitation which, in turn, in rural areas, is decreasing work-burden for women and providing more study time for children.

15. In addition, infrastructure investments connected with social development outcomes by improving access to schools, medical services and hospitals. Analysis has shown evidence that ADB’s infrastructure development supports inclusive growth. A 2010 ADB report found that rural road projects make a particularly high contribution to inclusive growth and highway and railway projects provide a medium contribution.\textsuperscript{11} ADB’s rural roads projects are estimated to have benefited as many as 47 million people during 2009–2012 (footnote 4). ADB has maintained its support for the transport sector under Strategy 2020. The sector has continued to be the largest recipient of ADB’s support, obtaining 29\% of total financing during 2008–2012 even though this share fell from 33\% during 2003–2007 (Table 2, page 16).

16. **Energy sector operations are increasing energy connectivity.** Under Strategy 2020, ADB has scaled up its support for the energy sector to support inclusive economic growth. The share of the energy sector in overall ADB financing climbed to 26\% during 2008–2012 from 16\% during 2003–2007 (Table 2, page 16). Scaling-up connectivity to modern energy is an important aspect of the energy sector agenda to support inclusive growth. An ADB-led Energy for All Partnership was launched in 2009 to connect 100 million people to energy and electricity sources by 2015. By 2012, ADB support had provided 65 million people with access to electricity. ADB has also launched the Lighting for All program to provide 50 million people with modern lighting by 2015. ADB continues to promote off-grid renewable energy technologies such as solar photovoltaic, microhydro, and small-scale wind schemes, as well as cleaner and more efficient cooking and heating applications.

17. **ADB’s operational support in other sectors has also contributed to inclusive growth but volume of support has been more limited.** In addition to transport and energy sector support, ADB has created greater access to economic opportunities through assistance for social sectors and urban development, the water sector, agriculture and rural development, and finance sector development, including financial inclusion. Operational plans in these areas prepared during 2008–2013 are aligning sector operations more closely with the inclusive growth agenda. During 2009–2012, 24.5 million students benefited from ADB-assisted school

improvement programs, 6.4 million households obtained access to water supply and sanitation schemes for the first time, and 2.4 million new microfinance accounts were opened. In addition, ADB has increased mainstreaming of gender equity as a driver of change in its operational areas (para. 64).

18. Significant as these accomplishments have been, the challenges in the social, environmental, and financial inclusion areas and their importance to success or failure in achieving more inclusive growth are even greater. ADB’s assistance for the non-infrastructure core operational areas of Strategy 2020 (education and finance) as share of its total financing has declined, while the share of the other areas of operations has remained the same at 5% during 2008–2012 (as it was during 2003–2007) (Table 2 page 16). A 2013 IED report suggested that ADB could support greater progress on inclusive growth by providing direct support to assist DMCs meet lagging MDGs. Management agreed, provided that such support was consistent with Strategy 2020’s framework and could be provided without spreading available resources too thinly.

19. Emphasis on technical, vocational, and tertiary education has strengthened. Strategy 2020 recognized the need for investments in education and vocational training to help DMCs increased productivity, employability, and innovation. The sector operational plan for education accordingly emphasizes inclusiveness, quality, and skills at all education levels. The plan has aligned sector operations with Strategy 2020, with 42% of approved operations during 2008–2012 committed for technical, vocational, and tertiary education. The share of education in ADB’s total lending fell to 3% during 2008–2012 from 4% during 2003–2007 (Table 2, page 16). In addition, implementation in some education sub-sectors has been weak.

20. Support for the financial sector has declined along with performance. As a core area under Strategy 2020, financial sector development in the region is needed to enable greater financial inclusion and inclusive and private sector led economic growth. Under the financial sector operational plan adopted in 2011 to align operations in this sector with Strategy 2020, financial inclusion and development and deepening of regional capital markets to help channel regional savings to productive investments such as infrastructure, are key priorities. However, the share of financial sector operations in ADB’s total lending fell to 8% during 2008–2012 from 13% during 2003–2007 (Table 2, page 16). The share of support for microfinance and small and medium enterprise (SME) finance remained unchanged after adoption of Strategy 2020 at 2% of total assistance. In support of regional financial cooperation, ADB has provided advisory and capacity building support, with a primary focus on the Association of Southeast Asian Nations (ASEAN) region (para. 43).

21. There was also a move away from traditional public sector financial intermediation loans, but this was compensated by continued support for financial intermediaries from ADB’s private sector operations. Overall, operational performance in the financial sector declined, while the quality of entry of new projects was mixed. This decline is attributed to overly complex design of projects and insufficient staff skills.

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12 Independent Evaluation Department. 2013. ADB’s Support for Achieving the Millennium Development Goals. Manila: ADB.
15 While a recent IED study found that ADB’s microfinance operations have been relevant and responsive to DMC needs and helped to improve the enabling environment, concerns were raised with respect to the effectiveness of these interventions. ADB. 2012. Microfinance Development Strategy 2000: Sector Performance and Client Welfare. Manila.
22. **Food insecurity has remained a recurring challenge in the region.** About 60% of Asian and Pacific DMCs are considered highly or severely vulnerable to food insecurity. Spikes in food prices are a recurring phenomenon. ADB invested $2.4 billion annually during 2010–2012 under its operational plan to mitigate food insecurity, 76% of which went to supporting infrastructure for food security. Agriculture and natural resource (ANR) investments have been shown to have a significant impact on inclusive growth; a 2010 IED evaluation notes that ADB’s investments in this area have generated employment, raised rural incomes, and reduced poverty. In addition, the success ratings of ANR investments have steadily improved.

23. **Support for social protection has remained small.** ADB has undertaken knowledge work on social protection. This has included its pioneering of a social protection index to rank countries on the effectiveness of their social protection systems that was quoted in The Economist in 2013. But ADB’s operational support for social protection, mostly provided as part of broader assistance in the core and other operational areas of Strategy 2020, has been indirect and small. A 2012 IED study noted that ADB’s assistance for social protection was only 2.5% of the total portfolio during 2002–2011 and recommended that ADB “scale up its presence and experience in building social protection systems.” Management agreed to assess demand for assistance for social protection in DMCs and is working towards making stronger connections between social protection and the various operational areas of Strategy 2020. A new operational plan renews and helps clarify ADB’s commitment to social protection.

24. **To support cross-country inclusiveness, ADB has placed greater focus on fragile and conflict-affected situations (FCAS).** In 2013, 9 ADB DMCs were categorized as countries with FCAS, of which 7 are located in the Pacific region: Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Nauru, Solomon Islands, Timor-Leste, and Tuvalu. To support these DMCs, ADB adopted its Approach to Engaging with Weakly Performing Countries in 2007. Guided by the two pillars of the 2007 approach—selectivity and focus, and strategic partnerships—ADB adopted differentiated approaches in FCAS based on specific fragility characteristics and national priorities. Useful lessons and good practices have emerged from ADB’s implementation of the 2007 approach. In a 2010 special evaluation study, ADB’s IED found that the 2007 approach remained relevant and had enabled ADB to respond flexibly to the needs of FCAS DMCs. It also recommended that ADB take several steps to enhance the development effectiveness of its operations in FCAS DMCs. In support of these recommendations, the Operational Plan for Enhancing ADB’s Effectiveness in FCAS, approved in 2013, aims to improve the development impact of ADB’s support to DMCs experiencing fragility and the effects of conflict on either a national or subnational level.

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17 Independent Evaluation Department. 2010. *Performance of ADB’s Assistance to Agriculture and Natural Resources: Evidence from Post-Completion Evaluations.* Manila: ADB.
21 Afghanistan and Nepal are the remaining two countries characterized as FCAS.
B. Environmentally Sustainable Growth

25. ADB’s DMCs continue to face serious environmental challenges. Their strong growth has unleashed intense competition for finite natural resources, and many face mounting challenges from the effects of rapid urbanization. The region’s energy security will also be tested as its share in world energy consumption rises to a projected 40% by 2050.26 The region has emerged as both a major contributor to climate change and a victim of its effects. The region’s share in global carbon dioxide emissions rose from less than 20% in 1991 to 35% in 2008 and to more than 40% in 2011. Per capita emissions in ADB DMCs increased steadily to about 3.6 metric tons in 2011 from about 3 metric tons in 2008 (Figure 2).

![Figure 2: Rising Emissions in ADB DMCs](http://data.worldbank.org/data-catalog/world-development-indicators)

_ADB = Asian Development Bank; DMC = developing member country; CO2 = carbon dioxide._

26. Global warming and climate change and the increased risks they pose of natural disasters threaten agricultural production, coastal populations, and major urban areas across Asia and the Pacific. Loss of natural ecosystems and biodiversity in the region is already occurring at twice the global rate. Environmental pollution (including air and water pollution) is also a major challenge. As environmental challenges have multiplied, several Asian countries have adopted high-level strategy and policy initiatives to promote green growth and are allocating more resources for low-carbon and climate-resilient development. This positive trend has provided multiple opportunities to improve environmental sustainability and resource efficiency across a wide range of productive systems.

27. ADB has increasingly mainstreamed environmental sustainability in CPSs and operations. During 2008–2012, 86% of the approved CPSs provided a substantive focus on the environment as part of the development context, as a thematic concern, and/or as an operational focus. All CPSs approved from 2009 onward have emphasized climate change as a key development issue and supported climate change interventions for mitigation and adaptation to varying degrees. The quality of background country environmental assessments is generally satisfactory, although their recommendations have been less well integrated in CPSs.

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28. **Emphasis on the environment in projects has also increased.** The share of operations aligned with the strategic environment and climate change objectives rose to 40% during 2008–2012 from 14% during 2003–2007. In 2012, environment-focused lending reached about $6.2 billion, and 53 loan and grant projects had environmental sustainability as a theme. Almost 80% of external stakeholders surveyed in 2012 believed that ADB places high or moderate priority on environmental sustainability (footnote 7).

29. **Operational plans have supported stronger alignment with environmental sustainability.** Environmental sustainability is clearly reflected in sector operations plans and in sector thematic policies, particularly those for the energy, transport, urban, and water sectors. Consistent with its energy policy, ADB’s financing for clean and renewable energy during 2008–2012 was 11 times higher than during 2003–2007, and financing for energy efficiency and conservation operations was 6 times higher. The share of renewable energy and energy efficiency operations together increased to 19% of total energy assistance during 2008–2012 from only 6% during 2003–2007. ADB intends to maintain its current $2 billion annual financing for clean energy (Box 1).

### Box 1: Scaling up Support for Clean Energy

To support environmentally sustainable growth, one of the three strategic agendas of Strategy 2020, Asian Development Bank (ADB) set a target in 2008 to expand clean energy investments to $2 billion a year by 2013. This target was met ahead of time. ADB assistance for clean energy totaled $2.1 billion in 2011 and $2.3 billion in 2012. It will maintain this level going forward. ADB’s private sector operations department has been a leader in clean energy projects. In 2012, 40% of its transactions were for clean and renewable energy projects.

To support wide deployment of clean energy technology, ADB has created innovative financing mechanisms as the Clean Energy Financing Partnership Facility, the Asia Pacific Carbon Fund, and the Future Carbon Fund. ADB is also in the process of setting up the Climate Public–Private Partnership Fund, which will aim to generate investment in environment finance in Asia and the Pacific.

ADB is supporting solar and wind technologies to help its developing member countries meet energy demand using clean, renewable sources. It aims to support deployment of 3,000 megawatts of solar energy generation capacity through an Asia solar energy initiative, and 1,056 megawatts of this target has already been installed. These investments use solar photovoltaic and concentrated solar thermal power technologies that are appropriate for such countries as the People’s Republic of China, India, and Uzbekistan that benefit from high solar irradiation. Offshore wind technologies also hold considerable renewable energy potential for DMCs. ADB plans to support large-scale use of wind power and aims to help install an additional gigawatt of wind power generation capacity by 2015.


30. **Supported by an operational plan focused on sustainable transport,** environment-friendly urban transport’s share in total transport financing increased to 10% during 2008–2012 from 2% during 2003–2007 (Figure 3). The share of the road subsector fell by 5 percentage points over this period to an average 72% during 2008–2012. The operational plan envisages a

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29 ADB. 2010. *Sustainable Transport Initiative*. Manila. Since this plan was approved only in 2010, the 2008–2012 average financing ratios for sustainable transport understated its impact, which will more fully be realized in the coming years.
further significant decrease in the road transport share to 42% by 2020. Although the share of railways—which are a cleaner transport mode—also fell during 2008–2012, it is expected to rise in the coming years, with new investments being planned. Sustainable water transport will also be given more emphasis in future operations.

![Figure 3: Sustainable Transport Trends](image)

STI = Sustainable Transport Initiative.

31. **ADB’s water sector operations, guided by the water operational plan,** have improved water security by providing growing support for more efficient use of water, expanded wastewater management and wastewater reuse, and integrated water resource management to promote environmental sustainability.\(^{30}\) ADB financing for the water, sanitation, and waste management interventions increased by about 70% during 2008–2012 over 2003–2007, even though their share in total ADB financing declined. ADB’s urban operational plan is focusing on integrated planning that catalyzes climate-friendly, resilient, inclusive, and environmentally sustainable urban development.\(^{31}\) In the agriculture sector, ADB assistance for land-based natural resource management, starting from a low base, grew during 2008–2012.

32. **ADB financing for climate change mitigation and adaptation is large and increasing.** It increased to $3.3 billion in 2012 (comprising $2.4 billion for climate change mitigation and $896 million for adaptation) from $3 billion in 2011 ($2.3 billion for mitigation and $757 million for adaptation). This has been achieved by helping DMCs gain access to international climate change financing, particularly from the Global Environment Facility, the Climate Investments Funds, and bilateral funds. ADB has also set up internal funds to invest in responses to climate change, including the Climate Change Fund, the Clean Energy Partnership Facility, the Asia Pacific Carbon Fund, and the Future Carbon Fund.

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33. **ADB has employed innovative approaches for mobilizing private sector financing for low-carbon and climate-resilient investments.** Project lending, equity investments, risk reduction instruments, and public–private partnerships have been pursued for this purpose. ADB is now seeking to catalyze large amounts of financing from institutional investors into a $1 billion Climate Public–Private Partnership Fund that will combine private sector investment with development finance institution expertise to provide equity, debt, and grant facilities to climate-related sectors in DMCs (Box 1).

34. **ADB has supported environment-related MDGs but progress toward some goals has been slow.** The majority of ADB support has gone to expanding access to improved drinking water supply and sanitation, and reducing carbon dioxide emissions through sustainable energy and transport interventions. Based on these activities, the IED study on MDGs called ADB’s overall support for environment-related MDGs responsive but found that it could do more in other aspects of environmental sustainability (footnote 12). Management, in its response, reiterated its support for helping DMCs attain MDGs in sectors and areas prioritized under Strategy 2020 where they are behind schedule. However, progress has remained slow on improving access to sanitation. Only 51% of the new households targeted to be served with sanitation during 2009–2012 were reached (footnote 4).

35. **The new Safeguard Policy Statement (SPS) has improved compliance with environmental and social safeguards.** The SPS, which became effective in January 2010, has unified ADB’s safeguard policies on environment, involuntary resettlement, and indigenous peoples in one consolidated policy framework. Progress on SPS implementation is already visible. ADB’s internal safeguard review system has become stronger. Increased staff resources and capacity—40 new staff positions for safeguard work created since 2009—have helped upgrade the quality at entry of projects, improved their supervision, and enhanced project sustainability.

36. **DMCs have started requesting ADB support to strengthen country safeguard systems.** This support is helping to identify safeguard deficiencies, improve legal frameworks, and strengthen implementation capacity. But gaps remain between country systems and ADB’s safeguard requirements. Bridging them will require continuous strengthening of country safeguard systems through long-term ADB technical and financial support, working in close partnership with the international development community.

37. **ADB has been more responsive to DMC disaster recovery needs than to disaster risk management.** Disasters affected the lives of an estimated 834 million people in ADB DMCs during 2008–2012, and disaster risk management is important to protect livelihoods and thereby support inclusive growth. Although it has been building disaster risk management components into its regular assistance during the review period, ADB also provided $1.7 billion in emergency assistance loans during 2008–2012 for disaster recovery and rehabilitation projects. The Asian Development Fund Disaster Response Facility established in 2012 augments ADB’s capacity to provide recovery and rehabilitation help after disasters in ADF countries. In 2012, an IED study endorsed ADB’s responsiveness on disaster recovery but recommended that it make stronger efforts in disaster prevention and preparedness. Management agreed with the recommendation, providing an institutional commitment to reinforce ADB’s support for disaster risk management.

C. Regional Integration

38. Trade has been at the forefront of regional integration in the Asia and the Pacific region. The share of intraregional trade in overall trade in the Asia and the Pacific region had grown to 57.2% in 2013 from 43.8% in 1990. The extent of trade integration varied across subregions, however. To strengthen trade and economic ties, the region’s countries have promoted regional cooperation in the financing of infrastructure connectivity, mobilizing more than $40 billion for regional infrastructure with support from international development partners. Intraregional remittances in Asia are also rising rapidly, indicating growing intraregional labor mobility, even though the majority of Asia-Pacific migrant workers continue to work outside Asia. While the Asian Financial Crisis in 1997–1998 and the 2008–2009 global financial crisis severely affected Asian financial markets, they also spurred greater macroeconomic and financial cooperation in the region. Consequently, the share of intraregional bond holdings in Asian economies increased from 4.1% to 9.4% during 2001–2011, and the share of Asia’s equity investment in other Asian economies increased from 10.5% to 22.7% over the same period.

39. The implementation of the 2006 Strategy has supported progress on RCI. The renewed emphasis on regional cooperation and integration (RCI) in Strategy 2020 supported the implementation of ADB’s RCI strategy of 2006 based on its four pillars of (i) cross-border infrastructure and related software; (ii) trade and investment cooperation and integration; (iii) monetary and financial cooperation and integration; and (iv) cooperation in regional public goods, such as prevention of communicable diseases and environmental degradation. RCI initiatives under the 2006 strategy cut across ADB’s various operational priorities related to infrastructure improvement, financial sector development, and the environment. This brings out the need for RCI programs to better connect these priorities in a multi-sectoral way, instead of focusing only on stand-alone sector interventions, to achieve synergy and targeted impact of these programs.

40. Strategy 2020 also led to the preparation of subregional cooperation strategies and a stronger reflection of RCI in individual CPSs. Most CPSs approved since the 2008 have included RCI as a strategic and operational pillar. For example, the 2012 interim CPS prepared for ADB’s reengagement with Myanmar identifies RCI as a cornerstone priority for increasing connectivity and promoting trade and investment. The 2013 MOPAN report rates ADB’s support for RCI higher than its support for the other crosscutting themes (footnote 6). Close to 80% of external stakeholders who took part in the 2012 perceptions survey believe that ADB places a high or medium priority on RCI (footnote 7).

41. Infrastructure is the main operational emphasis of ADB’s RCI support while associated software has developed more slowly. ADB has made progress toward Strategy 2020’s goal to have at least 30% of operations supporting RCI by 2020. The share of ADB operations supporting RCI accounted for 17% of overall operations during 2008–2012, 2.8 times what it was during 2003–2007. Most of ADB’s support has been provided for road and rail transport connectivity projects and, to a lesser extent, for regional energy and power trade projects. To complement this emphasis on hard infrastructure, ADB is supporting related software for trade facilitation such as harmonization of regulations, procedures and standards, including support on accession to the World Trade Organization (WTO) and international conventions related to trade facilitation. Such software requirements are increasingly important,

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particularly in the more mature regional cooperation initiatives to take fuller economic advantage of completed investment projects to boost trade and industry development. These soft initiatives are more complex, are proceeding more slowly, and their results are mixed. Thus, new approaches to achieve the more complex but transformative impacts of soft initiatives have become paramount. This explains ADB’s renewed emphasis on trade and trade facilitation in RCI programs. As part of this emphasis, ADB’s Trade Finance Program has invested $850 million to deepen trade linkages and encourage private businesses to penetrate the region’s challenging markets.36

42. **Support on regional public goods has been limited.** The importance of more coordinated regional action on regional public goods has grown. This need is underlined by the rising urgency of energy security and climate change issues, as well as greater recognition of social and environmental problems emerging from faster economic growth. While cross-border infrastructure projects and improved connectivity have brought many economic benefits and have helped reduce poverty, they have also had adverse unintended consequences. Among these have been increased cross-border transmission of HIV/AIDS and communicable diseases and the spread of human trafficking and environmental degradation. Although these challenges are increasingly recognized upfront in the design and implementation of ADB-assisted projects, they remain difficult to address. ADB support to develop effective and coordinated responses to these challenges has been limited.

43. **ADB has played an important role in helping to increase monetary and financial cooperation in the ASEAN+3 and ASEAN regions** where increased intraregional trade and financial liberalization have contributed to greater financial integration. In the ASEAN+3 region, ADB’s main contribution was to support the creation of ASEAN+3 Macroeconomic Research Office (AMRO) for the implementation of the Chiang Mai Initiative Multilateralization and the development of the local currency bond markets under the Asian Bond Markets Initiative (ABMI). Activities supported under ABMI include the establishment of: (i) Credit Guarantee and Investment Facility (CGIF) as a trust fund of ADB to provide credit enhancement for firms seeking to issue bonds in their own domestic market or across the region; (ii) the ASEAN+3 Bond Market Forum for the harmonization of regulations and market integration to make it possible for a firm in any part of the region to issue bonds in any ASEAN+3 currency under the ASEAN+3 Multi-currency Bond Issuance Framework; (iii) the AsianBondsOnline website to provide information on the region’s bond markets; and (iv) the ASEAN+3 Cross-Border Settlement Infrastructure Forum to improve market infrastructure and to connect national settlement systems in ASEAN+3.

44. **In the ASEAN region, ADB has supported ASEAN central banks in assessing the financial landscape and formulating milestones for financial integration as part of the agenda of ASEAN Economic Community (AEC) 2015.** ADB is co-chairing the Steering Committee for Capacity Building under the ASEAN Central Bank Forum to support ASEAN member countries to achieve the set milestones. In addition, ADB has assisted the ASEAN Capital Market Forum to develop an implementation plan for an integrated market to achieve the AEC blueprint for 2015. It has also supported the ASEAN stock exchanges to develop the ASEAN Common Exchange Gateway and a system that will be a basis for an interlinked ASEAN capital market. ASEAN, together with ADB, established the ASEAN Infrastructure Fund (AIF) in 2012 to provide funding for infrastructure development in the region. There is demand for additional support for regional regulatory reforms and capacity building, including on

36 The Trade Finance Program (TFP) supports cross-border trade, particularly among SMEs, and reached an annual turnover of about $4 billion in 2012 (a more than 30% increase over 2011).
monitoring and managing capital flows, and promoting knowledge and lessons-sharing with other subregions.

45. **There are increasing opportunities to support RCI efforts that involve more than one subregion.** Examples include the South Asian Association for Regional Cooperation (SAARC), which involves South Asia (SARD) and Central and West Asia (CWRD) regional departments of ADB; the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which involves SARD and the South East Asia (SERD) regional department; and the Central Asia Regional Economic Cooperation (CAREC) program, which involves CWRD and the East Asia (EARD) regional department. However, current institutional mechanisms to support these initiatives are weak.

### III. SELECTIVITY AND FOCUS UNDER STRATEGY 2020

**Strategic selectivity and operational focus as a main direction for Strategy 2020 has become firmly embedded in ADB. It has allowed ADB to specialize and prioritize its resources to areas of its comparative advantage. Consequently, ADB’s assistance has remained strongly focused in the core infrastructure areas of operations of Strategy 2020 (as it was before Strategy 2020 was approved).**

46. **Strategic selectivity is reflected at the country level through CPSs.** Strategic selectivity and operational focus, reflected in the core and other operational areas and drivers of change of Strategy 2020, is operationalized at the country level through CPSs which define the scope and scale of ADB’s assistance to DMCs. The 27 CPSs approved during 2008–2012 demonstrated higher selectivity by supporting operations across an average of only 4.2 sectors, compared with the average 5.5 sectors in the 21 CPSs approved during 2003–2007. Larger country programs tend to be less selective and include more operational sectors than smaller ones. In this regard, the size of ADB’s country programs generally increased together with the increase in ADB’s overall annual average lending volume during 2008–2012 to $10.771 billion from $6.358 billion during 2003–2007. After controlling for this size increase, the decline in the number of sectors in CPSs approved after Strategy 2020 and their higher selectivity becomes even more robust.37

47. **ADB’s quality-at-entry survey ratings confirm improved selectivity and stronger articulation of strategic choices in CPSs approved after Strategy 2020.**38 The surveys show that CPSs approved during 2008–2012 demonstrated improved articulation of selectivity principles and closer alignment between their prioritized focus areas and country development agendas than CPSs approved during 2003–2007 (Figure 4). Identification of areas in which ADB would not be involved also improved in 2008–2012 CPSs, as did the justifications for this noninvolvement. However, the quality of discussion on the complementarity between ADB’s strategic and operational choices and that of other development partners was found by survey respondents to have declined in the 2008–2012 CPSs.

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37 These results are based on two simple linear regression specifications to analyze correlations across 48 CPSs approved during 2003–2012. The first specification examined the relationship between the number of sectors for new activity under a CPS and the circulation period dummy variable, which assumes the value of 1 during 2008–2012 and 0 for 2003–2007. The second specification examined the same relationship, but controlled for the indicative resource envelope mentioned in the CPS. The regression results are available on request.

38 Data on strategic focus and selectivity for CPSs approved during 2004–2011 was drawn directly from ADB’s Quality at Entry (QAE) surveys, and was extended to CPSs circulated in 2003 and 2012 using the QAE guidelines.
ADB financing has remained concentrated in the core operational areas designated by Strategy 2020, which was virtually the same as in the previous 5-year period. Strategy 2020 stipulated that ADB’s operations would be increasingly concentrated in the core areas of operations, which would account for 80% of total annual approvals by 2012. This target was exceeded. But the core areas’ share of overall approvals during 2008–2012 of 85% (Table 2) was almost identical to the 86% level for these core sectors during 2003–2007. This stability in lending concentration pre- and post-Strategy 2020 is unsurprising to some extent, given that ADB’s emphasis on operational selectivity and focus predates its inclusion in Strategy 2020. After Strategy 2020, driven by an increase in the share of energy operations, the share of ADB lending for infrastructure increased to 72% during 2008–2012 from 67% during 2003–2007. As the ratio of infrastructure financing increased, that of the non-infrastructure core areas fell. The decline of 5 percentage points in the share of the financial sector to 8% during 2008–2012 from 13% during 2003–2007 was particularly pronounced. The share of education in ADB’s financing also declined to 3% during 2010–2012 from 4% during 2003–2007.

CPS = country partnership strategy; QAE = quality-at-entry.
Note: Scores range from 1 (lowest) to 4 (highest). The guidelines for scoring the 2003 and 2012 CPSs, and scores for 2004–2011 CPSs are drawn from QAE questionnaires.
Source: Quality-at-Entry Surveys; SPD estimates.
### Table 2: ADB Financing for Operational Areas

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<tbody>
<tr>
<td></td>
<td>Amount ($ million)</td>
<td>Share of Total ADB Financing (%)</td>
<td>Amount ($ million)</td>
<td>Share of Total ADB Financing (%)</td>
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<td>1. Core Areas of Operations</td>
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<td>a. Infrastructure</td>
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<td>i. Energy</td>
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<td>46,666</td>
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<td>ii. Transport and Communications</td>
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<td>16,840</td>
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<td>iii. Water</td>
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<td>18,873</td>
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<td>iv. Other Infrastructure</td>
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<td>6,013</td>
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<td>b. Finance</td>
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<td>c. Education</td>
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<td>1,822</td>
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<td>b. Health</td>
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<td>1,415</td>
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<td>3. Additional Areas</td>
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<td>8,363</td>
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<td>a. Industry</td>
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<td>711</td>
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<td>b. Public Sector Management</td>
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<td>7,652</td>
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<td>c. Non-core operations that support ENV or RCI</td>
<td>351</td>
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<td>Total ADB Financing</td>
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<td>65,100</td>
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<td>Total Financing for Core Areas (Items 1a+1b+1c+1d+2a+2b+2c)</td>
<td>31,925</td>
<td>86</td>
<td>55,180</td>
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</table>

ADB = Asian Development Bank, RCI = regional cooperation and integration.

Notes: (i) The figures for disaster-risk management, which is considered as part of “other areas of operation” under Strategy 2020, are not reported separately in this table because most of the operations in this area are already classified as part of infrastructure operations. (ii) The shares of operational areas in total ADB financing include components of a given operational area in multisector operations. For this reason, these shares may not match those reported in ADB’s work program and budget framework documents.

Source: ADB Strategy and Policy Department.

49. **The combined share of financing for the other areas of operations of Strategy 2020 has consequently been maintained.** This has stayed at 5% of ADB’s assistance during 2008–2012, the same as during 2003–2007. Within this 5%, the share of agriculture increased marginally. However, the share of public sector management (PSM), which was not specified as an operational area under Strategy 2020, rose to 12% of total ADB financing during 2008–2012 due to greater demand for support in this area generated by the 2008–2009 financial crisis. The share of financing for industry, another operational area not specifically mentioned in Strategy 2020, was maintained at 1% of total financing during the period.

50. **Support for health has declined.** ADB’s health financing fell to 2% of total financing during 2008–2012 from 3% during 2003–2007. This decline coincided with the end of an upward trend in global health financing that had been largely driven by support for control and treatment of HIV/AIDS and plateaued in 2010. A side-effect of this trend was a disconnect in 2010 between the Asia and Pacific region’s share of the world’s poor (almost 63%) and its share of

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39. However, when support for irrigation, drainage, and flood protection is also counted, the share of agriculture in ADB’s assistance was maintained at around 4.5% of total assistance across the two time periods.
the $28.3 billion committed for the health sector in global development assistance (only 15%).
Because of this, the external development assistance that Strategy 2020 expected would
displace ADB’s health lending in the region did not materialize. It also proved difficult for ADB to
leverage effective partnerships due to its diminishing policy engagement, portfolio, and
credibility in the health sector. This impaired its ability to support DMCs on contemporary health
challenges, including those arising from demographic changes and aging populations.
Nonetheless, the success rates of ADB’s limited health sector project support continued to
increase and eclipsed those of the other sectors during 2008–2012. Staff numbers, skills, and
capacities in the sector were reported to have declined.

51. **Reliance on partnerships to deliver assistance on the other areas of operations has not worked.** While Strategy 2020 envisioned more limited support for the other areas of
operations based on an approach that leveraged greater partnerships in these areas, it has
proved difficult to broker partnerships and secure cofinancing in these areas (as shown from the
example of the health sector in para. 50). Official cofinancing, for the large part, remained
concentrated in the core areas of operations (para. 77 and Figure 8). Development partners
continued to seek partnerships with ADB in areas of its perceived comparative advantages (that
is the core areas), but not so much in the other areas of operations where ADB’s pipeline of
projects was lean, and its competencies and strengths were not as well recognized. Thus, over
time, with less significant resource allocations of its own, and declining staff capacities, ADB has
become a less attractive partner for development partners seeking collaboration in other areas
of operations of Strategy 2020.

### IV. DRIVERS OF CHANGE OF STRATEGY 2020

*ADB’s operations increasingly reflect emphasis on Strategy 2020’s drivers of change. External
stakeholder surveys show that more respondents believed ADB was attaching “high” or
“moderate” priority to drivers of change in 2012 compared to in 2009 (Figure 5). However, the
share of stakeholders actually perceiving ADB’s performance on the drivers of change to be
“excellent” or “good” was lower than the share of stakeholders believing that ADB was attaching
priority to them. Better interdepartmental coordination is needed to further integrate drivers of
change in operations. One important aspect, public–private partnerships (PPPs), has emerged
as a strong institutional priority even though more time and effort is needed to realize PPP
transactions. The quality and implementation of risk assessment management plans requires
improvement. Capacity-building strategies need to be reexamined. Application of knowledge
solutions to benefit operations is critical. Partnerships and cofinancing require improved staff
incentives and a coordinated approach for official and commercial cofinancing.*

#### A. Private Sector Development and Private Sector Operations

52. **ADB’s private sector development (PSD) and private sector operations (PSO) are increasingly aligned with Strategy 2020’s agendas.** PSD and PSO have contributed to
inclusive economic growth by supporting infrastructure and financial sector development,
including microfinance and SME finance. ADB-assisted public sector management reforms have
helped address constraints to private sector investment. PSO support for environmentally
sustainable growth has come mainly through clean energy and energy efficiency investments.

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Seattle, WA: IHME.
41 Private sector development refers mainly to ADB sovereign operations that support the enabling environment for
the private sector in DMCs. Private sector operations refers to direct lending or equity to a private entity without a
sovereign guarantee.
The share of approved PSO transactions in clean and renewable energy was maintained at 25% in 2010, and increased to 40% of total PSO approvals in 2012 (Box 1). PSO support for regional integration is focusing on trade cooperation and climate change financing through the Trade Finance Program (para. 41), Supply Chain Finance,\(^{42}\) and the Climate Public-Private Partnership Fund (para. 33 and Box 1).

53. **Support for PSD and PSO has increased.** The share of PSD-themed sector operations grew from an average of 29% during 2003–2007 to 38% on average during 2008–2012 (Figure 6)—a good start toward achieving Strategy 2020’s target of scaling up PSD and PSO to 50% of ADB’s annual operations by 2020. Non sovereign operations (including PSO and lending to public agencies without government guarantees) approvals accelerated to an average $2 billion during 2008–2012 from $777 million during 2003–2007. During the 2008–2012 period, however, non-sovereign operations did not demonstrate any significant increasing trend and remained in the $1.8–$2.3 billion range on an annual basis, primarily due to constraints in the availability of resources for such operations. Strategy 2020’s target for 50% of ADB operations to be in PSD and PSO was disaggregated in the WPBF for 2012–2014 by creating a sub-target of 25% for PSO in ADB’s Ordinary Capital Resources (OCR) operations by 2020.\(^{43}\) However, current annual allocations to PSO, averaging $1.5 billion–$2.0 billion, amount to only about 15% of the annual OCR envelope. This allocation has remained constrained due to the need for greater capital provision for PSO and the bank-wide equity-to-loan ratio requirements. The 10% hard limit (of ADB’s equity base) for equity investment has constrained equity operations.

\(^{42}\) The Supply Chain Finance Program provides guarantees and loans through partner financial institutions to support payments to suppliers and distributors of goods in ADB’s DMCs. ADB. 2012. Proposed Supply Chain Finance Program. Manila.

54. **Private investment has been successfully leveraged to catalyze additional resources for development.** At the end of 2012, ADB’s PSO loans of $4,011 million for project finance had leveraged projects with a total estimated value of $33,552 million, or over 800% of ADB’s investment. Likewise, ADB’s $767 million investment in private equity funds was matched by $4,399 million (almost six times ADB’s investment) from other financiers. As an emerging and innovative modality, ADB’s private sector operations department (PSOD) has begun to adopt various forms of risk transfer arrangements and credit enhancement products to further leverage private capital. Such risk participation arrangements will help enhance the risk profile of ADB’s nonsovereign risk exposure and could therefore provide relief in the OCR headroom requirements for such exposures by as much as 80%–95% of the original transaction amount.

![Figure 6: Increasing Emphasis on Private Sector Development, and Alignment with Strategy 2020](image-url)

**A. Share of PSD Theme in Total Loans (%)**

**B. Share of PSOD Assistance in Core Areas (%)**

ADB = Asian Development Bank; ADF = Asian Development Fund; PSD = private sector development; PSOD = Private Sector Operations Department; RCI = regional cooperation and integration.


55. **Interdepartmental collaboration on upstream PSD work has improved.** Increased working-level collaboration between regional departments and PSOD has improved integration of PSO in CPSs. In addition, upstream work by regional departments has been useful in promoting broader enabling policy and regulatory environments for private investment. However, such collaboration is not systematic. To increase the business relevance of the upstream PSD work, it is important that the regional departments take into account the user perspective that can be provided by PSOD. This, in turn, also requires PSOD to become more actively engaged in and closely collaborate on such work. Institutional coordination in the design and implementation of PSD-themed interventions remains weak.

56. **PPPs have become an institutional priority for ADB.** The PPP operational plan of 2012 reflects the high priority attached to the PPPs in ADB operations. ADB has adopted its first targets for PPP projects and leverage ratios. Upstream activities to promote PPPs are expanding in all regional departments, commensurate with client demand. However, this upstream work is affected by ADB-wide constraints on technical assistance (TA) resources, which makes it difficult to develop activities large enough to have the impact desired. Still, ADB

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has had some success in improving the enabling environment in DMCs, including the adoption of PPP policies and laws and establishment and strengthening of units responsible for PPP activities in DMC governments and agencies. It is also undertaking project development activities. Some regional departments (Central and West Asia Department and South Asia Department) have formed PPP transaction advisory services (TAS) teams to develop and secure mandates to advise governments and other clients on PPP transactions. The Southeast Asia Department has focused on establishing project development facilities that provide governments with access to finance for TAS from external advisory firms.

57. **However, much more progress is required to realize PPP transactions to the extent envisaged in the operational plan.** Meeting the plan’s targets will take more time, given resource constraints, the multi-year preparation period needed for new sovereign activities, and the need to build understanding within client DMCs of how sovereign activities can support PPPs. Institutionally, ADB needs to ensure that its public sector infrastructure operations obtain private sector participation and leverage ADB’s capital and risk-taking capacity effectively.

58. **While risk management of ADB private sector operations continues to improve, tensions exist between mitigating risk while pursuing greater development impact.** Private sector operations have achieved robust development outcomes. In this regard, ADB has also expanded its private sector operations in frontier markets in recent years. Against a target of 40% by 2015, 37% of PSO approved during 2010–2012 were in ADF-eligible countries and frontier economies. Although such operations inherently carry greater risk, PSOs were able to maintain a steady level of overall portfolio risk rating during this period. However, increased emphasis on interventions in frontier economies in the coming years, in line with ADB’s mandate, could affect the overall credit rating of the private sector project portfolio. Private sector operations plans to continue to pursue innovative structuring and risk mitigation approaches for such transactions to ensure a robust rating of the overall private sector portfolio, while achieving the desired development outcomes.

B. **Good Governance and Capacity Development**

59. **Strategy 2020 has changed and broadened ADB’s approach to governance in its operations.** Strategy 2020 identified good governance and capacity development (GCD) as a driver for change. Under its predecessor, the Long-Term Strategic Framework (2001–2015), good governance had been one of three core strategic areas (footnote 2). Combined with the Second Governance and Anti-Corruption Action Plan (GACAP II) approved in 2006 and its implementation guidelines of 2008, Strategy 2020 shifted ADB’s emphasis on governance from specific governance projects to the incorporation of crosscutting GCD considerations in CPSs and projects.45 This shift was accentuated as implementation of the Capacity Development Action Plan adopted in 2007, with its emphasis on strengthening country systems and improving development effectiveness, gained momentum.46

60. **GCD is embedded in CPSs and operations.** Governance in CPSs has been operationalized through country and sector governance risk assessments. Risk mitigating initiatives are highlighted in the associated risk assessment management plans (RAMPs). Streamlined business processes require all projects to prepare RAMPs. The share of loans that

included GCD elements increased during 2008–2012 over the previous 5-year period, even though the share of loans addressing governance alone declined (Figure 7). TA grants to support capacity development also increased and represented more than half of the TA portfolio by value in 2012, up from 41% in 2009.

**Figure 7: Trends in Good Governance and Capacity Development Themed Loans and Public Sector Management Financing, 2003–2012**

<table>
<thead>
<tr>
<th>A. Share of Loans with GCD Theme (%)</th>
<th>B. PSM Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>$ million</td>
</tr>
<tr>
<td>Year</td>
<td>% of Total Financing</td>
</tr>
<tr>
<td>2003</td>
<td>0</td>
</tr>
<tr>
<td>2006</td>
<td>10</td>
</tr>
<tr>
<td>2009</td>
<td>20</td>
</tr>
<tr>
<td>2012</td>
<td>30</td>
</tr>
</tbody>
</table>

GCD = governance and capacity development; GGCD = good governance and capacity development; PSM = public sector management.

Source: ADB Development Effectiveness Review reports.

61. **RAMPs have not been effectively implemented.** While GCD risks are generally assessed systematically during the design of projects, the implementation of mitigation measures are not uniform across the board. The majority of project RAMPs are not informed by sector RAMPs. Project RAMPs tend to propose only standard due diligence and such project implementation measures as disclosure of project information and intensive project supervision rather than specific governance mitigating actions. Capacity development baselines are not always adequate in country, sector, and project results frameworks, which means that the results of capacity development efforts cannot be measured effectively. This makes it difficult to assess the extent to which capacity development has been mainstreamed in projects and programs. Overall, there is a need for GCD assessments to be more firmly integrated and anchored in operations, including sector assessments and road maps.

62. **Demand for direct public sector management assistance has remained robust.** Even though public sector management was not identified as an operational area under Strategy 2020, the demand for ADB’s operational support has continued, evidenced by a growing share of ADB’s operations in this area. The share of overall ADB lending that went to public sector management increased from an average 8% during 2003–2007 to 12% during 2008–2012 (para. 49). Because public sector management remains critical for improved delivery of basic services, subsuming public sector management under governance as a driver

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47 The decline in the share of governance-themed projects could reflect weak linkages between sector risk assessments and responses at the project level or result from the capacity development and governance themes sometimes being used interchangeably for purposes of project classification.
of change runs the risk of losing focus on the need for direct support to country and sector systems reforms.

63. **Outcomes from ADB’s capacity-building strategies have remained unclear.** Capturing specific impacts and outcomes of ADB’s expanding lending and TA support for capacity building continues to be problematic although there are many isolated examples of effective capacity-building interventions. Also, it is difficult for ADB to declare success on its capacity building support as long as concerns remain about the sustainability of outcomes of its operations that are in turn linked to available capacities in DMCs to sustain development activities beyond the life of a project.\(^{48}\) A detailed analysis of experiences to-date and lessons learned is required to develop pragmatic, result-oriented, and focused strategies to ensure concrete results from ADB’s capacity-building support to DMCs.

C. **Gender Equity**

64. **Gender mainstreaming has stepped up under Strategy 2020.** The designation of gender equity as one of the five drivers of change in Strategy 2020 provided renewed momentum for its further mainstreaming in ADB’s operations. Good progress was made on meeting and surpassing the 2012 gender mainstreaming targets included in the corporate results framework, with gender being mainstreamed in 49% of all operations and 59% of ADF operations.\(^{49}\) The 2008–2012 gender and development (GAD) plan of action was also implemented relatively successfully, as reported in the new 2013 operational plan for gender.\(^{50}\) All seven CPSs prepared in 2012 included separate gender strategies and gender indicators in sector diagnostics and road maps. During 2008–2012, ADB successfully diversified its gender portfolio across sectors, including the infrastructure sectors in which gender mainstreaming has traditionally been difficult to achieve.\(^{51}\) Support for gender-related policy reform was also increased through TA and project- and policy-based operations.

65. **Progress on gender mainstreaming is slowly improving external perceptions of ADB’s gender performance.** More external stakeholders (63%) in 2012 perceived gender equality as being a high or a moderate priority for ADB, compared with 57% of stakeholders in 2009 (Figure 5). Despite this improvement, however, gender equity was still perceived as the second least likely priority for ADB overall and the lowest priority among all drivers of change. Striking a more positive note, the 2013 MOPAN survey upgraded external perceptions of ADB’s support for gender mainstreaming from inadequate to adequate (footnote 6). A 2012 reevaluation by the United Kingdom’s Department for International Development (DFID) reported that ADB had made “reasonable” progress on the gender agenda.\(^{52}\) A greater, more visible focus on achieving gender equity impacts and results will continue to upgrade external perceptions of ADB’s performance and the performance itself.

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\(^{49}\) Projects with gender mainstreaming include those that have a gender equity (GEN) theme or an effective gender mainstreaming (EGM) theme. Targets were set at 40% of all projects and 50% of ADF operations by 2012, on a 3-year rolling average basis.


\(^{51}\) Significant improvement was noted during 2007–2012, with gender mainstreaming improving from 0% to 19% in energy sector projects, from 5% to 50% in transport projects, and from 43% to 91% in water projects.

66. **Considerable scope remains for improving implementation and monitoring of gender equity efforts.** Even though gender assessments are now routinely included in CPS and sector diagnostics and road maps, the quality of gender strategies and their meaningful integration into country programs and overall results frameworks require more attention. Despite steadily improving project gender action plans (GAPs), both the implementation of project GAPs and ADB’s capacity to monitor and capture gender equity results need strengthening. This is evident from the fact that of the 82 project completion reports that were categorized GEN (gender equity) or EGM (effective gender mainstreaming) in 2010–2012, only 44, or 54%, reported the successful implementation of project GAPs. The need to strengthen project GAP implementation and monitoring of results was also highlighted in IED’s 2009 and 2010 evaluations of ADB’s support for gender and development.53

D. **Knowledge Solutions**

67. **Strategy 2020 has raised the profile of knowledge management at ADB.** Supported in part by advisory and regional technical assistance, the volume of knowledge products and activities at ADB has grown rapidly during the review period, and staff awareness of the importance of knowledge solutions has expanded. Knowledge is an integral component of ADB’s Finance++ approach, which combines ADB’s financial assistance with its support for knowledge solutions and leveraging of additional resources to better address DMCs' development needs. In countries such as the People’s Republic of China, ADB has considerably scaled up its knowledge work to focus on value-addition and innovation, and south-south knowledge cooperation. ADB’s knowledge management action plan 2009–2011 (KMAP) and the updated knowledge management directions and action plan (2013–2015) are supporting the mainstreaming of knowledge solutions at ADB.54 Communities of practice (CoPs) have also helped generate knowledge and expanded knowledge-sharing activities.

68. **External perceptions acknowledge ADB’s performance on knowledge solutions.** 70% of external stakeholders in the perceptions survey believe that ADB places a high priority on knowledge sharing (footnote 7). In 2011 and 2012, ADB received an Asia Most Admired Knowledge Enterprises award in recognition of its work to devise knowledge-based products, services, and development solutions. The 2013 MOPAN survey found ADB’s knowledge management to be adequate. It noted that project, sector, and country information was used to revise corporate policies; the quality of ADB’s independent evaluations was high; and its disclosure of documents was proactive (footnote 6).

69. **However, substantive improvements on the knowledge agenda are still needed.** An IED evaluation on knowledge pointed to a lack of coordination on knowledge management approaches, a suboptimal capture of tacit knowledge embedded in project operations, and an absence of dedicated resource allocations for knowledge activities as constraining factors for further progress on ADB’s knowledge management activities.55 Operating budgets for knowledge departments have, however, increased significantly, in fact much faster than the average across all departments in recent years. But there is significant scope for improvement to better capture and share tacit knowledge across DMCs and disseminate knowledge. In this

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regard, the external perceptions survey (footnote 7) notes that stakeholders still view ADB more as a knowledge generation source but less as a knowledge sharing and best practice source, with best practices seen as the most important knowledge element from the DMCs’ perspective.

70. **The CoPs vary in performance and lack a clear mandate.** Institutional consensus on the uneven performance of CoPs appears strong. For example, the knowledge management action plan (2013–2015) noted the “unequal performance and effectiveness exhibited across the full range of CoPs.” The IED evaluation on knowledge also concluded that the quality of CoP performance differed greatly, depending on the individual community. Likewise, a 2013 series of focal group discussions with more than 60 ADB staff on operationalizing knowledge confirmed the mixed performance levels of CoPs.56 Steps to improve performance recommended after various assessments of the CoPs have included the promotion of inter-CoP knowledge sharing, the introduction of external peer participation, giving CoPs a stronger role in pilot-testing new methods and technologies and in overseeing integration of sector operational plans’ directions in CPSs, incentivizing ADB staff participation in CoPs, and allocating more resources to support their work.

71. **CoPs need to balance two important mandates.** They have a mandate to function as communities, which means they need to protect their informal space for frank peer discussions and dialogue on sector matters. But they also have a mandate to play a more formal role as the voice of the sector in ADB. They are expected to lead sector and project peer reviews and support human resource planning and skills development for the sector. Focal group discussions show that it is difficult to balance these two roles within the same CoP structure. This tension needs to be resolved if CoPs are to have a clear strategic direction and a unified operational mandate for the future.

72. **Knowledge does not flow systematically into operations.** It is clear that ADB needs to enhance its knowledge products to more effectively contribute to the global and regional knowledge discourse. At the same time, knowledge solutions need to be more closely linked with ADB’s operations. There are several good examples already of linkages of knowledge products with operations. Among these include a study on the complexity of managing non-revenue water (NRW),57 which led to inclusion of NRW components in ADB-assisted projects in Sri Lanka, People’s Republic of China, and Vietnam; a study on sustainable urban transport58 that led to development of projects promoting sustainable transport systems such as bus rapid transit systems and metro rail and light rail systems in several DMCs; and a managing Asian cities study59 on challenges associated with urbanization that influenced the establishment of an ADB-assisted Cities Development Initiative and an Urban Financing Partnership Facility.

73. **Although increasing, knowledge applications to ADB operations still remain far too few and are not yet mainstreamed.** Focal group discussions (para. 70) conclude that although ADB has increased knowledge generation, the practical application of knowledge to operations has been limited by cultural, structural, and institutional constraints. The link between specialized knowledge departments and operational departments, in particular, has remained weak. Focal groups also find that while ADB has been formally emphasizing innovation, its culture had remained risk-averse. In addition, the expectations of ADB’s Board, Management, and DMCs vary, leaving operations staff with a mixed message on what priority to accord knowledge work. Staff reactions in the focal groups, in short, stress the need to clarify and

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improve the implementation of the knowledge agenda and strengthen its links with operations (Box 2).

Box 2: Findings from Staff Focus Group Discussions on Knowledge Solutions

As part of the review, individual and group interviews were conducted in July 2013 with 60 Asian Development Bank (ADB) staff from headquarters and resident missions to gather and analyze lessons ADB has learned through knowledge generated, captured, shared, and used in the context of its operational work. The main findings are as follows:

(i) The awareness of ADB staff of the importance of knowledge solutions has increased since Strategy 2020.

(ii) Informal knowledge exchange has the greatest value to operations staff who prefer working with trusted individuals with technical expertise and a constructive approach. Though rarely captured, the tacit knowledge “in people’s heads” is an important asset.

(iii) Operations staff continues to work mostly in silos within departments and sector divisions. While many staff appreciate inputs from individual knowledge department staff, there is in practice a persistent divide between knowledge and operations.

(iv) Staff believes communities of practice (CoPs) and peer reviews are effective—in theory. However, the contribution of the communities and peer reviews to knowledge in operations varies widely. Key success factors are the quality of participants, the selection processes for the peer reviewer, the range of knowledge activities, access to resources, and a participative style for sessions and reviews.

(v) The number and quality of technical specialists at ADB is decreasing, limiting ADB’s capacity to engage with the wider development community as top technical experts of the region. Most staff feel they become “deskilled” as they evolve from technical specialists, up-to-date in their field, into managers who instead are experts in processing and implementing projects using ADB’s business processes.

(vi) Institutional factors, such as the priority put on processing and implementing project pipelines and portfolios, and the lack of sufficient rewards and recognition for undertaking risky but innovative projects, inhibit ADB from becoming a “knowledge bank.”

(vii) ADB’s developing member countries (DMCs) have more knowledge sources than in the past. Many DMCs expect ADB to provide expertise along with finance. In recent years, some resident missions have responded to DMC needs for policy support with a fast turnaround on requests, and this has improved ADB’s reputation as a knowledge broker.


74. **Technology has enabled new opportunities for ADB to collaborate, generate, capture, share, and apply knowledge for development.** While, new information and communication technologies (ICT) are being harnessed by some of ADB’s development partners in this era of open knowledge for development, ADB has not effectively used ICT to facilitate easier access, sharing, and customized processing of data and information. However, ADB’s recently approved knowledge management directions and action plan (2013–2015) recognizes this opportunity and promotes greater use of ICT to support knowledge solutions. The plan highlights the need for ADB to design and apply new ICT architecture to support knowledge solutions. It calls for ADB to create a data library to make knowledge assets more accessible and invest in updated databases on economic and social development in DMCs. To
support ADB’s knowledge program and generate greater efficiencies through higher automation of business processes, a 2013 ADB strategy envisages investment of up to $65 million during 2013–2018 to update and extend ADB’s ICT architecture. The strategy would need to be financed in full to be implemented and deliver its targeted outputs: an integrated data system for analysis and decision making, improved information technology systems performance, and a better-connected headquarters and field offices.

E. Partnerships

75. **Partnerships have taken on a greater role under Strategy 2020.** Strategy 2020 recognized the vital importance of partnerships by mentioning it 44 times. This emphasis underscores both the centrality of partnerships in the strategy and the fact that ADB does not have the resources to address the region’s development challenges alone. Strategy 2020 stresses operational and cofinancing partnerships, as well as knowledge ones. ADB’s Finance++ agenda, by focusing on knowledge and leveraging resources, has served to further highlight the criticality of partnerships in these areas. Among Strategy 2020’s drivers of change, partnerships were perceived by external stakeholders in the 2012 perceptions survey to be ADB’s highest priority (Figure 5).

76. **Progress has been made on meeting cofinancing targets.** Strategy 2020 mandated that ADB’s cofinancing activities should increase at a rate faster than its stand-alone financing. This was achieved during the review period, reflecting a steady increase in the ratio of direct value-added (DVA) cofinancing relative to ADB’s annual approved lending from 11% in 2008 to 62% in 2012. During 2008–2012, official cofinancing increased by 165%—from $766 million in 2008 to $2.02 billion in 2012. Commercial cofinancing grew from $4.2 billion in 2008 to more than $6 billion in 2012 and formed the major part (62%) of total cofinancing during 2008–2012.

77. **Cofinancing has remained concentrated in Strategy 2020’s core areas of operations.** Official, as well as commercial cofinancing has largely been realized in sectors where partners consider ADB to have a lead or substantial engagement at policy, program and portfolio level and where they can reduce transaction costs and gain visibility by partnering with a well-established ADB sector operation. Consequently, about 90% of official DVA cofinancing in 2008–2012 was in ADB’s core operational areas, with the transport, energy, and education sectors being the largest cofinancing recipients (Figure 8). Likewise, 89% of commercial DVA cofinancing was in the core operational areas, mostly in the energy and finance sectors. Conversely, it has been harder for ADB to attract cofinancing in the other areas of operations, where its role has been less visible. Thus, cofinancing raised in the other areas of operations (including in public sector management and industry and trade, not included in Strategy 2020) over 2008–2012 was only 11% of the amounts obtained for the core operational areas. This was half of the level during 2003–2007 when cofinancing in the other areas of operations was 22% of cofinancing raised for the core operational areas.

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ADB’s approach to cofinancing has not been systematic. A long-term objective of Strategy 2020 is “of having total annual direct cofinancing exceed the value of ADB’s stand-alone project financing.” ADB’s approach to co-financing so far to meet immediate co-financing targets has been mainly opportunistic. It lacks an institution-wide approach with coordinated efforts to boost both official and commercial cofinancing, which is required to meet the ambitious long-term objective. Such an approach would need to strengthen rewards, recognition, and other incentives for staff to raise cofinancing. It would also need to streamline the processing of official cofinancing, which regional departments currently perceive as being quite resource-intensive, as noted in a 2013 study by ADB’s Office of Cofinancing Operations (footnote 61).

Leveraging of ADB operations is currently not adequately reflected in Strategy 2020’s cofinancing targets, which would reflect a more complete effort by ADB to mobilize external financing. PSOD plans to increase leveraging of private capital through various forms of risk transfer arrangements and credit enhancement products (para. 54). These approaches would need to be incentivized with respect to capital backing and risk weighting of partial guarantees so that such guarantees are not accounted for in the same way as loan and equity investments with respect to capital allocation limits.

Knowledge partnerships have gained increasing strength in recent years. ADB’s active involvement in various global fora and platforms, including the G-20 development process, global aid and development effectiveness agenda, Rio+20, and the post-2015 development agenda discussions has facilitated development of knowledge partnerships. These partnerships have been further boosted by ADB’s participation in the Asia-Pacific Communities of Practice on Managing for Development Results and by promoting South-South cooperation through collaboration with multilateral development banks, including the Inter-American Development Bank, Corporacion Andina de Fomento, and the African Development Bank, as

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well as by knowledge partnerships with several DMCs. A number of memorandums of understanding and partnership agreements with development partners have been signed that include enhanced cooperation on knowledge.\textsuperscript{63}

81. \textbf{Civil society partnerships are increasing.} The ratio of ADB’s sovereign operations with civil society organizations (CSO) involvement rose to 98% in 2012 from 76% in 2008, exceeding the DEfR target of 80%. Rising CSO engagement indicates greater staff capacity to use participatory approaches, more collaboration with CSOs in the preparation of social safeguard documents and monitoring of safeguard implementation, and greater awareness of the role of CSOs among project implementing agencies. During the review period, CSOs also participated in ADB policy reviews on (i) formulation of the Safeguard Policy Statement, (ii) implementation of the Public Communications Policy, (iii) promotion of core labor standards in ADB operations, and (iv) ADB’s Accountability Mechanism. ADB’s business processes were strengthened in 2011 to include mandatory communication strategies with CSOs and other stakeholders.\textsuperscript{64}

\section*{V. PORTFOLIO PERFORMANCE OVER 2008–2012}

Development effectiveness requires ADB projects to successfully deliver their outcomes to impact on DMC goals and objectives. ADB’s average project success rate, even though improved over the 5 years of the review period, was lower than the 80% success target under the Strategy 2020 results framework. Performance of ongoing operations, on average, was higher during 2008–2012 compared to 2003–2007 but declined during 2011 and 2012. Remedies to improve portfolio performance and achieve more project success are well-known from ADB experience and evaluations but require stronger institutional commitment to implement.

\subsection*{A. Project Success Trends and Determining Factors\textsuperscript{65}}

82. \textbf{Project success rates have improved but remain lower than the Strategy 2020 results framework target.}\textsuperscript{66} Success rates of completed ADB projects have improved over 2010–2012 compared to 2007–2009 (Figure 9). Success rates in core areas of operations increased to an average 67% during 2010–2012 from 58% in 2007–2009, and to 70% from 51% for ADB’s other areas of operations. Still, these were not only below the 80% success target of the Strategy 2020 results framework but also were lower than those achieved in the past. The average project success rate during 2008–2012 for all operational areas was 63%, compared with a 71% average success rate during 2003–2007. However, success rates for the health and agriculture sector, designated as other areas of operations by Strategy 2020, as well as for

\textsuperscript{63} Examples of knowledge partnership agreements include those with (i) academic and research institutions such as the Lee Kuan Yew School of Public Policy, the National University of Singapore, and the Energy and Resources Institute in India; (ii) bilateral agencies such as the Japan International Cooperation Agency and the Swedish International Development Cooperation Agency; (iii) multilateral agencies such as the Food and Agriculture Organization, the International Fund for Agriculture Development, the United Nations Development Programme, and the World Bank; (iv) nongovernmental organizations, including the World Wide Fund for Nature; and (v) business entities, including the Export–Import Bank of Korea.


\textsuperscript{65} Project success is assessed after project completion based on the following five factors: relevance, effectiveness in achieving outcome, efficiency in delivering outputs and outcomes, and preliminary assessment of sustainability.

\textsuperscript{66} Project success is not directly attributable to Strategy 2020 since projects evaluated over 2008–2012 had begun in years preceding Strategy 2020. However, implementation of such projects over 2008–2012 did overlap with Strategy 2020.
public sector management, were higher in 2008–2012 than in 2003–2007. Health was the only sector in which the success rate for 2008–2012 (86%) exceeded the DEfR target.67

83. **Outcomes achievement have improved over 2010–2012.**68 Even though still below the 80% target of the DEfR, the ratio of outcomes achieved in the core sectors of operations improved to 72% in 2012 after dipping to only 50% in 2010 (Figure 10). The average effectiveness rates for achievement of outcomes during 2010–2012 were higher for energy (71%) and transport (77%) sectors, but lower for education (54%), finance (52%) and water sectors (57%).

84. **Most project operations have successfully contributed to planned thematic outcomes, but the success rate for gender equity has been low.** 86% of operations over 2010—2012 targeting environmental sustainability, 75% of operations targeting capacity development, and 74% of operations targeting governance, were estimated to have made an effective contribution to their respective thematic outcomes.69 However, only 54% of operations targeting gender equity were estimated to have done the same (para. 66).

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67 The average success rate of the health sector is based on a smaller number of completed operations (10 during 2008–2012) than, for example, the 47 in the transport and communications sector and 23 in the education sector.

68 Under ADB’s updated results framework of 2012 (footnote 93), reporting on outcomes will be undertaken on specific indicators, different from the previous practice of using project effectiveness success rates as proxies for outcome achievement rates.

69 This estimation is based on analyses of findings of project completion reports for relevant projects.
85. **Project success ratings have varied significantly between DMCs, pointing to country-specific determinants of project success.** Project success rates ranged during 2008–2012 from as high as 100% to as low as 29%, depending on the countries in which the projects were carried out (Table 3). This is consistent with findings of successive DEfRs that show that the most pervasive reason for project failure is country-level weak institutional capacity and lack of government support. These were cited as major determining factors in 91% of the *less than successful* and *unsuccessful* completed ADB operations during 2008–2012.

### Table 3: Project Success Rates at Country Level

<table>
<thead>
<tr>
<th>DMC</th>
<th>Success rate</th>
<th>Total projects</th>
<th>DMC</th>
<th>Success rate</th>
<th>Total projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Countries with highest success rates</strong></td>
<td></td>
<td></td>
<td><strong>Countries with lowest success rates</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Viet Nam</td>
<td>94</td>
<td>16</td>
<td>PRC</td>
<td>100</td>
<td>29</td>
</tr>
<tr>
<td>PRC</td>
<td>92</td>
<td>37</td>
<td>Tajikistan</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>81</td>
<td>21</td>
<td>Bangladesh</td>
<td>88</td>
<td>17</td>
</tr>
<tr>
<td>Indonesia</td>
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<td>39</td>
<td>Philippines</td>
<td>53</td>
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</tr>
<tr>
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<td>12</td>
<td>Mongolia</td>
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</tr>
<tr>
<td>Philippines</td>
<td>45</td>
<td>31</td>
<td>Pakistan</td>
<td>29</td>
<td>48</td>
</tr>
</tbody>
</table>

PRC = People’s Republic of China.
Source: Strategy and Policy Department, ADB.

86. **Quality of project design and of supervision are important factors in project performance.** The project completion reports of 83% of the *less than successful* and *unsuccessful* operations during 2008–2012 also cited inadequate assessment by ADB of government capacity and local conditions in project designs as a contributor to project failure. Complex, overambitious, or inappropriate designs were part of the reason for failure in 81% of projects. Other contributory factors include insufficient supervision by ADB or government executing agencies, complex and unclear institutional arrangements, and procurement problems.
87. **Success rates for technical assistance have been satisfactory.** TA completion reports rated 83% of TAs during 2010–2012 successful, up from 76% during 2007–2009. The highest success rates during 2010–2012 were for TA projects for disaster and emergency assistance and education. Success rates for TA in health and finance sector development were lower. The estimated results of TA in achieving planned thematic outcomes were generally similar to those of loan operations, with 85% of TA projects targeting capacity development doing so successfully, compared with only 50% of TA projects that targeted gender equity.

B. **Trends in Portfolio Performance**

88. **Performance of ongoing operations has declined in 2011 and 2012.** A project’s performance during implementation is a key determinant of ultimate project success. Performance of the ongoing portfolio of ADB-assisted sovereign projects improved, on average, from 2003–2007 to 2008–2012, measured conventionally on contract awards, uncontracted balance, and disbursements. But performance in these areas declined during 2011–2012, mainly due to structural factors (young age of the portfolio and higher entry of projects into the portfolio). However, insufficient project readiness and project implementation and procurement delays also continued to affect project performance. The contract award ratio increased to an average 26% during 2008–2012 from 20% during 2003–2007, but fell to 24% in 2012 from a high of 30% in 2009, as actual contracts awarded did not keep pace with increased contract award commitments. With slower contract awards, the ratio of the uncontracted balance for sovereign operations increased by 3 percentage points in 2012 over 2009 (Figure 11). In addition, most recent project performance ratings for all sectors except health and industry declined, although this was partly because of the more rigorous monitoring system adopted in 2012.

![Figure 11: Uncontracted Balance and Disbursement Ratios, 2003–2012](image)

Source: ADB data.

89. **Quality-at-entry ratings for sovereign operations remain satisfactory although somewhat lower than in 2010.** 85% of sovereign projects approved in 2010 and 2011 were successful. TA completion reports are not validated by the Independent Evaluation Department.

judged satisfactory by the 2012 quality-at-entry assessment (footnote 9). However, this was somewhat of a decline from the 89% satisfactory rate of the 2010 assessment that analyzed quality-at-entry of projects approved in 2008 and 2009 (Figure 12). In addition, quality-at-entry scores between fell in 2012 from 2010 levels in all sectors except energy, where all projects continued to receive satisfactory ratings.

Figure 12: Quality-at-Entry of Sovereign Operations, 2008–2012
(QAE Score)

QAE = quality-at-entry.
Note: The maximum rating for each criterion is 4 (highly satisfactory) and the minimum is 1 (unsatisfactory).

90. **ADB has identified approaches for improving project performance.** A key recommendation of the 2012 Annual Portfolio Performance Report (APPR) was for ADB to strengthen staff skills and provide incentives for improving project implementation, supervision, and procurement. In making this recommendation, the APPR echoed the findings of the 2012 DEfR (footnote 4), which called for prioritizing staff resources for project readiness and supervision and strengthening staff skills and capacities. The 2012 APPR and DEfR reports based these recommendations on a 2010 report on good project implementation practice that noted the primacy of staff skills and incentives and recommended enhancing staff competencies in project management and recognizing and rewarding staff efforts for project implementation. Before this, a 2008 IED evaluation study had noted that the expertise and capacity of ADB project teams and the resources made available to them needed to be enhanced for ADB to respond adequately to project implementation problems. Even as far back as 1994, an ADB task force on project quality had identified the need for systematic action to upgrade the skills

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72 Cautious interpretation of trends is warranted given the relatively small difference in satisfaction rates.
and expertise of project administration staff and recommended the adoption of incentive and recognition systems for their work.\textsuperscript{75}

91. Other recommendations common to many of these reports include the need to change what has been called the “approval culture” at ADB (the pressure to expedite processing and approval of projects so that funds could be transferred rapidly) (footnote 75). This would require ADB to focus more on project implementation, ensure senior management oversight of portfolio performance, build capacities of executing and implementing agencies in DMCs, strengthen project designs and readiness, improve procurement quality and efficiency, and ensure stronger monitoring of project performance.

92. \textbf{Actions to improve project performance need strong institutional support for full and effective implementation.} Portfolio performance now has a higher profile at the institutional level within ADB, with a Management-level operations review meeting held every quarter to discuss portfolio implementation progress and issues. Many steps have been taken over the years to improve implementation performance. Stronger emphasis has been put on strengthening staff skills and incentives. This was reflected by the addition of up to 111 new staff positions in areas of procurement, project administration, and portfolio management in ADB regional departments during 2010–2012. A procurement accreditation skills scheme was launched to standardize and build staff capacity in procurement, and staff training on portfolio management is ongoing. A risk-based approach was introduced in 2013 to streamline ADB’s procurement processes and increase efficiency against service level standards, which is in the process of being operationalized.\textsuperscript{76} But more efforts are still needed to systematically recognize staff performance in project implementation and supervision.

93. The action plan adopted under DEfR 2012 commits ADB to reinforce project readiness, procurement quality and efficiency, and implementation supervision. Measures being taken to improve project readiness focus on preparing detailed engineering designs and finalizing the bidding process at least to the evaluation stage prior to loan approval to expedite post-approval project implementation. While, new instruments such as the project design facility (PDF) have been developed to provide financing to DMCs for detailed engineering designs, uptake on the PDF thus far has been limited.\textsuperscript{77} This is because DMCs and ADB staff are still not familiar with the instrument, other ADB modalities that support detailed project preparation are available, and the PDF faces institutional constraints in some DMCs, including reluctance to borrow prior to approval of the project loan. ADB is working closely with staff and DMCs to address these constraints and to identify other modalities to support improved project readiness. Proactive monitoring and implementation measures to reduce uncontracted balances also need to continue.

\textbf{VI. PROGRESS ON INSTITUTIONAL ARRANGEMENTS UNDER STRATEGY 2020}

Significant staff and institutional strengthening at headquarters and resident missions during 2010–2012 has positioned ADB to implement Strategy 2020 effectively. Important human resource reforms have been undertaken. Yet concerns remain about the skills and capacities of ADB staff, which have not kept pace with DMC needs. Business processes have improved, and the greater diversification of lending instruments has strengthened ADB’s capacity to respond to

\textsuperscript{76} ADB. 2013. \textit{ADB Procurement Governance Review}. Manila.
\textsuperscript{77} ADB. 2011. \textit{Establishing the Project Design Facility}. Manila.
client needs. But response times remain longer than targeted, and perceptions that ADB procedures are too complex still prevail.

A. Staff Capacities and Skills

Strategic Framework and Action Plan have improved the alignment of ADB’s staffing and systems with Strategy 2020.78 Strategy 2020 included a commitment to establish and sustain the institutional systems and processes necessary to deliver on its priority agendas effectively. The Our People Strategy (OPS) approved in 2010 provided a blueprint to help ADB secure, motivate, and manage staff to carry out Strategy 2020. The human resources strategic framework (HRFSF) and action plan translated the OPS goals into practice. Significant progress has been made on the OPS, and the actions provided for in the HRFSF have either been completed or are ongoing.

ADB has carried out important human resources reforms since the adoption of Strategy 2020. The staff competency framework was revised to align with the requirements of Strategy 2020, and a career development framework was implemented. Progress was made on realigning ADB’s skills by recruiting for hard-to-fill positions with the help of external recruitment agencies. The proportion of internationally recruited women on ADB’s staff increased (Box 3). Job grades and level banding for national and administrative staff positions was completed, and a level complement system for local staff was implemented to enable greater staff mobility and progression. A new rewards and recognition program was implemented to recognize the knowledge-sharing achievements of ADB staff. Service standards for key human resources services were announced. An ombudsperson function was implemented. New learning and development courses were offered to better support staff development needs and skills requirements. Regular staff engagement surveys were instituted to identify areas where human resources policies needed improvement.

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Box 3: More International Women Staff at ADB

The implementation of a 2-year extension phase of a gender action program increased the representation of women on the international staff at the Asian Development Bank (ADB). At program completion in 2012, 34.2% of the international staff members were women, up from 29.1% in 2010. The ratio of women in senior ranks rose to 26.5% from 19.7%, and that of women in entry levels to 45.1% from 35.5%. One-quarter of vacancies for head and deputy heads of country office positions were filled by women. The percentage of women on the international staff increased further to 34.4% by 30 June 2013. Challenges remain, however. Women made up only 44% of new recruits in the first two quarters of 2013, down from 52.4% for 2012. A decline in the representation of women at the pipeline staff levels (levels 5–6), which serve as the feeder group for movement to senior ranks, is also concerning. ADB is redoubling its efforts to sustain recent gains and will tap all avenues to recruit suitably qualified women by enhancing the current outreach recruitment activities and proactively searching for suitable women candidates. A number of activities have been planned to support greater gender equality in ADB under a diversity and inclusion framework, which covers gender as a priority diversity element.

96. **Staff expansion in the core operational areas has directly supported implementation of Strategy 2020.** During 2010–2012, ADB implemented a 3-year work force plan. It led to the recruitment of 500 new staff members (180 international, 170 national, and 150 administrative). This represented a 20% increase over the 2009 staffing level. New recruitment, together with redeployments of existing staff resources, led to a 48% increase in staff by 2012 over 2009 in Strategy 2020’s core operational areas and thematic priorities (Figure 13). To this end, 90 new international and national staff positions were allocated to strengthen staffing in the areas of infrastructure, financial sector development, education, safeguards, public management and governance, RCI, and the strengthening of country coordination and economics functions. Staff resources for private sector operations and private sector development, designated a key driver of change by Strategy 2020, almost doubled during 2010–2012. Staff for gender and development also more than doubled over 2009 numbers, although from a low base. Staffing for procurement, project administration and portfolio management was considerably strengthened (para. 92). ADB’s operations departments have
benefited the most from this staff expansion, receiving 62% of the newly created positions.\(^79\) This has increased their share of ADB’s overall staff strength to 56% in 2012 from 53% in 2009.

**Figure 13: International and National Staff Numbers in Core Operational Areas and Thematic Priorities, 2009 and 2012**

[Graph showing staff numbers for 2009 and 2012]

**Source:** ADB Staff.

97. **Increased budgetary resources have supported staff expansion.** ADB’s operating budget expanded during 2010–2012 to meet the resource gap that had arisen in prior years, and strengthened ADB’s capacity to implement Strategy 2020. Budgetary growth during this period averaged 11.9%, higher than the historical rate of just over 7%. This supported staff expansion. Alongside this budget growth, ADB’s output growth in terms of the number and volume of loans and grants approved and implemented was even higher, reflecting effective and efficient use of resources. ADB continued to compare favorably with most of multilateral development banks in terms of resource efficiency. Internal administrative expenses per $1 million of projects increased to $37,000 in 2012 from $28,000 in 2009, but remained below the $43,000 average for 2004–2006.

98. **Staff expansion and higher operating budgets have strengthened resident missions and promoted decentralization.** More than half of the new positions in ADB’s operational departments were allocated to resident missions, including outposted headquarters staff. This increased the share of resident mission staff to about 50% of the total regional departments’ staff complement, strengthening ADB’s field presence and visibility and allowing more field staff to be designated for project implementation, safeguards review and compliance, and country relations. These staff members, together with the newly appointed deputy country directors in large missions, are expected to enhance performance of resident missions and increase their effectiveness to deliver decentralized services to DMC clients. The share of budgetary resources dedicated to resident missions grew in tandem to 16.5% of total resources in 2008–2013 from 14.2% in 2003–2007. This increase supported the provision of additional staff as well as sector staff transferred from headquarters, enhancement of training facilities, and improvements to the physical workplace environments of resident missions.

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\(^{79}\) Including regional departments and the Private Sector Operations Department.
99. **It is not clear, however, how much staff growth has enhanced the skills level at ADB.** The 2012 external perceptions survey rated ADB highly for its technical skills and abilities. However, some stakeholders view ADB’s operational work on infrastructure and other areas to be more dependent on external consultants instead of in-house skills. Staff’s own perceptions of ADB’s skills base are more critical. The only available database of staff perceptions of skills is the technical skills registry (TSR), for which 85% of staff members have provided a self-assessment of their competencies in various skills categories. This assessment is based on a range of proficiency levels from level 1—(basic) understanding—to level 5 (highly advanced). The midpoint is level 3 (proficient). The TSR shows that well over two-thirds of skills are rated as only “proficient” or lower by ADB staff involved in Strategy 2020’s core operational areas, where staff skills should be the most advanced. In the energy sector, only 28% of skills are rated by staff members themselves as level 4 (advanced) or 5 (highly advanced). Only 27% of skills are rated at the advanced levels 4 and 5 in the transport sector, water supply and municipal infrastructure sector, and the finance sector. In the education sector, the figure is 21%. The ratio of advanced and highly advanced skills reported by international staff is somewhat higher. Even there, however, just over one-third of skills in the core operational areas are self-rated by staff to be at the advanced or highly advanced levels.

100. **The adequacy of staff skills has remained a concern.** A staff skills gap was a crosscutting concern raised by senior staff and CoPs during consultations for this review. Some staff members perceive that the expansion of ADB’s staff had not fully met its skills needs. Staff identified skills gaps in several technical areas. Departments and offices corroborate this skills gap and the difficulties it poses to delivering on their business plans.

101. **The absence of a comprehensive review of staff skills and capacities has made it difficult to address this issue.** An updated and objective review of existing staff skills and capacities is needed, which should be based on a broader accounting of staff skills, in addition to the staff self-assessment approach employed by the TSR. Such a review will be important to determine the extent of current and future skills gaps, identify areas where staff redeployments are needed, propose how ADB can more efficiently support upgrading of staff skills, and prepare future skills development programs. Any skill development needs to be carefully prioritized given ADB’s present zero-growth budget environment. The institutional focus on skills needs to remain firmly intact even in this environment, because skills upgrading remains crucial for ADB’s long-term operational relevance and its credibility as a knowledge bank.

102. **Staff perceptions on human resource management have improved but areas of concern remain.** Results from a staff engagement survey undertaken in 2012, based on feedback of a majority of ADB staff (92.9%), indicated a general improvement in staff perceptions on human resource management while highlighting persistent concerns in areas of performance management, career development, rewards and recognition, and work-life balance. ADB departments and offices have developed action plans and are implementing them to address these areas. More work is also required to achieve the goal of “One ADB” under Our People Strategy (footnote 78) to “promote opportunities and activities that reinforce integration and communication among ADB staff at all levels…”

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80 Operations Departments and Regional and Sustainable Development Department staff only.
B. Business Processes and Working Arrangements

103. **ADB has responded faster to DMC needs.** ADB has made good progress on implementing the streamlined business processes adopted in 2010 to ensure that business processes become efficient to respond better and faster to DMCs’ needs. Even though more progress is needed, the new processes have already significantly reduced processing time and documentation, and strengthened the quality control process and made it more client focused. Processing of operations under the streamlined business processes in 2012 was completed in only 11 months on average, compared with 37 months under the previous business process (footnote 4). However, project implementation continued to suffer from delays.

104. **The procurement process continues to be prolonged.** The average contracting time for contracts of more than $10 million declined to 72 days in 2012 from 81 days in 2011, but a much greater reduction is needed to meet the target of 40 days by 2016. The contracting time for plant and/or turnkey contracts and for works contracts actually increased (footnote 71). In ADB’s external perception surveys, stakeholders continue to report dissatisfaction with ADB’s “bureaucratic”, “inflexible” and “slow” processes and procedures.

105. **ADB has realigned the organizational structure in important ways to improve its effectiveness.** After Strategy 2020 was adopted, ADB undertook a reorganization to reduce duplication in functions, delineate responsibilities more clearly, and support improved business processes. These steps included (i) enhancing the independence of ADB’s Operations Evaluation Department and renaming it the Independent Evaluation Department; (ii) upgrading ADB’s risk management unit to the Office of Risk Management; (iii) separating the Integrity Division from the Office of the Auditor General; and (iv) establishing the Office of Anticorruption and Integrity. In 2010, a fifth vice-presidency was created to support ADB’s expanding private sector operations and cofinancing operations. In line with Strategy 2020’s emphasis on knowledge as a driver of change, ADB consolidated its knowledge departments in 2011 under the leadership of the Vice-President for Knowledge Management and Sustainable Development. In 2012, it created the Knowledge Sharing and Services Center in the Regional and Sustainable Development Department. In 2013, ADB upgraded the Central Operations Services Office to the Operations Services and Financial Management Department to improve ADB’s portfolio functions and oversight.

106. **ADB has improved its responsiveness to DMC needs by broadening the diversity of its lending instruments.** ADB mainstreamed an innovative multitranche financing facility (MFF) in 2008. The MFF provides long-term programmatic assistance and closely aligns financing with client needs. While disagreeing with some of the detailed recommendations of a recent IED real-time evaluation on the MFF, Management nevertheless agreed with the imperative to comply with the letter and spirit of the modality by underscoring the need for quality prerequisite documentation for MFF loans and making better use of the flexibility provided by the modality without compromising its intended benefits. Other recent additions to ADB’s lending products include a strengthened additional financing approach to extend projects to cover new geographical areas or beneficiary groups, a refined policy-based lending instrument, a nonsovereign public sector financing instrument to support public sector entities.

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without sovereign guarantees,85 a crisis response facility,86 a disaster response facility to provide predictable finance to ADF countries in times of natural disasters,87 and a results-based program financing modality to provide sector support by linking disbursements directly to the achievement of results.88 Further work is needed to improve the application of the fee-based TAS set up to support PPPs (para. 56). The uptake of the project design facility (footnote 77) to finance detailed project and engineering designs has also been unsatisfactory so far and is currently being reviewed and refined.

107. **Reforms introduced in 2008 have improved ADB’s TA operations but these can be further strengthened.** Since 2008, ADB’s TA portfolio has grown by 43% in value and 20% by number (footnote 71). To overcome weaknesses stemming from insufficient synergy between TA and lending operations, lengthy processing procedures, and insufficient ownership by DMCs, ADB introduced reforms in 2008 to strengthen TA planning, streamline processing procedures, and improve TA management.89 As a result, TA planning is now better integrated with CPS and lending operations. TA processing time (from concept clearance to approval) has also been substantially shortened, although still not so much reduced as to meet the target of 77 days.90 However, the linkages of regional TAs with country programs and their ownership in DMCs still remain weak. Delegation of TA administration from headquarters to resident missions and executing agencies has also not expanded.

108. **Good progress has been made on the Managing for Development Results (MfDR) agenda, assisted by quality DEFRs.** A 2011 IED review rates ADB’s efforts at mainstreaming MfDR successful and notes the value of the DEFR as a corporate reporting tool that feeds directly into ADB’s strategic planning processes.91 The DEFR process, grounded on Strategy 2020’s results framework,92 has facilitated regular and accurate monitoring of the progress being made on implementing Strategy 2020 and has helped identify corrective measures. Action arising from the DEFR process has led to improvements in several operational areas, including gender mainstreaming, cofinancing, and the decentralization of staff to resident missions. Future DEFRs will report results based on a revised results framework that places greater focus on outcomes and sustainability, inclusive growth, project implementation, and nonsovereign operations.93

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