



**ASIAN DEVELOPMENT FUND (ADF)**  
**ADF XI REPLENISHMENT MEETING**  
5–6 December 2011 Dhaka, Bangladesh

**Demand for ADF XI Assistance**

*Asian Development Bank*

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## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAREC	–	Central Asia Regional Economic Cooperation
FCAS	–	fragile and conflict-affected situations
GDP	–	gross domestic product
GNI	–	gross national income
Lao PDR	–	Lao People's Democratic Republic
MDG	–	Millennium Development Goal
ODA	–	official development assistance
PBA	–	performance-based allocation
RCI	–	regional cooperation and integration
UNDP	–	United Nations Development Programme
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific

## NOTE

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

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

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## EXECUTIVE SUMMARY

The needs and challenges of Asian Development Fund (ADF) countries remain substantial, driven by persistent poverty and efforts to make progress toward income and nonincome Millennium Development Goals, huge infrastructure needs, climate change adaptation and mitigation efforts, fragility and conflict, increasing food insecurity and frequent natural disasters.

These needs translate into a continued strong demand for ADF XI resources, amounting to \$12.9 billion for the period 2013–2016. This represents an 18% increase over the \$11.0 billion ADF X operational program at the time of negotiations.

Demand for ADF XI operations exhibits a strong focus on Strategy 2020 core sectors. Eighty-three percent of operations are expected to be in the Strategy 2020 core sectors of infrastructure, finance, and education. This compares to an estimated 76% during ADF X. The greater focus is largely on account of water-related infrastructure projects, which increase from 15% of the ADF X portfolio to 25% during ADF XI. Infrastructure remains the largest core sector at 68%, up from 63% during ADF X. Finance sector development and education combined increase from 13% during ADF X to 15% during ADF XI.

Demand for ADF XI operations shows an increased focus on gender, particularly in fragile and conflict-affected situations, while 30% of projects will address food security concerns.

The demand for ADF resources of \$12.9 billion, augmented with a \$400 million replenishment for the Technical Assistance Special Fund requires a 43% increase in donor contributions compared to ADF X. Recognizing the exceptional effort that would be required from ADF donors to meet the financial requirements of this demand for ADF XI resources, three replenishment scenarios are proposed that balance the needs of the region with the financial capacity of ADF donors: (i) a 5% increase in real SDR terms over ADF X, (ii) a 2.5% increase in real SDR terms over ADF X, and (iii) the same replenishment size as ADF X in real terms.

Under each of these scenarios, about 85% of ADF resources will be allocated to country allocations through the performance-based allocation (PBA) system. This includes a 4.5% set-aside of PBA resources for the Pacific. Ten percent of ADF resources will be set aside for regional cooperation and integration projects. Five percent of ADF resources would be allocated to Afghanistan as an additional postconflict premium on top of its PBA allocation. This premium is consistent with the option of resuming the postconflict phaseout in 2013 and extending it by 2 years until 2018, which was preferred by the majority of donors at the first ADF XI replenishment meeting.



## I. INTRODUCTION

1. Asian Development Fund (ADF) countries continue to have substantial development needs and challenges. Official development assistance (ODA), in particular the ADF, is a vital source of financing to meet these needs. This paper discusses projected demand for ADF resources during ADF XI, (2013–2016), its sector and thematic priorities, and its geographic distribution. Three alternative replenishment scenarios for ADF XI are presented.

## II. NEEDS AND CHALLENGES IN THE REGION

2. The needs and challenges of ADF countries remain substantial, as documented in the ADF XI Role and Priorities paper prepared for the first ADF XI replenishment meeting.<sup>1</sup> To finance the development needs of ADF countries, ODA continues to be a vital financing source. The key drivers of demand for ODA in ADF countries include:

3. **Income and nonincome Millennium Development Goals.** Despite considerable progress, poverty continues to affect the lives of millions of people in ADF countries. As of 2008, 27% of their population (about 148 million people) lived on less than \$1.25 a day. While ADF countries have made progress toward the nonincome Millennium Development Goals (MDGs), more efforts are needed to reach many of the targets by 2015. Based on a set of indicators covering education, health, and water and sanitation, ADF countries as a group are on track to reach just over one-third of the nonincome MDGs by 2015. However, Asian Development Bank (ADB) analysis suggests that with renewed efforts and continued support, ADF-only countries could still achieve almost two-thirds of the targets by 2015 or soon after.

4. **Huge infrastructure needs.** Infrastructure investments are essential to sustained economic growth. Yet, infrastructure remains a development bottleneck in Asia and the Pacific. Compared with advanced economies, Asia's infrastructure lags both in quantity and quality. *The Global Competitiveness Report 2009–2010* highlights important infrastructure gaps in the region, with South Asia, Central and West Asia, and the Pacific subregions having the worst overall infrastructure composite scores in the world (even worse than sub-Saharan Africa).<sup>2</sup> Moreover, infrastructure investment needs are increasing as many economies are growing rapidly, but many of such investments cannot be financed yet by ordinary capital resources or public–private partnerships at the current stage of development. A study published in 2010 by the ADB Institute estimates that through 2020, \$600 billion in infrastructure investment needs to be allocated and activated just to support the current level of economic growth in ADF countries.<sup>3</sup>

5. **Climate change adaptation and mitigation.** ADF countries are among the most vulnerable globally to the projected impacts of climate change, although they bear little responsibility for its causes. They face the additional challenge of establishing low-carbon development trajectories that meet their development needs, without contributing to the underlying causes of climate change. The costs of adaptation in ADF countries are significant—

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<sup>1</sup> ADB. 2011. ADF XI Role and Priorities. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

<sup>2</sup> World Economic Forum. 2009. *The Global Competitiveness Report 2009–2010*. Geneva.

<sup>3</sup> B. Bhattacharyay. 2010. Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010–2020. *ADB Working Paper* 248. Tokyo: Asian Development Bank Institute. <http://www.adbi.org/working-paper/2010/09/09/4062.infrastructure.demand.asia.pacific/>

preliminary estimates are for about \$10 billion annually. The costs of climate mitigation will also be considerable.

6. **Fragility and conflict.** Ten of the 28 ADF countries are identified in 2010 as having fragile or conflict-affected situations (FCAS). Compared with other ADF countries, FCAS countries are lagging on progress toward the MDGs. Pacific FCAS countries are extremely vulnerable to climate change and food insecurity. FCAS countries affected by conflict need to rebuild critical basic infrastructure and require sustained development to break the cycle of fragility and conflict. These factors require substantial FCAS financing.

7. **Increasing food insecurity.** ADF countries are highly vulnerable to rising and frequently volatile food prices that threaten food security. This is due to the structural vulnerability of country food systems resulting from (i) stagnant or declining productivity, (ii) poor connectivity of farms to markets due to poor logistics and market infrastructure, and (iii) lack of resilience to natural calamities and economic shocks. Improving food security in ADF countries requires infrastructure investments in water, transport, and energy that are critical to improve productivity, strengthen connectivity, and build the resilience of food systems. In addition, food security safety nets for the poor and vulnerable need to be developed and improved.

8. **Frequent natural disasters.** Natural disasters are common in Asia and the Pacific, and ADF countries are particularly vulnerable. Disasters not only cause loss of life and immediate economic damage, but also set back long-term growth, poverty reduction, and development. Financial assistance to build preparedness and resilience to disasters is required. Additional resources are also required to adequately respond to disasters and avoid disrupting ongoing development programs.

### III. DEMAND FOR ADF XI RESOURCES

9. ADF countries need continued external assistance to address these challenges. ADB, in coordination with other development partners, plays a critical role in providing this assistance through the ADF. ADB's regional departments have surveyed all ADF countries to assess their demand for ADF resources during 2013–2016. This conservative demand projection takes into account (i) the development priorities of the countries over the ADF XI period; (ii) the absorptive capacity of the countries to implement planned projects; (iii) the availability of alternative financing resources, including from other development partners; (iv) and ADB's strategies and priorities within the country. This projection is indicative, and will be refined through subsequent corporate work programs and budget frameworks, and country operation business plans. Country allocations will be further subject to performance in the country performance assessments.

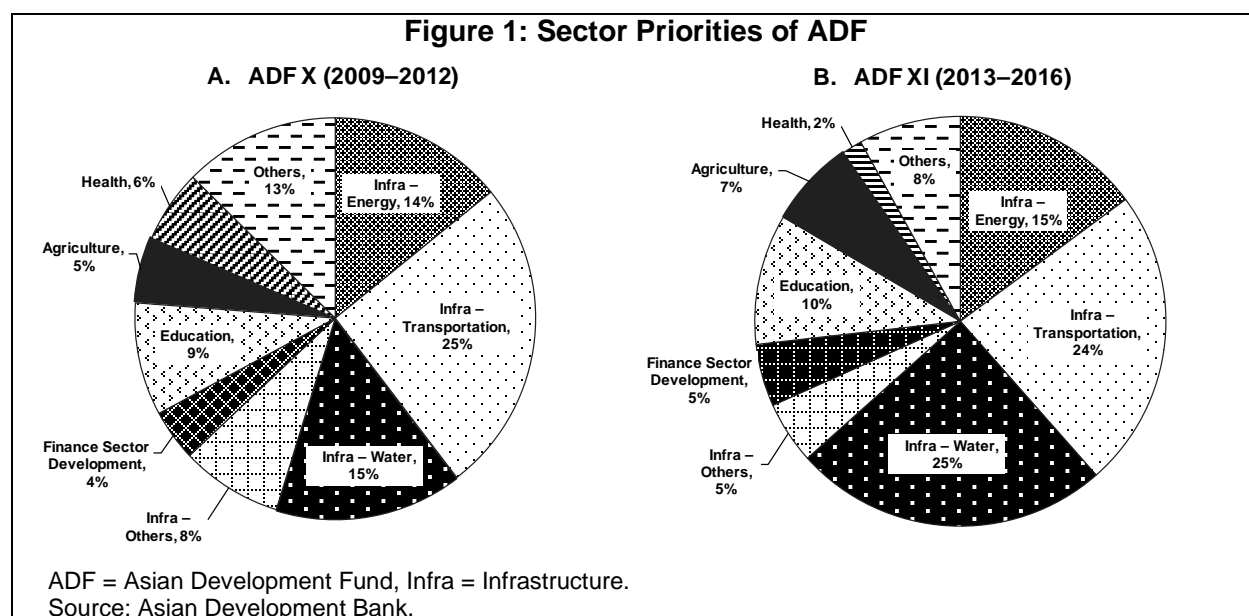
10. In projecting the demand for ADF resources, an analysis of the graduation status of ADF recipients has been undertaken to determine their continued eligibility for ADF resources to finance development needs during 2013–2016. Graduation from the ADF is based on two criteria: per capita gross national income (GNI) and creditworthiness. The analysis indicates that all countries with access to ADF resources during the ADF X period will continue to require ADF assistance during the ADF XI period; hence no country is expected to graduate from the ADF. More details of the graduation analysis, including a projection of potential graduations from the ADF over the next replenishment periods based on different economic growth scenarios, are included in Appendix 1. Two countries—Mongolia and Timor-Leste—graduated from ADF-only to blend status in 2011, making them eligible to borrow from ADB's ordinary capital resources while continuing to receive ADF resources.



11. Considering these factors, demand for ADF XI resources for 2013–2016 amounts to \$12.9 billion. This represents an 18% increase over the \$11.0 billion ADF X operational program at the time of negotiations. This demand includes financing requirements for country programs financed through performance-based allocations (PBAs) to individual countries—including a 4.5% set-aside for the Pacific to be allocated through the PBA mechanism, for regional cooperation and integration (RCI) projects financed through the RCI set-aside, and for exceptional additional financing to Afghanistan through the postconflict premium. The details of the sector and thematic priorities and geographical distribution of this demand are discussed in paras. 12–35.<sup>4</sup>

### A. Sector and Thematic Priorities

12. **Strengthened focus on Strategy 2020 core sectors.** Demand for ADF XI operations exhibits a strong focus on Strategy 2020 core sectors. Eighty-three percent of demand is in the Strategy 2020 core sectors of infrastructure, finance sector development, and education. This compares with an estimated 76% during ADF X. The increased focus is largely due to water-related infrastructure projects, which increase from 15% of the portfolio during ADF X to 25% during ADF XI (Figure 1; Appendix 2, Table A2.1).



13. **Infrastructure.** Demand for infrastructure investment remains strong at \$8.8 billion (68% of total ADF XI demand). The largest portion—\$3.2 billion—is for water-related infrastructure, followed by \$3.1 billion for transport and \$1.9 billion for energy. Other infrastructure projects account for the remainder of the demand for infrastructure. Twenty-four percent of infrastructure projects have a rural focus.

14. **Water.** Water-related infrastructure projects represent the largest proportion of ADF XI demand: \$3.2 billion (25% of total demand)—a substantial increase over ADF X, which has an

<sup>4</sup> Percentages and shares quoted in this section are measured in \$ volume terms, i.e., the project size is taken into account. This methodology differs from measuring in terms of project count, which has not been adopted for this paper.

estimated water-related infrastructure program of \$1.8 billion (15% of the total). Water supply projects will contribute to meeting the MDG targets for water supply in the region. The focus of urban water supply projects, which account for about 62% of water supply projects, will be on making more water available, including to poor and underserved communities that are often on the fringes of towns and cities. Projects will also increase water supply efficiency by reducing physical and commercial losses through the rehabilitation of existing networks. Rural water projects, which account for 33% of demand, will focus on improving irrigation, drainage, and flood protection; building water supply and sanitation systems in rural areas; and managing water-based natural resources.

15. **Transport.** ADF transport projects will support the development of more sustainable transport operations. About 59% of transport projects focus on road transport. In addition to new road construction, projects will provide increased support for road management and maintenance. They will also target improved road safety. Road projects have a strong focus on improving rural and cross-border connectivity. In response to growing urban transport needs and rising congestion, a number of projects also focus on urban transport systems, including urban roads and mass transit systems. In view of the specific needs of the Pacific, a limited number of projects intend to develop air and water transport facilities.

16. **Energy.** Demand for energy projects remains strong as efforts continue to provide access to energy for all. They account for 15% of ADF XI demand, or \$1.9 billion. About half of this is for transmission and distribution projects to expand access to electricity. To mitigate the environmental impact of expanding access to energy, energy projects under the ADF will promote energy efficiency and renewable energy. A number of projects aim to improve economy wide energy efficiency and will promote energy conservation. In rural and remote areas where traditional grid extension is not feasible or cost-effective, decentralized models for electrification using solar power and small hydropower will be developed as an alternative. About 20% of energy projects are renewable energy projects.

17. **Finance sector development.** Investment in finance sector development is important for poverty reduction through its impact on economic growth and by expanding access to credit to the traditionally underserved, such as poor households and small and medium-sized enterprises. Finance sector development projects, accounting for \$635 million (5% of demand), will focus on reforms to strengthen the foundations of the finance sector. With commercial activities expanding in ADF countries, sound financial systems are required to sustain private-sector-driven growth. About 54% of the finance sector interventions are programs to support broad finance sector development. Another 46% of finance sector projects will focus on improving access to finance, in particular microfinance for households and small businesses, to promote inclusiveness.

18. **Education.** The demand for education assistance accounts for \$1.3 billion (10% of total demand). This represents a 22% increase over the planned operational level in education during ADF X and reflects the importance ADF countries and ADB attach to investment in human resource development for sustained inclusive economic growth. As ADF countries make progress toward achieving the MDG for basic education, resulting in improved access to and completion of basic education, the pressure to expand and improve education systems beyond basic education is becoming apparent. Twenty-nine percent of education projects are in higher and tertiary education, another 28% are for technical and vocational education and training, while 21% are for assistance in upper secondary education. Strong attention will be given to inclusive education to enable poor students, other disadvantaged

students, and girls to benefit from education. All education projects are categorized gender mainstreaming.

19. **Other sectors.** The greater focus of demand for ADF XI resources in core sectors of Strategy 2020 results in a corresponding lower demand in noncore sectors. Demand from other sectors is reduced to 17% of total demand (\$2.1 billion), down from 24% (\$2.8 billion) during ADF X. Demand for agriculture projects has increased slightly from 5% during ADF X to 7% during ADF XI because of a greater focus on enhancing food security. Reflecting ADB's highly selective and focused approach in the health sector, demand for health projects has decreased substantially from 6% during ADF X to 2% in ADF XI. Other interventions, mainly focusing on public sector management and international trade, also declined between ADF X and ADF XI.

20. **Thematic focus of ADF XI operations.** ADF XI projects will focus on several crosscutting themes, including the environment, RCI, private sector development, and governance and capacity development (Appendix 2, Table A2.2).

21. **Environmental sustainability.** To ensure the environmental sustainability of economic growth and build resilience against environmental challenges such as climate change, natural disasters, and water scarcity, 53% of ADF demand during ADF XI has environmental sustainability as a theme—a substantial increase from 36% during ADF X. Thirty-nine percent of all projects will address climate change, of which more than half will do so through adaptation measures. These include projects to (i) scale up clean energy and promote energy efficiency, (ii) encourage sustainable transport and urban development, and (iii) increase access to reliable and affordable water and sanitation. A number of projects will also help ADF recipient countries prepare for natural disasters and respond better to such disasters after they occur.<sup>5</sup>

22. **Regional cooperation and integration.** RCI is important for reducing economic disparities among ADF countries and within the region as a whole. Recognizing the benefits of closer cooperation and integration, demand for RCI projects in ADF countries is increasing, amounting to 25% of total demand. This demand exceeds resources available from the RCI set-aside, which is equivalent to 10% of total resources. The additional 15% of demand for RCI projects will be financed through country allocations, indicating strong country ownership for RCI initiatives. Demand for RCI projects is diversified across several sectors, and includes projects for cross-border investments in energy—both infrastructure and soft aspects—including hydropower and electricity transmission and distribution; and road, rail, and water transport. Funding is also required for regional interventions that address climate change issues. Appendix 3 provides more details on RCI programs for each of the subregions.

23. **Private sector development.** Sustaining and accelerating economic growth requires a strong private sector that is able to create jobs and generate income. ADF interventions are critically needed to strengthen the environment for the private sector. Education sector interventions in tertiary and vocational education will equip youth with the necessary skills to engage in quality employment. Energy projects—particularly those that provide power to rural areas—will expand access to much-needed electricity for business activities. Transport projects will provide better access to remote areas, thereby improving connectivity from farms to markets. Finally, public sector management and finance sector development projects will strengthen the regulatory and financial environment in which the private sector operates. Twenty-seven percent of ADF XI projects are expected to contribute to private sector

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<sup>5</sup> For more details, see ADB. 2011. Disaster Risk Management and Emergency Assistance in ADF Countries. Paper prepared for the second ADF XI replenishment meeting, Dhaka, 5–6 December.

development. ADB will also support private sector development through direct private sector lending in ADF countries. The paper *Private Sector Development and Private Sector Operations in ADF Countries* provides more details of these operations.<sup>6</sup>

24. **Governance and capacity development.** Governance and capacity development will be addressed in 43% of ADF XI projects. This constitutes a decline from the 69% of projects addressing governance or capacity development during ADF X. Part of this decline reflects ADB's approach to governance, which shifted from discrete projects with governance as a theme to incorporating governance in CPSs and all projects. Most operational plans include governance and capacity development to ensure the mainstreaming of governance and capacity development in core sectors. In line with the *Second Governance and Anticorruption Action Plan*,<sup>7</sup> currently planned ADF XI operations will focus on strengthening accountability, participation, predictability, and transparency. National, subnational, and sector capacity development interventions will seek to enhance ADF countries' capacity to formulate and implement the policies, reforms, and investments needed for poverty reduction. The focus of ADF XI operations will include strengthening country systems in public financial management and procurement, and combating corruption. This includes interventions focusing on land reform, public enterprise reform, health sector governance, and public sector reform.

## B. ADF XI Special Considerations

25. **Gender.** Building on experience and the good progress made under ADF X, ADB will intensify efforts under ADF XI to consolidate progress and scale up gender integration in ADF countries through gender-inclusive projects. ADB will pay careful attention to gender issues across the full range of its operations to increase women's access to essential services and improve their livelihoods and economic opportunities.<sup>8</sup> Fifty-nine percent of demand for ADF XI resources involves projects categorized gender mainstreaming. (Appendix 2, Table A2.3). Of these projects, water comprises 35%, education 17%, transport 14%, and agriculture 10%. ADB is also increasing efforts to scale up gender-related investments in FCAS countries to address glaring disparities and increase progress toward gender-related MDGs. Twenty-three percent of projects in FCAS countries are categorized gender mainstreaming. This seemingly low percentage in comparison to gender mainstreaming in the total ADF demand is on account of the strong focus on infrastructure in Afghanistan, which makes up the bulk of ADF demand in FCAS. Projects categorized gender mainstreaming in Pacific island FCAS account for 68% of ADF XI demand in these countries, a significant increase compared to 30% in ADF X.

26. **Fragile and conflict-affected situations.** ADF XI assistance to Afghanistan will continue to focus on selected areas considered to be critical for postconflict reconstruction and development. These include expanding the provision of and access to energy, expanding transport facilities through road construction, improving water supply for agricultural development, and strengthening governance. These interventions will also support the main crosscutting themes of gender equity, regional cooperation, private sector development, and governance and capacity development. Support to FCAS countries in the Pacific will continue to focus on the areas in which ADB is currently involved, to ensure continuity of support and sustain long-term engagement. These include education, energy, information and communication, transport, urban development, and water supply and sanitation, with a

<sup>6</sup> ADB. 2011. *Private Sector Development and Private Sector Operations in ADF Countries*. Paper prepared for the second ADF XI replenishment meeting, Dhaka, 5–6 December.

<sup>7</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

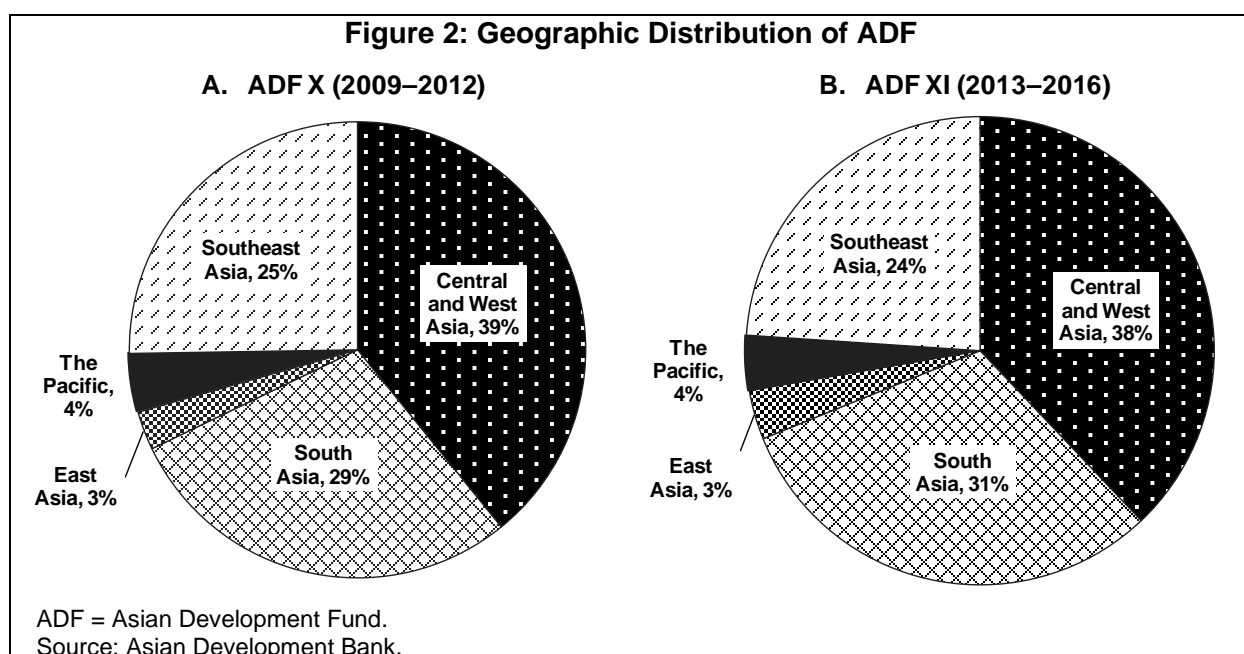
<sup>8</sup> More details of gender in ADF can be found in ADB. 2011. *Gender Equality and Women's Empowerment*. Paper prepared for the second ADF XI replenishment meeting, Dhaka, 5–6 September.

crosscutting focus on public sector management and an improved environment for the private sector. Assistance for FCAS countries is expected to decline slightly from 15% of ADF X operations to 12% of ADF XI operations reflecting the anticipated gradual phaseout of postconflict assistance in Afghanistan.

27. **Food security.** Demand for projects to enhance food security spans a broad spectrum of ADF interventions within the context of Strategy 2020. These projects, which amount to 30% of ADF XI demand, will aim to improve the availability of and access to food. A selected set of projects (about 22% of projects related to food security) will directly focus on improving agricultural businesses through, for example, the provision of microcredit and the development of agricultural markets. However, most projects (about 60%) will be infrastructure investments in water (irrigation and related rural water supply), transport (farm-to-market roads and other rural roads), and energy (rural electrification and small-scale rural power supply) that are critical to improve productivity, strengthen connectivity, and build the resilience of food systems. Selected interventions will improve food security safety nets for the poor and vulnerable, and educate students about improved agricultural practices through technical education and vocational training projects. Infrastructure investments to reduce the impact of natural disasters (such as the construction of flood dikes) will address resilience constraints.

### C. Geographic Distribution

28. The geographic distribution of ADF XI demand is broadly consistent with the ongoing ADF X (2009–2012) operations program (Figure 2; Appendix 2, Table A2.4). Demand in Central and West Asia remains the largest at 38% of total demand, slightly down from 39% during ADF X. Demand in South Asia increases slightly from 29% in ADF X to a projected 31% during ADF XI. Southeast Asia follows at 24%, compared with 25% during ADF X. The Pacific (4%) and East Asia (3%) remain unchanged. The key factors for demand of ADF XI resources in the different subregions are summarized in paras. 29–33. Appendix 3 describes the proposed use of ADF XI resources in individual countries and for subregional cooperation and integration programs.



29. **Central and West Asia.** Seven countries in Central and West Asia have access to the ADF: Afghanistan, the Kyrgyz Republic, and Tajikistan, which are ADF-only countries; and Armenia, Georgia, Pakistan, and Uzbekistan, which are blend countries. Demand for ADF resources in the ADF-only countries emanates from the need to sustain economic growth by improving the investment climate and improving weakened credit conditions. Afghanistan's principal challenges are to establish security and rebuild infrastructure. The Kyrgyz Republic and Tajikistan require fiscal policy consolidation and prioritized social spending. The blend countries—Armenia, Georgia, and Uzbekistan—share the common challenges of diversifying production structures and exports from traditional products while encouraging private sector development. Pakistan faces challenges in creating jobs, containing mounting inflation, strengthening the investment climate, and addressing energy shortages and security issues. Key areas for ADF XI interventions will be in transport, energy and irrigation infrastructure improvement, private-sector-led economic growth, job creation, rural livelihood improvement, and regional cooperation. Support for transport and energy infrastructure connectivity will continue, especially in rebuilding postconflict Afghanistan and linking Central Asia Regional Economic Cooperation (CAREC) countries. Expanded energy networks will increase generation and trade of clean energy, promote energy efficiency in the region, and contribute to physical security in Afghanistan. Climate change and adaptation initiatives will underpin environmentally sustainable results, including renewable energy investments. ADF financing will increase agricultural productivity and enhance food security. Private sector development will continue to support reforms and access to finance.

30. **East Asia.** Mongolia is the only East Asian country with access to ADF resources. Aided by good economic prospects, Mongolia recently graduated to blend status. Demand for ADF XI resources is driven by the objective of promoting an enabling environment for the private sector and making selective investments in transport, energy, and urban development, particularly emphasizing public–private partnerships, regional cooperation, urban transport services, and energy efficiency in Ulaanbaatar.

31. **The Pacific.** Twelve countries in the Pacific have access to the ADF. Kiribati, Nauru, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu are ADF-only countries; while the Republic of Marshall Islands, the Federated States of Micronesia, Palau, Papua New Guinea, and Timor-Leste are blend countries. Recognizing that continuity of support and long-term engagement underlie successful development in the Pacific, the ADF will continue to provide support across the range of areas in which it is currently involved. The ADF's interventions will be guided by individual country partnership strategies and *ADB's Pacific Approach 2010–2014*.<sup>9</sup> ADF funds will be needed to support a broad range of activities during ADF XI directed to inclusive and environmentally sustainable growth, good governance, and strengthened RCI to foster connectivity, consensus, and community throughout the Pacific region and build sustained and resilient improvements in the standard of living. To promote deeper economic integration, greater use of regional ADF resources is planned for the Pacific. In view of the significant development challenges, other development partners will be involved to leverage ADF funds and ensure adequate financing for priority development activities.

32. **South Asia.** South Asia is home to a quarter of the world's population, but accounts for only 3% of world gross domestic product. About 40% of its population lives on less than \$1.25 per day. Its performance in terms of socioeconomic indicators is low, as is quality of life in general. South Asian countries compare unfavorably with most other regions in the world for many social indicators. Child mortality in South Asia in 2009 is 69 per 1,000 live births

<sup>9</sup> ADB. 2009. *ADB's Pacific Approach 2010–2014*. Manila.

compared with 19 in East Asia. Given the prevailing large infrastructure deficits, all countries in the region place great emphasis on infrastructure development—both physical and social. However, with limited financial resources, most are dependent on ODA, including concessional assistance from ADB in the form of ADF loans and grants. Future ADF operations will focus on sustaining and deepening the growth momentum and making growth more inclusive. Assistance will also be required to cope with the effects of the global economic slowdown; expand rural and urban infrastructure facilities; enhance industrial competitiveness; sustain and expand investments in health and education; and sustainably address issues of food security, climate change, and natural disasters. ADF resources will be leveraged by increasing the involvement of the private sector and using innovative financing modalities including public–private partnerships.

33. **Southeast Asia.** Three countries in Southeast Asia have access to the ADF. Cambodia and the Lao People’s Democratic Republic (Lao PDR) are ADF-only countries, while Viet Nam is a blend country. While recent economic growth has resulted in significant poverty reduction, sustainable and inclusive economic growth remains a key development challenge in these countries. ADF resources in Cambodia and the Lao PDR will be needed for promoting urban–rural linkages to expand economic and social opportunities. The ADF will support infrastructure improvement, job creation, private-sector-led economic growth, and basic social service delivery. In Viet Nam, demand for ADF operations focuses on sectors that are essential for the country to avoid the middle-income trap and achieve inclusive and sustainable development—education, health, rural development and infrastructure, and policy and institutional reforms. Ordinary capital resources will supplement ADF funds, particularly to improve infrastructure. The ADF will also finance projects that help create regional public goods and foster connectivity in the Greater Mekong Subregion. The key regional operations will focus on power connectivity, economic corridors and transport networks, institutional capacity and infrastructure for trade facilitation, and environmental protection.

#### D. Demand by Country Classification

34. Of the \$12.9 billion estimated demand for ADF XI, 35% is from ADF-only countries. This is slightly below the 38% that ADF-only countries are expected to take up in ADF X. This shift reflects relatively stronger demand from the ADF blend countries. Within the group of blend countries, a number of countries which could be considered closer to graduation from the ADF show a decline in demand for ADF, compared to other blend countries, which show an increase in demand (Appendix 2, Table A2.4).

35. Both the ADF-only and blend country groups show a strong focus on the core sectors of ADB’s long-term strategy, with a few notable distinctions. A strong focus on infrastructure is maintained, at 68% of total demand in both groups, with transport taking up almost a quarter of demand (25% in ADF-only countries, 23% in blend countries). However, energy takes up the larger share of operations in ADF-only countries at 26%, while water takes precedence in blend countries at 32%. Finance sector development accounts for 4% of demand in ADF-only countries and 6% in blend countries. Education stands at 10% in both groups. In the other sectors, agriculture accounts for 6% in ADF-only countries, while it is 7% in blend countries.

### IV. PROPOSED REPLENISHMENT SCENARIOS

36. **Demand-based scenario.** To meet the demand for ADF resources over the ADF XI period, \$12.9 billion of ADF resources is needed. Adding the resource requirements for the

Technical Assistance Special Fund demand<sup>10</sup>—about \$400 million—yields a total replenishment size of \$13.3 billion. This represents an 18% increase from the size of ADF X at the time of replenishment in dollar terms. Given the level of close to \$7.3 billion of internal resources, this scenario would require more than \$6.0 billion in new donor contributions—a 43% increase compared to donor contributions for ADF X.<sup>11</sup> Recognizing the exceptional effort that would be required from ADF donors to meet the financial requirements of the demand scenario, which is rather unrealistic in the current macroeconomic environment, three replenishment scenarios are proposed that balance the needs of the region with the financial capacity of ADF donors: (i) a 5% increase in the replenishment size in real SDR terms compared to ADF X, (ii) a 2.5% increase in real SDR terms compared to ADF X, and (iii) the same replenishment size as ADF X in real terms (Table 1).

**Table 1: Proposed ADF XI Replenishment Scenarios**

Item	ADF X		ADF XI									
			Demand-based Scenario		Replenishment Scenario 1: 5% increase in real SDR terms over ADF X		Replenishment Scenario 2: 2.5% increase in real SDR terms over ADF X		Replenishment Scenario 3: No increase in Real SDR terms over ADF X			
	SDR million	\$ million	SDR million	\$ million	SDR million	\$ million	SDR million	\$ million	SDR million	\$ million	ADF	Rep.
												%
A. PBA country allocations					6,648	10,471	6,490	10,222	6,331	9,972	85	83
B. AFG PCP					370	583	361	569	353	555	5	5
C. RCI setaside					780	1,228	761	1,199	743	1,170	10	10
<b>Total ADF (A+B+C)</b>	<b>6,918</b>	<b>10,976</b>	<b>8,215</b>	<b>12,940</b>	<b>7,798</b>	<b>12,282</b>	<b>7,612</b>	<b>11,990</b>	<b>7,427</b>	<b>11,697</b>	<b>100</b>	<b>97</b>
D. TASF transfer	214	339	254	400	241	380	235	371	230	362		3
<b>Replenishment</b>	<b>7,132</b>	<b>11,316</b>	<b>8,469</b>	<b>13,340</b>	<b>8,039</b>	<b>12,662</b>	<b>7,848</b>	<b>12,361</b>	<b>7,656</b>	<b>12,059</b>		<b>100</b>
% change from ADF X (%)			19	18	13	12	10	9	7	7		
% of ADF XI demand financed (%)			100	100	95	95	93	93	90	90		

ADF = Asian Development Fund, AFG PCP = Afghanistan postconflict premium, PBA = performance-based allocation, Rep. = replenishment, SDR = special drawing right, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

**37. Replenishment scenario 1.** Under the first replenishment scenario, resources allow a 5% increase in ADF operations in real terms compared to ADF X. This will provide \$12.3 billion in resources for the ADF. In addition, \$380 million, or 3% of the total replenishment, is transferred to the Technical Assistance Special Fund, yielding a total replenishment size of \$12.7 billion. ADF resources will be allocated as follows: 85% of ADF resources (\$10.5 billion), will be channeled to country allocations through the performance-based allocation (PBA) system. This includes a 4.5% set-aside of PBA resources for the Pacific (\$471 million) for the ADF XI replenishment period.<sup>12</sup> Ten percent of ADF resources (more than \$1.2 billion) will be set aside for RCI projects. Allocation of these resources will follow the same practice as for ADF X, including the requirement of \$0.50 project financing from the country allocation per \$1.00 received from the set-aside.

<sup>10</sup> More details on the demand for technical assistance resources are provided in ADB. 2011. ADF XI: Fifth Replenishment of Technical Assistance Special Fund. Paper prepared for the second ADF XI replenishment meeting, Dhaka, 5–6 December.

<sup>11</sup> A more detailed discussion of the different financing scenarios can be found in ADB. 2011. Financing Framework of ADF XI. Paper prepared for the second ADF XI replenishment meeting, Dhaka, 5–6 September.

<sup>12</sup> A further 3% of PBA resources, amounting to \$314 million in scenario 1, would be set aside if deputies were to support the establishment of a disaster response facility within ADF to enhance ADB's capacity to respond to disasters. The setaside for the disaster response facility would amount to \$307 million under scenario 2, and \$299 million under scenario 3.



38. With respect to the exceptional allocation to Afghanistan during ADF XI, most deputies supported the more generous of the two options presented during the first replenishment meeting (i.e., option 2: resuming the postconflict phaseout in 2013 and extending it by 2 years until 2018). Under this assumption, Afghanistan would receive an additional premium of \$583 million during ADF XI—about 5% of ADF resources—in addition to an estimated PBA of \$334 million (Box). In total, Afghanistan would be allocated about \$917 million during the ADF XI period. This would amount to a reduction of 17% from the allocation of \$1,107 million during ADF X. This scenario would require \$5.4 billion in new donor contributions, a 27% increase compared to donor contributions for ADF X.

#### **Box: Computation of Postconflict Premium to Afghanistan**

The computation of the postconflict premium for Afghanistan during the ADF XI period follows the same approach as the computation for ADF X. The postconflict premium under ADF X is based on the formula

$$(\text{Postconflict premium}) = (\$670 \text{ million}) - (\text{PBA formula-based allocation})$$

As a first step, the equivalent of the fixed amount of \$670 million is determined. The amount of \$670 million for ADF X was based on the exceptional biennial allocation to Afghanistan under ADF IX (2005–2008), scaled up in proportion to the increase in the overall size of the replenishment from ADF IX to ADF X. The same approach is followed for ADF XI, in which the amount is adjusted for the size of each of the replenishment scenarios. Next, the PBA for ADF XI to Afghanistan is estimated. The assumption is that this is the same as during the 2011–2012 biennial period (\$149 million), adjusted in proportion to the size of each replenishment scenario, relative to the size of ADF X. The postconflict premium is the difference between the two. Finally, applying phaseout option 2, Afghanistan gets 61% of the postconflict premium in 2013–2014, and 39% in 2015–2016.

Source: Asian Development Bank.

39. **Replenishment scenario 2.** Under the second replenishment scenario, resources allow a 2.5% increase in real terms compared to ADF X. This will provide \$12.0 billion in resources for the ADF and an additional \$371 million for technical assistance. This scenario forms the midpoint between scenarios 1 and 3. Under this scenario, resources fall short of demand for ADF XI resources by 7%, or almost \$1 billion. Each of the demand components (performance-based country allocations, RCI set-aside, and Afghanistan postconflict premium) is reduced proportionally compared to scenario 1. PBA resources would amount to \$10.2 billion, while the RCI set-aside would be \$1.2 billion. The postconflict premium for Afghanistan would be reduced to \$569 million, resulting in a total estimated allocation to Afghanistan of \$895 million. This scenario would require \$5.1 billion in new donor contributions, a 20% increase compared to donor contributions for ADF X.

40. **Replenishment scenario 3.** Under the third replenishment scenario, resources will allow the same level of operations as in ADF X in real terms. Resources available for ADF operations would amount to \$11.7 billion. However, resources under this scenario fall short of meeting demand for ADF XI resources by more than \$1.2 billion, as they only cover 90% of the required resources to meet demand. PBA resources would be reduced to \$10 billion, while the RCI set-aside would be reduced to less than \$1.2 billion. Afghanistan's postconflict premium would decrease to \$555 million, resulting in a total estimated allocation of \$873 million. Similarly, the transfer to the Technical Assistance Special Fund would be reduced proportionally to \$362 million. This scenario represents a 7% increase over ADF X at replenishment in dollar terms. This scenario would require \$4.8 billion in new donor contributions, a 13% increase compared to donor contributions for ADF X.

## ANALYSIS OF GRADUATION FROM THE ASIAN DEVELOPMENT FUND

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

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

3. **Graduation Projections.** Under the baseline growth scenario, no country is expected to graduate from ADF eligibility at the end of ADF XI (2013–2016); Viet Nam is expected to graduate at the end of ADF XII (2017–2020); and the Lao People's Democratic Republic (Lao PDR) at the end of ADF XIII (2021–2024) (Table A1). Under the high-growth scenario, no country is expected to graduate during ADF XI; the Lao PDR's graduation is accelerated to ADF XII; and Cambodia, the Kyrgyz Republic, and Pakistan would graduate at the end of ADF XIII. Under the low-growth scenario, the Lao PDR, would no longer graduate within the time frame considered.

**Table A1: Projected Graduation of ADF Countries Based on Economic Growth Scenarios**

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

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

4. **Exceptions.** This projection method is not applied for two groups of countries. The first group includes small island economies that are exceptionally vulnerable to shocks and have limited capacity to bear risks.<sup>2</sup> This group currently includes Kiribati, the Maldives, the Marshall

<sup>1</sup> ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

<sup>2</sup> ADB. 1998. *A Graduation Policy for the Bank's DMCs*. Manila.

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

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<sup>3</sup> Azerbaijan has no access to the ADF.

<sup>4</sup> India has no access to the ADF.

## DEMAND FOR ADF XI RESOURCES

### Table A2.1: Demand by Sector

Sector	ADF X		ADF XI	
	\$ million	%	\$ million	%
<b>Core Sectors</b>	9,089	76	10,799	83
Infrastructure	7,508	63	8,837	68
Energy	1,688	14	1,927	15
Transport	3,037	25	3,054	24
Water	1,804	15	3,220	25
Others	978	8	637	5
Finance Sector Development	495	4	635	5
Education	1,085	9	1,327	10
<b>Other Sectors</b>	2,835	24	2,141	17
Agriculture	634	5	892	7
Health	700	6	205	2
Others	1,501	13	1,044	8
<b>Total</b>	<b>11,924</b>	<b>100</b>	<b>12,940</b>	<b>100</b>

ADF = Asian Development Fund.

Source: Asian Development Bank.

### Table A2.2: Demand by Theme

Theme	ADF X		ADF XI	
	\$ million	%	\$ million	%
Environmental Sustainability	4,279	36	6,877	53
Regional Cooperation and Integration	2,790	23	3,274	25
Private Sector Development	2,729	23	3,477	27
Governance	3,582	30	1,739	13
Capacity Development	6,167	52	4,760	37

ADF = Asian Development Fund.

Note: Up to four themes can be chosen for each project, hence the sum of the percentages may add up to more than 100%.

Source: Asian Development Bank.

**Table A2.3: Demand According to ADF XI Special Considerations**

Item	ADF X		ADF XI	
	\$ million	%	\$ million	%
Gender Mainstreaming	4,618	39	7,686	59
FCAS	1,762	15	1,595	12
Afghanistan	1,353	11	1,200	9
Pacific	409	3	395	3
Food Security			3,908	30

ADF = Asian Development Fund, FCAS = fragile and conflict-affected situations.  
Source: Asian Development Bank.

**Table A2.4: Demand by Subregion and Country**

Region and Country	ADF X <sup>a</sup>		ADF XI	
	\$ million	%	\$ million	%
<b>Central and West Asia</b>	<b>4,668.5</b>	<b>39</b>	<b>4,907.2</b>	<b>38</b>
Afghanistan	1,353.1	11	1,200.0	9
Armenia	294.0	2	136.0	1
Georgia	491.8	4	252.0	2
Kyrgyz Republic	344.8	3	343.1	3
Pakistan	1,147.0	10	1,675.0	13
Tajikistan	404.0	3	259.1	2
Uzbekistan	615.0	5	982.0	8
Regional	18.8	0	60.0	0
<b>East Asia</b>	<b>325.3</b>	<b>3</b>	<b>440.0</b>	<b>3</b>
Mongolia	325.3	3	440.0	3
<b>The Pacific</b>	<b>495.9</b>	<b>4</b>	<b>490.2</b>	<b>4</b>
Papua New Guinea	254.4	2	255.0	2
Timor-Leste	57.0	0	67.5	1
Other Pacific countries	184.5	2	167.7	1
<b>South Asia</b>	<b>3,423.2</b>	<b>29</b>	<b>4,004.6</b>	<b>31</b>
Bangladesh	1,762.9	15	2,170.0	17
Bhutan	92.1	1	144.6	1
Maldives	46.5	0	35.0	0
Nepal	1,097.2	9	1,240.0	10
Sri Lanka	424.5	4	415.0	3
<b>Southeast Asia</b>	<b>3,011.2</b>	<b>25</b>	<b>3,097.8</b>	<b>24</b>
Cambodia	612.7	5	756.0	6
Lao PDR	457.5	4	459.8	4
Viet Nam	1,941.0	16	1,882.0	15
<b>Asian Development Fund</b>	<b>11,924.1</b>	<b>100</b>	<b>12,939.7</b>	<b>100</b>

ADF = Asian Development Fund, Lao PDR = Lao People's Democratic Republic.

<sup>a</sup> Includes projects financed from the regional cooperation and integration set-aside, distributed over the countries. Figures are based on 2009/10 actual approvals and 2011/12 pipelines.

Source: Asian Development Bank.

## PROPOSED USE OF ADF RESOURCES: COUNTRY AND REGIONAL COOPERATION AND INTEGRATION PROGRAMS BY SUBREGION

1. This appendix consists of write-ups on the proposed use of Asian Development Fund (ADF) resources during the ADF XI period (2013–2016) in individual ADF countries, as well as for regional cooperation and integration (RCI) programs by subregion. For each country, a short table with key indicators is also included.<sup>1</sup> For the Pacific region, country write-ups have been included for Papua New Guinea and Timor-Leste, while the other Pacific countries are covered by a single write-up. The appendix is organized according to the Asian Development Bank's regional departments.

### A. Central and West Asia

#### 1. Afghanistan

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		10.4%
GDP per capita (current \$)		362 (2008)
Population below \$1.25 per day (%)		
Primary school completion rate, both sexes (%)		38.8 (2005)
Gender parity index for primary school enrollment	0.55 (1991)	0.67 (2009)
Children under 5 years moderately or severely underweight (%)	44.9 (1997)	32.9 (2004)
Tuberculosis prevalence rate per 100,000 population (midpoint)	452 (1990)	337 (2009)
Proportion of population using improved drinking water sources (%)	3 (1995)	48 (2008)

2. **Key development issues.** Afghanistan's macroeconomic performance during the last 5 years has been strong, with average gross domestic product (GDP) growth of around 10.4% (excluding the opium economy), propelled by good performance in traditional agriculture and the growing services sector. Private consumption in the construction and security subsectors, fueled by increased donor inflows, has been the major driver of growth. GDP per capita increased from \$158 in 2002 to \$362 in 2008. Annual inflation averaged around 8% in 2006–2010. The fiscal position, though driven by donors' grants, has been improving due to progressively good performance in domestic revenues. The current account balance attained a surplus of 2.2% of GDP in 2010. Deteriorating security, excessive dependence on foreign aid, capacity constraints, weak governance, pervasive corruption, and the severe consequences of the Kabul Bank crisis are the key development issues in the near- to medium-term outlook.

3. **ADF assistance to date.** The Asian Development Bank (ADB) is one of the leading development partners in Afghanistan. In line with ADB policies and development priorities of the government, Asian Development Fund (ADF) resources have benefited transport (road, rail, and air), energy, and irrigation; and assisted with economic policy and governance reforms. By the end of 2010, ADB had provided \$1,024 million for road transport, with 626 kilometers (km) of roads paved. In addition, a grant of \$165 million financed a new 75 km railway line between

<sup>1</sup> The following are the sources for all tables in this appendix: Gross domestic product (GDP) growth from ADB. 2011. *Asian Development Outlook 2011 Update*. Manila; GDP per capita in US dollars from World Bank. World Development Indicators database (accessed 21 October 2011); Poverty estimates from G. Wan and I. Sebastian. 2011. *Poverty in Asia: An Update*. ADB Economics Working Paper Series. No. 267. Manila: Asian Development Bank; Other development goals from the United Nations. Millennium Development Goals. <http://www.un.org/millenniumgoals/> (as of August 2011).

Hairatan at the border with Uzbekistan and Mazar-e-Sharif in Afghanistan. In the energy sector, ADB provided \$343 million to finance the construction of 508 km of transmission lines and substations; \$236 million for natural resource management to rehabilitate 200 structures irrigating 120,000 hectares of farmland; and \$104 million for policy, institutional, and capacity-building reforms in public sector governance and public finance management.

4. **Strategy and focus during ADF XI (2013–2016).** ADF XI resources will continue to focus on key areas identified by the Afghanistan National Development Strategy (ANDS): the energy sector, transport and communications, and agriculture and natural resources. Support will focus on the key development issues of (i) strengthening capacity and developing institutions; and (ii) improving governance by concentrating on public financial management, procurement, and anticorruption measures. ADF XI will also support the main crosscutting ANDS themes: gender equity, regional cooperation, private sector development, capacity development, and governance including anticorruption.

5. **Partnerships and coordination.** ADB is a member of the Joint Coordination Monitoring Board (JCMB). The JCMB measures and monitors progress toward the MDGs and Afghanistan Compact benchmarks as reflected in the ANDS. The JCMB provides a linking platform between the government and development partners as well as donor communities. It is a senior decision-making body focused on resolving strategic problems identified by the government and international partners. The Government of Japan provides complementary funding for ADB projects in Afghanistan through the Japan Fund for Poverty Reduction. The Afghanistan Infrastructure Trust Fund, established by ADB in 2010, provides and enhances partnership opportunities with other donors such as the Government of Japan, the Department for International Development of the United Kingdom, and other development partners in the ANDS infrastructure cluster.

## 2. Armenia

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		4.4%
GDP per capita (current \$)		2,996 (2010)
Population below \$1.25 per day (%)	6.3 (1990)	1.4 (2008)
Primary school completion rate, both sexes (%)	93.7 (2002)	97.9 (2007)
Gender parity index for primary school enrollment	1.01 (2001)	1.03 (2009)
Children under 5 years moderately or severely underweight (%)	2.7 (1998)	4.2 (2005)
Tuberculosis prevalence rate per 100,000 population (midpoint)	56 (1990)	107 (2009)
Proportion of population using improved drinking water sources (%)	92 (1995)	96 (2008)

6. **Key development issues.** Armenia is a landlocked country with GDP per capita of \$2,996 in 2010. Though the economy grew very rapidly in the early years of the decade, underpinned by the large inflow of foreign direct investment and worker remittances, the global financial crisis revealed the weakness of the country's economic structure. The collapse of remittance-financed construction caused the economy to contract by as much as 14.1% in 2009. The crisis set back Armenia's poverty reduction efforts and the national poverty rate increased from 23.5% in 2008 to 28.7% in 2009. Due to sizeable external borrowing, the ratio of public external debt to GDP increased from 13.5% in 2008 to 34.3% in 2009 and 35.2% in 2010. Though the debt burden is considered sustainable, the government relies as much as possible on concessional financing to avoid worsening the debt dynamics.

7. **ADF assistance to date.** ADF operations total about \$272 million and have supported the country's urgent need for infrastructure development to create a better investment environment while ensuring improvements to welfare provision. They focus on transport to benefit the whole community including the poor; and the water supply and sanitation sector to improve public health and the environment by increasing average hours of water supply in project towns and villages, and increasing the number of customers with tap water. In addition, the \$80 million crisis recovery ADF loan, approved in 2009, helped the government maintain its core public expenditure, particularly its social safety net spending, creating at least 6,500 new jobs.

8. **Strategy and focus during ADF XI (2013–2016).** Proposed ADF operations will support the government's continuing work on infrastructure development in water supply and sanitation, and urban development to improve the country's investment environment, both targeting secondary cities. These improvements are expected to attract investments and sustain tourism.

9. **Partnerships and coordination.** ADB maintains close relationships with development partners to improve the effectiveness, efficiency, and impact of its programs. Development partners include the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, the United Nations Development Programme, the International Fund for Agricultural Development, the International Finance Corporation, the United States Agency for International Development, the Millennium Challenge Corporation, and German Technical Cooperation. ADB consults with development partners in preparing and coordinating its programs, strategies, and projects to facilitate complementarities in assistance in all sectors.

### 3. Georgia

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		5.3%
GDP per capita (current \$)		2,620 (2010)
Population below \$1.25 per day (%)	2.2 (1990)	8.9 (2008)
Primary school completion rate, both sexes (%)	85.8 (1999)	107.4 (2009)
Gender parity index for primary school enrollment	1 (1991)	1 (2009)
Children under 5 years moderately or severely underweight (%)	2.7 (1999)	2.3 (2005)
Tuberculosis prevalence rate per 100,000 population (midpoint)	226 (1990)	116 (2009)
Proportion of population using improved drinking water sources (%)	81 (1990)	98 (2008)

10. **Key development issues.** Georgia's double-digit growth rate, powered by ambitious deregulation reforms and sizable inflows of foreign direct investment, was curbed by the dual impact of the 2008 war with the Russian Federation and the global economic downturn. Recovery was achieved through the government's prudent countercyclical monetary and fiscal response with development partner-supported public spending on infrastructure rehabilitation and social assistance programs. With economic growth steadily recovering (6.4% in 2010), the authorities are pursuing an ambitious fiscal consolidation program with the budget deficit targeted at below 5% of GDP in 2011, almost half of the actual deficit of 9.3% of GDP in 2009. The government has been making efforts in reducing poverty.



11. **ADF assistance to date.** Since Georgia joined ADB in 2007, the ADF has provided \$503.8 million in assistance for economic crisis support, municipal services, and urban transport. The 2008 Emergency Assistance for Postconflict Recovery loan of \$70 million helped mitigate the economic shocks following the military conflict with the Russian Federation and the world economic downturn. The successive Growth Recovery Support Program provided \$80 million to help cushion the decline in the government's fiscal performance due to the negative revenue shock associated with worse-than-expected economic conditions in 2009. The \$70 million loan for the Municipal Services Development Project improved the quality and coverage of water supply and sanitation, and rehabilitated roads in more than 100 towns across Georgia. In total, 129,083 households have been connected to potable water or are receiving water supply, and 217.8 km of roads were rehabilitated. The capacity of municipal governments to implement projects increased significantly because the municipalities were directly involved in project selection and supervision. The first tranche of the Regional Road Corridor Program is delivering \$118.8 million to construct an important section of the East–West Highway—the key transport corridor and a major trade link for the region. ADB also approved an \$85 million loan under a multitranche financing facility to improve urban transport services and the environment. Of this loan, \$19 million was allocated to rehabilitate about 19 km of road and construct two tunnels in the mountainous region of Svaneti. The new road has already connected the remote town of Mestia to the rest of the country. In addition, the proposed Regional Power Transmission Enhancement Project (\$48 million) will help Georgia evolve as a regional power-trading hub and export its abundant renewable energy to neighboring countries. Overall, the ADF portfolio has played an indispensable role in reviving economic growth, and continues to support the government's efforts to reduce poverty and improve living conditions.

12. **Strategy and focus during ADF XI (2013–2016).** ADF XI operations will continue support for the government's development goal of private-sector-led sustainable and inclusive economic growth. They will promote (i) better access to potable water for the urban population and reduction in waterborne illnesses, (ii) improved environment protection through modern sewage treatment facilities, (iii) optimized transport in large urban centers through efficient and green transport solutions, (iv) regional trade through fast and safe regional road corridor development, and (v) regional trade in renewable power through improved power transmission.

13. **Partnerships and coordination.** ADB closely coordinates all activities with the international development community to avoid duplication and maximize synergies. Regular meetings and bilateral consultations are conducted with development partners such as the European Bank for Reconstruction and Development, the European Investment Bank, the International Monetary Fund, KfW, the Swedish International Development Cooperation Agency, the United States Agency for International Development, and the World Bank.

#### 4. Kyrgyz Republic

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		4.3%
GDP per capita (current \$)		860 (2010)
Population below \$1.25 per day (%)	4.8 (1990)	16.4 (2008)
Primary school completion rate, both sexes (%)	95.2 (1999)	94.3 (2009)
Gender parity index for primary school enrollment	0.99 (1999)	1 (2009)
Children under 5 years moderately or severely underweight (%)	8.2 (1997)	2.7 (2005)
Tuberculosis prevalence rate per 100,000 population (midpoint)	281 (1990)	236 (2009)
Proportion of population using improved drinking water sources (%)	78 (1995)	90 (2008)

14. **Key development issues.** In the years following independence from the Soviet Union in 1991, the Kyrgyz Republic's GDP decreased, before growing on average by 4.6% annually during 1996–2010. The poverty rate declined from 62.6% in 2000 to 33.7% in 2010, based on the national poverty line. However, economic growth dipped after each of the two major political disturbances in 2005 and 2010, which caused investment to decline and expenditures to increase. The 2010 political event also disclosed underlying ethnic conflict in the south. In this context, the most important factors for bringing steady growth to the country are political stability and effective investment, both of which require the political will for reform.

15. **ADF assistance to date.** ADB is one of the biggest development financiers for the Kyrgyz Republic. By mid-2011, ADB had approved 32 ADF loans and 14 ADF grants for a total of \$1.04 billion. ADB assistance has focused on creating tangible development assets—both physical infrastructure and human capital—and introducing institutional reforms for the finance sector and better public sector management to improve the investment climate. ADF infrastructure investments have focused on constructing regional corridors to connect the landlocked country to neighboring countries and beyond. By 2010, with ADF assistance, 765 km of regional corridors had been rehabilitated, and an additional 310 km will be rehabilitated by 2015. This has helped increase trade and economic activities. For example, imports from the People's Republic of China, much of which is re-exported to neighboring countries, increased from \$230 million in 2003 to \$695 million in 2009. Also, the projects increased efficiency: the rehabilitation of the Bishkek–Osh road cut travel time from 20 hours to 10 hours. ADB also has been a key investor in education, and had relatively modest but effective engagement in the health sector. ADF operations in the education sector covered preschool to general to technical vocational education. The education sector assistance contributed to maintaining universal primary education, despite a severe shortage of public resources after independence, and to increasing the secondary school enrollment rate from 95% in 2005 to 97% in 2009. About 25,000 teachers have been trained, and much-needed updates of curricula for all 11 grades were financed. The ADF-financed Community-Based Early Childhood Project increased enrollment in preschool programs three-fold, and the number of children who passed basic literacy, numeracy, and life skills tests by more than 30%. The infant mortality rate was reduced through strengthened primary and secondary health services. In the three *oblasts* (provinces) covered by the project, the infant mortality rate was reduced by 20% by the end of the project. Access to essential drugs in remote areas was markedly improved through the establishment of a network of private pharmacies. ADB was one of the first development partners to respond to the 2010 crisis, approving a \$100-million program and project for emergency assistance in the south.

16. **Strategy and focus during ADF XI (2013–2016).** ADF XI operations will continue to support the government's development goals of inclusive economic development with active private sector participation. They will focus on (i) supporting institutional reforms to improve the investment climate and strengthen public sector management; (ii) creating tangible development assets, i.e., a skilled workforce and basic infrastructure (energy, and water supply and sanitation); and (iii) increasing the economic returns of regional corridors.

17. **Partnerships and coordination.** The country enjoys strong development partner coordination as evident in the Joint Country Support Strategy (2007–2010) prepared by ADB, the Department for International Development of the United Kingdom, Swiss Agency for Development and Cooperation, United Nations agencies, and the World Bank. Regular aid coordination meetings are held at the overall policy and sector levels.

## 5. Pakistan

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		4.4%
GDP per capita (current \$)		1,007 (2010)
Population below \$1.25 per day (%)	58.5 (1990)	18.0 (2008)
Primary school completion rate, both sexes (%)	60.8 (2005)	61.1 (2009)
Gender parity index for primary school enrollment	0.68 (2000)	0.84 (2009)
Children under 5 years moderately or severely underweight (%)	39 (1990)	31.3 (2001)
Tuberculosis prevalence rate per 100,000 population (midpoint)	565 (1990)	373 (2009)
Proportion of population using improved drinking water sources (%)	86 (1990)	90 (2008)

18. **Key development issues.** Pakistan's average annual rate of growth declined sharply from 7.5% in fiscal years (FYs) 2004–2007 to 2.8% in FYs 2008–2011. This reflects a number of structural factors, including severe power outages and security issues, combined with volatile world commodity prices and the impact of floods in the summer of 2010. The net result has been a sharp reduction in investment from all sources that will affect the performance of all sectors, particularly manufacturing, into the future. The latest poverty data show that 18% of the population lives below the poverty line (2008). However, poverty is expected to have increased following the food and energy crises of 2008, and the resulting increase in inflation has impacted real incomes.

19. **ADF assistance to date.** ADF assistance has supported a wide range of reforms. During FY2008–FY2011, ADF support reached \$1.4 billion, and focused primarily on three key areas: social safety nets, health sector reforms, and pensions. ADF support to the Benazir Income Support Program, introduced in FY2008 as the key targeted social safety net program for Pakistan's most vulnerable, helped the program reach more than 2.8 million families by FY2011. Health sector reforms in Punjab, Pakistan's largest province, have improved access to and the quality of basic public health services, with expected improvements targeting basic neonatal, maternal, and children's health care to support reductions in infant, maternal, and child mortality rates targeted under the MDGs. ADF support for reforms ensuring the financial viability of pension systems in Sindh Province contributed to a substantial increase in the fiscal space available for development efforts by easing the burden of pension liabilities.

20. **Strategy and focus during ADF XI (2013–2016).** ADF XI resources will be used in a focused manner to address problems related to slow growth, particularly to improve the performance and financial viability of the energy sector. Other priorities include postflood reconstruction, and regional cooperation and market integration of transport projects. Postflood reconstruction will focus primarily on restoring transport routes and improving irrigation facilities. Pakistan has become a member of the Central Asia Regional Economic Cooperation (CAREC), with a specific interest in improving regional transport options to facilitate trade expansion among CAREC countries.

21. **Partnerships and coordination.** ADB works closely with development partners through government coordinating mechanisms, including for social sectors, the private sector, and infrastructure. ADB has led the Energy Sector Task Force and is now leading the Water Sector Task Force initiated by the Friends of Democratic Pakistan. ADB also leads a working group of development partners on capacity building set up by the Economic Affairs Division of the Government of Pakistan.

## 6. Tajikistan

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		6.5%
GDP per capita (current \$)		820 (2010)
Population below \$1.25 per day (%)	44.0 (1999)	17.8 (2008)
Primary school completion rate, both sexes (%)	95.1 (1999)	97.7 (2008)
Gender parity index for primary school enrollment	0.98 (1991)	0.96 (2008)
Children under 5 years moderately or severely underweight (%)		14.9 (2005)
Tuberculosis prevalence rate per 100,000 population (midpoint)	171 (1990)	373 (2009)
Proportion of population using improved drinking water sources (%)	58 (1995)	70 (2008)

22. **Key development issues.** Tajikistan, a small, landlocked country, has a per capita GDP of \$820 per annum. In recent years, the government has broadly followed a path of economic reforms, enabling Tajikistan to achieve robust economic growth and improve social indicators. Poverty declined from 64% in 2003 to 47.2% in 2009 according to national poverty line. Despite these achievements, Tajikistan remains among the poorest, most geographically isolated, and fragile countries in the region. Social and economic infrastructure is still in a poor state, and an energy deficit hinders higher economic growth. The main economic challenge is to create and sustain economic growth necessary to continue to reduce poverty and create employment opportunities, while working within domestic and external resource constraints.

23. **ADF assistance to date.** ADF operations to date, amounting to \$444.33 million, have delivered significant outputs. In the social sectors, 193 schools and 250 health care facilities have been rehabilitated and equipped, and education and health personnel have been trained in policy, planning, and service delivery. Critical reforms, including family group practice and hospital rationalization, have been implemented. ADF funds helped the government reconstruct a critical irrigation system in southern Tajikistan that was destroyed by an earthquake, restoring irrigation water to 11,724 hectares of land and potable water to 56,000 people. In the energy sector, transmission and distribution infrastructure in the poor, war-ravaged areas of Khatlon region were rehabilitated and opportunities for regional energy trade created through the construction of a 220-kilovolt transmission line from the Sangtuda-1 hydropower station to the Afghanistan border. Also in Khatlon region, ADF operations rehabilitated nearly 105 km of the main highway that connects key agriculture-producing areas to the capital Dushanbe. The project also rehabilitated 90 km of rural roads. Another project rehabilitated the 140 km road from Dushanbe to Nurobod district, which is part of the key international transport corridor connecting Dushanbe with the Kyrgyz Republic and the People's Republic of China. ADB was among the first to provide crisis-recovery support in 2009 to help the government maintain critical social spending during the economic crisis.

24. **Strategy and focus during ADF XI (2013–2016).** Operations during ADF XI will focus on (i) energy and transport projects, (ii) improving access to microfinance, and (iii) projects supporting reforms to improve the tax administration and customs systems. Expected results include (i) an improved road network, efficiently operated and maintained, that facilitates greater domestic and regional communications and creates trade and economic opportunities; (ii) clean and renewable energy through an expanded, and more efficient and reliable power generation and transmission system, with fewer losses and the potential to increase exports and strengthen

the revenue base; and (iii) proposed taxation and customs reforms improving the environment for domestic and foreign investment, and leading to a more enterprise-friendly business climate.

25. **Partnerships and coordination.** ADB endorsed the Tajikistan Country Partnership Strategy for 2010–2014 focusing on improved connectivity, energy security, and private sector development, with regional cooperation as a binding theme. Twelve development partners, led by ADB, together with the government signed the Joint Country Partnership Strategy for Tajikistan for 2010–2012. The strategy commits partners to a single common strategic framework and measures to (i) strengthen mutual accountability; (ii) improve the predictability of assistance; (iii) reduce transaction costs; (iv) move toward programmatic, and in selected cases sector-wide, approaches; and (v) encourage a rational division of labor. In addition, since 2004, ADB and the World Bank have been holding joint country portfolio performance review meetings to address generic issues affecting portfolio performance.

## 7. Uzbekistan

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		8.5%
GDP per capita (current \$)		1,384 (2010)
Population below \$1.25 per day (%)	4.9 (1990)	25.9 (2008)
Primary school completion rate, both sexes (%)	96.2 (1999)	91.6 (2009)
Gender parity index for primary school enrollment	0.98 (1991)	0.98 (2009)
Children under 5 years moderately or severely underweight (%)	15.3 (1996)	4.4 (2006)
Tuberculosis prevalence rate per 100,000 population (midpoint)	255 (1990)	227 (2009)
Proportion of population using improved drinking water sources (%)	90 (1990)	87 (2008)

26. **Key development issues.** Uzbekistan's economy has been growing at an annual average of more than 8% since 2005. GDP per capita increased from \$542 in 2005 to \$1,384 in 2010.<sup>2</sup> Industry, with its strong extractive component and a diversifying manufacturing base, has driven this growth. Large public investment programs and macroeconomic stability created by the structural reforms of 2003–2004 contributed to the strong growth. Current development priorities include addressing urban–rural disparities by creating jobs and improving livelihoods in rural areas; reducing dependence on natural resources; and overcoming the infrastructure deficit through infrastructure development and private sector mobilization. Private sector development accompanied by the growth of small and medium-sized enterprises is considered a major catalyst.

27. **ADF assistance to date.** ADB's ADF operations in Uzbekistan total \$514.9 million for 11 loans. They have focused on education, health, water supply and sanitation, and agriculture and natural resources. During 2004–2009, 5.6 million students benefited from school improvement programs or direct support, 46,000 teachers were trained, and 370 classrooms were fitted. The ADF also financed the development of a modern publishing and printing industry to provide 15 million textbooks to almost 6 million school children. An ADF-supported health project retrained 1,600 doctors and 20,000 nurses across the country. National maternal mortality rates dropped from 34.0 per 100,000 live births in 2001 to 21.4 in 2008. ADF assistance has brought drinking water to 484,000 people, mostly from low-income families, and provided metering for efficient water use in more than 50,000 homes. Currently, the ADF is

<sup>2</sup> International Monetary Fund. 2011. *World Economic Outlook*. Washington, DC.

financing water source and distribution systems serving 3 million people in the Bukhara and Navoi regions. In agriculture, ADF helped introduce new wheat varieties and improved farming technologies, increasing incomes for more than 200,000 people.

28. **Strategy and focus during ADF XI (2013–2016).** ADF XI operations will continue to support the government’s development goals of welfare improvement and job creation, with strong emphasis on rural areas. They will focus on water supply and sanitation and rural infrastructure development with the aim of achieving (i) better access to water and sanitation services for rural and regional populations, especially low-income families; (ii) improved water management, including tariff setting, fee collection, and maintenance; (iii) improved water resources management for higher agricultural productivity and rural incomes, with gender as a cross-cutting theme; and (iv) environmentally sustainable water use in rural areas through rehabilitation of infrastructure and enhanced management. Depending upon resource availability, operations may also include: (i) energy efficiency through development of solar power; (ii) income generation through integrated development of markets and cities; and (iii) human development through education and skills acquisition.

29. **Partnerships and coordination.** ADB closely coordinates its activities with multilateral and bilateral development partners, including (i) the United Nations Development Programme and the World Bank in supporting the government in the preparation of the new national development strategy, the Welfare Improvement Strategy, 2012–2014; (ii) the governments of Germany and Switzerland on water; (iii) the Government of Japan on energy and transport; and (iv) the Government of Germany on public management capacity development support.

## 8. Central Asia Regional Economic Cooperation

30. **Key regional development issues.** The CAREC Program is a partnership of 10 member countries supported by six multilateral institutions.<sup>3</sup> It promotes development through regional economic cooperation in transport, energy, trade facilitation, and trade policy. Since its inception 10 years ago, CAREC has built transport and energy infrastructure, simplified border and trade arrangements, and engaged in capacity building and knowledge sharing on priority sectors and themes. Seven ADF countries—Afghanistan, Azerbaijan,<sup>4</sup> the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, and Uzbekistan—are members of CAREC.

31. Most CAREC countries are landlocked, and their transport infrastructure is in need of investment and regular maintenance. Transport costs are still high, and transit time for goods at border-crossing points still too lengthy. The Central Asia–Caucasus Institute estimated that if Central Asia were to carry out basic improvements in transport systems heading south to Afghanistan, overall trade would increase by up to \$12 billion, reflecting growth of 80%.<sup>5</sup> Another key challenge for CAREC is to overcome the impact of uneven distribution of energy resources among member countries, and to optimize existing energy interrelationships to achieve least-cost solutions for energy constraints. Energy cooperation could lead to new energy market opportunities, higher transit revenues, and energy security.

<sup>3</sup> CAREC members include Afghanistan, Azerbaijan, the People’s Republic of China (participating through the Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region), Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. CAREC multilateral institution partners include the Asian Development Bank, the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Programme, and the World Bank.

<sup>4</sup> Azerbaijan opted out of ADF assistance in 2009.

<sup>5</sup> S. F. Starr, ed. 2007. *The New Silk Roads: Transport and Trade in Greater Central Asia*. Washington, DC: The Central Asia-Caucasus Institute.

32. **ADF assistance to date.** ADB has been one of CAREC's leading development partners with cumulative ADF support since 2001 amounting to \$3.15 billion. ADF operations focus on transport, trade facilitation, and energy. ADF has contributed to the construction and rehabilitation of highways along CAREC corridors, and rehabilitation and installation of power transmission lines between CAREC countries. Since 2008, 3,851 km (46%) of the 8,380 km of roads have been completed. The remaining 4,529 km are planned for 2012 and beyond. In the energy sector, about 2,477 km of transmission lines have been rehabilitated or installed, an increase of about 327%.<sup>6</sup>

33. **Strategy and focus during ADF XI (2013–2016).** CAREC countries are expected to endorse their new 10-year strategic framework (CAREC 2020) in November 2011. CAREC 2020's strategic objectives are to expand trade and improve competitiveness. This will be achieved through the following operating priorities: transport, trade facilitation, energy trade policy, economic corridor development, and the CAREC Institute. ADF XI operations will support CAREC 2020. About 11 potential ADF CAREC investment projects are in the pipeline so far for 2013–2016 amounting to \$880 million. They will promote (i) increased external trade among, and transit trade through, the CAREC countries; (ii) higher operating efficiency of the power utilities; and (iii) improved access to energy export markets.

34. **Partnerships and coordination.** ADB, as secretariat to CAREC, works closely with the other five multilateral institutions to provide financial, technical, and advisory support to the program. In line with CAREC 2020, partnerships under the program will be deepened and broadened to include other development partners, such as bilateral aid agencies. The CAREC Development Partners' Forum will be held in November 2011 as part of the 10th CAREC Ministerial Conference. Participants will include multilateral partners and selected bilateral aid agencies that have expressed interest in supporting the program.

## B. East Asia

### 1. Mongolia

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		6.5%
GDP per capita (current \$)		2,207 (2010)
Population below \$1.25 per day (%)	34.9 (1990)	17.0 (2008)
Primary school completion rate, both sexes (%)	90 (1999)	93.3 (2008)
Gender parity index for primary school enrollment	1.02 (1991)	0.99 (2009)
Children under 5 years moderately or severely underweight (%)	10.8 (1992)	5.3 (2005)
Tuberculosis prevalence rate per 100,000 population (midpoint)	909 (1990)	323 (2009)
Proportion of population using improved drinking water sources (%)	58 (1990)	76 (2008)

35. **Key development issues.** Mongolia is changing rapidly, driven by one of the world's highest GDP growth rates and massive rural–urban migration. Its economic growth has become highly dependent on mining, but a large segment of the population is still engaged in low-productivity animal husbandry. Although strong economic growth has boosted average incomes,

<sup>6</sup> ADB. 2011. *The Central Asia Regional Economic Cooperation Development Effectiveness Review 2010: Toward CAREC 2020*. Manila

an estimated 17.0% of the population was living below the poverty line in 2008. Inequality between and within urban and rural areas is severe, especially in the west. Mongolia has made good progress in reducing nonincome poverty and is on track to meet most of its MDG commitments. The mining boom will generate exports and revenues but relatively few jobs, therefore mineral revenues and public spending will need to be carefully managed if mining-sector-led growth is to facilitate inclusive and sustainable economic and social development. Mongolia's environment continues to be marked by the rapid socioeconomic changes of recent years, including rapid growth of peri-urban settlements that place great stress on basic social services, utilities, and public transport. Ulaanbaatar has now the highest rate of air pollution of any capital city. As a landlocked country, Mongolia is highly dependent on trade and transport connections with its regional partners, in particular for mineral exports; however, many bottlenecks remain in accessing neighboring and regional markets. Climate change is adding to vulnerability, particularly for herders and other rural dwellers, given that Mongolia's territory is primarily permafrost.

36. **ADF assistance to date.** ADF operations have included investments in transport, education, health, urban development, telecommunications, agriculture, and finance. Support to education helped maintain the country's traditionally high human development, including a steady improvement in the quality and relevance of basic education services, during a period of severe economic decline. It contributed to increased gross enrollment rates from 75% in 1995 to 94.8% in 2010. Dropout rates decreased from 3.5% in 1996 to 2.3% in 2002, and 0.8 % in 2010. ADF assistance to transport contributed to modernizing civil aviation services through improving air safety and upgrading civil aviation practices to international standards, and establishing a north-south transport corridor. Trade facilitation procedures were also improved, in particular connection of information technology systems of all customs branches at border-crossing points with the General Customs Administration in Ulaanbaatar. In the urban sector, ADF support has extended the lifespan and efficiency of Ulaanbaatar's district heating system and about 2,000 new customers have been supplied with adequate and reliable heat; about 6,000 customers are more adequately served because of better temperature and heat flow controls. Assistance to the finance sector has helped the country overcome the adverse effects of the 1997-1998 Asian financial crisis, develop financial institutions and markets, and introduce a mortgage market. ADB is implementing emergency measures to mitigate the impact of rising food price inflation, which threatens to undermine poverty reduction efforts, and to help the government deliver food, fuel, and health and social services to affected herder households in remote areas since the *dzud* (a multiple disaster characterized by summer drought and unusually severe winter weather) in December 2009.

37. Investment in rural health infrastructure and health worker skills has improved health care services for nearly 1 million rural Mongolians. ADB has cooperated closely with the government to identify and implement reform priorities in the health sector, which helped transform the hospital-dominated system to primary health care and develop health planning and management capacity in the Ministry of Health. ADB is providing critical support for ongoing reforms for social health insurance, the hospital system, and regulation of the pharmaceutical system to increase the performance of the health sector. For social welfare, ADB has helped provide a legislative foundation and establish functional welfare institutions, which have transformed the lives of service providers and beneficiaries in response to a poorly performing social protection system in the early years of the transition. ADB is still engaged in reforming the present social welfare system, improving targeting of social transfer programs, strengthening the fiscal sustainability of social protection, and rationalizing social welfare benefits.



38. **Strategy and focus during ADF XI (2013–2016).** ADF XI operations will focus on achieving competitive, sustainable, and regionally integrated growth and inclusive social development. They will promote an enabling environment for the private sector and make selective investments in transport, energy, and urban development, particularly emphasizing public–private partnerships, regional cooperation, urban transport services, and energy efficiency in Ulaanbaatar. They will promote socially inclusive development through health and education reforms. ADF funds will help Mongolia adapt to climate change by providing emergency assistance; climate-proofing projects; managing water resources, grasslands, and forests efficiently and sustainably; and protecting biodiversity. ADF assistance will also contribute to reducing high per capita greenhouse gas emissions by improving the efficiency of power plants and building capacity and expertise to identify, develop, and undertake Clean Development Mechanism projects.

39. **Partnerships and coordination.** Coordination is enhanced by a system of regular technical meetings between development partners and the government and through sector-specific working groups. ADB cochairs the Education Donor Consultative Mechanism with the Government of Japan and participates in infrastructure, finance, and private sector working groups established among the development partners. ADB maintains a very active cooperative relationship with local civil society organizations, especially in project preparation and implementation.

## C. The Pacific

### 1. Pacific Countries

	GDP growth (5-year average, 2006–2010)	GDP per capita (current \$)	Primary completion rate, both sexes (%)	Gender Parity Index in primary level enrollment	Children under 5 moderately or severely underweight, (%)	Tuberculosis prevalence rate per 100,000 population (mid-point)	Proportion of the population using improved drinking water sources (%)
FSM	-0.7%	2,588 (2010)		1.01 (2007)		155 (2009)	94 (2005)
Kiribati	0.2%	1,519 (2010)	118.1 (2005)	1.04 (2008)		288 (2009)	64 (2005)
Nauru	-4.0%		97.3 (2007)	1.06 (2008)		54 (2009)	
Palau	-2.2%	8,288 (2010)	104.5 (2004)	1.03 (2007)		83 (2009)	84 (2005)
RMI	0.4%	2,883 (2010)	93.7 (2009)	0.99 (2009)		231 (2009)	94 (2008)
Samoa	0.4%	3,087 (2010)	93.5 (2009)	0.98 (2009)	1.7 (1999)	33 (2009)	88 (2005)
Solomon Islands	6.1%	1,261 (2010)	72.1(1991)	0.97 (2007)	11.5 (2006)	185 (2009)	70 (2005)
Tonga	-0.1%	3,435 (2010)	104.9 (2006)	0.97 (2006)		44 (2009)	100 (2008)
Tuvalu	3.4%	2,704 (2010)	99.2 (2006)	0.95 (2006)	1.6 (2007)	194 (2009)	97 (2008)
Vanuatu	5.1%	3,042 (2010)	82.9 (2009)	0.95 (2009)	11.7 (2007)	110 (2009)	83 (2008)

FSM = Federated States of Micronesia, GDP = gross domestic product, RMI = Republic of Marshall Islands.

40. **Key development issues.** Several development challenges are broadly common to Pacific island countries. These include (i) geographic dispersion and isolation that creates difficulties in the provision of infrastructure and basic social services; (ii) vulnerability to climate

change and natural disasters; (iii) a limited natural resource base; (iv) a narrow economic base with a predominant reliance on tourism and primary industries; (v) migration to urban areas; (vi) social and cultural systems that are resistant to change; and (vii) a small or nascent private sector that is crowded out by the large public sector. The countries exhibit many of the constraints underlying weak performance or fragility. Public sector institutions are weak, capacity is limited, and governance systems are underdeveloped. The global economic crisis has made the impacts of structural weaknesses in the island economies more pronounced. Furthermore, a number of countries have experienced political instability. As a result, many people suffer from poverty of opportunity—a lack of access to basic services, jobs, and education—and struggle to meet their regular expenses. Development assistance plays a significant role and will continue to do so, particularly in the northern Pacific and the smallest nations.

41. **ADF assistance to date.** ADF assistance supports each country's national development strategy, and is guided by country partnership strategies and *ADB's Pacific Approach 2010–2014*.<sup>7</sup> It complements, and even leverages, support provided by other development partners. Areas of assistance include education (including technical and vocational education), energy (including renewable energy), environment, the finance sector, information and communication technology, private sector development, public sector management (including state-owned enterprise reform), transport, and water and sanitation infrastructure. In the Marshall Islands, an ADF loan was used to upgrade the hospital and provide 24-hour electricity and water to the 14,000 people living on Ebeye, an island of just 1 square mile. The Small Business Development Project supported the provision of loans by the Small Business Enterprise Centre in Samoa. During 2002–2009, 853 loan accounts were opened to a value of \$4 million. ADF assistance has more recently been directed to addressing the impacts of climate change and urbanization, and responding to the global economic crisis through budget support. The Marshall Islands, Samoa, Solomon Islands, and Tonga all benefited from budget support that variously enabled maintenance of social expenditures or fiscal stimulus as well as supported continued essential structural reforms. Through ADF assistance, RCI and capacity development have been emphasized.

42. **Strategy and focus during ADF XI (2013–2016).** ADB will continue to provide support across the range of areas in which it is currently involved, recognizing that continuity of support and long-term engagement underlies successful development in the Pacific. *ADB's Pacific Approach 2010–2014* sets out operating priorities in education, energy, information and communication, transport, urban development, and water supply and sanitation; while recognizing public sector management and an improved environment for the private sector as two drivers of change.

43. **Partnerships and coordination.** In the northern Pacific countries, the United States tends to be the dominant partner; in the southern Pacific countries, assistance from Australia and New Zealand plays a larger role. The European Union, the Government of Japan, United Nations agencies, and the World Bank are also longstanding partners in the Pacific. More recently, the People's Republic of China and Taipei, China have developed significant programs of assistance to Pacific nations. ADB has ongoing and regular communication and coordination with all relevant partners at a country level and, in some instances, through sector meetings. Coordination is particularly strong on economic issues. ADB has enhanced cooperation with major development partners to mobilize cofinancing, both to fund larger operations and to foster a more cohesive approach to sector reform. ADB and the World Bank opened joint development

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<sup>7</sup> ADB. 2009. *ADB's Pacific Approach 2010–2014*. Manila.

coordination offices in Solomon Islands in 2008, Samoa and Tonga in 2009, Vanuatu in 2010, and Kiribati in 2011. These offices have strengthened relations with national governments and other development partners.

## 2. Papua New Guinea

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		5.9%
GDP per capita (current \$)		1,382 (2010)
Population below \$1.25 per day (%)	43.0 (1990)	28.7 (2008)
Primary school completion rate, both sexes (%)	46.5 (1991)	53.4 (2000)
Gender parity index for primary school enrollment	0.85 (1991)	0.84 (2006)
Children under 5 years moderately or severely underweight (%)		18.1 (2005)
Tuberculosis prevalence rate per 100,000 population (midpoint)	523 (1990)	337 (2009)
Proportion of population using improved drinking water sources (%)	41 (1990)	40 (2008)

44. **Key development issues.** While rich in natural resources, Papua New Guinea (PNG) faces a range of development challenges arising from its imposing geography, frequent natural disasters, ethnic diversity (including over 800 languages), rapidly growing population, high crime rates, and ongoing governance difficulties. New mining developments, including liquefied natural gas production, will lead to a large expansion in economic output in the coming decade; the challenge will be to convert this wealth into improved development outcomes. Approximately 85% of PNG's population of 6.7 million relies on subsistence agriculture. An estimated 29% of the total population was living in poverty in 2008. Social indicators are very poor and the country is facing an HIV/AIDS epidemic. Delivery of basic services is weak, especially in rural areas. PNG is not on track to meet any of its MDG targets.

45. **ADF assistance to date.** ADB has provided \$507 million in ADF loans and grants and \$50 million in TA to PNG since 1990. ADF support has improved infrastructure, public financial management, education, and primary health care including HIV/AIDS. This support has contributed to increased and more equitable access to quality primary health services, including the rejuvenation of 44 rural health facilities, the sale of more than 300,000 condoms in remote locations, and the training of 1,000 community leaders in the communication of safe sex practices. Ongoing road maintenance and upgrading in the Highlands region has led to about a 50% reduction in travel time and a 15% increase in agricultural earnings. ADF support has expanded the water supply and sanitation facilities of provincial towns, providing 1,742 households with access to safe drinking water.

46. **Strategy and focus during ADF XI (2013–2016).** Operations will be selective and focus on helping PNG achieve the goals of its Medium-Term Development Plan (2011–2015) and utilize its natural resource wealth for inclusive economic growth. This will include support in the areas of transport, power, and private sector development. ADF-supported projects will (i) develop clean renewable energy through the construction of hydropower generation capacity, and (ii) rehabilitate national airports to increase passenger and freight.

47. To maximize the impact of ADF resources, ADB will address weaknesses identified, such as delays in project implementation due to weak bureaucratic structures, and ensuring sustainability of counterpart funding for recurrent operations. It will also seek to strengthen portfolio performance by improving the government's administrative capacity, and will work with

the government to promote the entry of large foreign contractors as an alternative to private civil works contractors whose limited capacity threatens the efficiency and effectiveness of ADB-funded projects.

48. **Partnerships and coordination.** ADB continues to enhance partnerships and explore cofinancing opportunities. ADB will increase its collaboration with the Australian Agency for International Development (AusAID) and the Japan International Cooperation Agency in transport and power. In public financial management, ADB coordinates closely with AusAID, the European Union, and the World Bank through a government wide framework for enhancing fiscal management and public expenditure, and will participate in International Monetary Fund Article IV missions. ADB will continue to promote harmonization by participating in the sector approach in the health sector and will play a lead role in private sector development interventions with grant cofinancing from AusAID.

### 3. Timor-Leste

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		7.5%
GDP per capita (current \$)		623 (2010)
Population below \$1.25 per day (%)	71.3 (1990)	42.3 (2008)
Primary school completion rate, both sexes (%)		79.8 (2008)
Gender parity index for primary school enrollment	0.93 (2004)	0.95 (2009)
Children under 5 years moderately or severely underweight (%)	40.6 (2002)	41.5 (2003)
Tuberculosis prevalence rate per 100,000 population (midpoint)	810 (2002)	744 (2009)
Proportion of population using improved drinking water sources (%)	52 (2000)	69 (2008)

49. **Key development issues.** Petroleum revenue has allowed Timor-Leste to initiate a new development phase. Increasing government expenditure has fueled double-digit economic growth since 2006. An expansion in basic services and establishment of a public social safety net have improved many key development indicators and eased social tensions. More than \$8 billion has been saved in a petroleum fund that ranks high against international standards for transparency. Even with these achievements, substantial development challenges remain. Poverty remains high; almost half of the measurable MDGs are off-track; opportunity is concentrated in the capital, Dili; and much of the country's infrastructure is in poor condition.

50. **ADF assistance to date.** ADB assistance during 1999–2005 concentrated on emergency rehabilitation of infrastructure. Access to ADF resources commenced in 2005, and this supported a consolidation phase that emphasized capacity development to enable government agencies to rehabilitate and maintain infrastructure. ADF resources have focused on road transport and urban water supply. Road works were completed on about 360 km of main roads, including the full rehabilitation of about 100 km. This resulted in a 15% reduction in transport costs on the improved roads. ADF support has helped initiate the rehabilitation of the water supply system in the capital, Dili.

51. **Strategy and focus during ADF XI (2013–2016).** The 2011–2015 country partnership strategy continues ADB's strategic directions in Timor-Leste by concentrating on infrastructure development and management. ADF resources will help the government begin to upgrade infrastructure, maintaining a focus on road transport and urban water supply. ADB proposes new engagement in education, which will use ADF resources to provide the technical and

vocational education and training demanded by the growing economy. ADF funded activities will incorporate actions to support complementary initiatives, notably regional cooperation and integration, supporting the private sector, good governance and capacity development, gender equity, and knowledge solutions.

52. **Partnerships and coordination.** The government participates in the international dialogue on aid effectiveness, and has taken the lead in coordinating support provided by development partners. Development partners have been involved in a national priorities working group process that guided pursuit of the country's development priorities. They are helping the government prepare a follow-on exercise that will guide implementation of Timor-Leste's Strategic Development Plan 2011–2015. ADB will continue to participate in these initiatives, providing its support in cooperation with other development partners. Key development partners in infrastructure are the governments of Australia and Japan, the International Finance Corporation, and the World Bank. ADB is also working with the governments of Australia and Japan to implement a modern aid information management system to improve coordination of development partner activities and enhance accountability and transparency.

#### 4. Pacific Regional Cooperation and Integration

53. **Key regional development issues.** Pacific developing member countries differ in many respects, including size, population, resource endowments, and social and economic achievements. However, despite their differences, similarities in culture, traditions, history, and geography mean that they face many common development challenges as well as opportunities for cooperation and coordination. *ADB's Pacific Approach* addresses broad, strategic concerns and notes that connectivity, consensus, and greater community can be fostered through RCI, including through regional provision of services and regional market integration. The Pacific Approach is aligned with ADB's long-term strategic framework 2008–2020 (Strategy 2020).

54. **ADF assistance to date.** The use of ADF resources for RCI activities in the Pacific has been limited. This is not surprising given that the potential for regional loans in the Pacific is constrained by the length of time and the labor intensiveness of processing what can only be expected to be small-value loans by ADB standards. ADB established the Pacific Aviation Safety Office in 2005 using an ADF loan. The office has improved access to aviation safety services by member countries. Information and communication technology is another focus for regional loans, and in 2011 the first phase of a regional submarine cable project was approved—intended to link Tonga to a high-speed cable near Fiji. Emphasis is being given to utilizing ADB's regional TA program to create an environment supportive of the development of regional public goods and services that will provide for economies of scale in service provision and sharing of technical capacity. Key among these regional technical assistance projects are the Private Sector Development Initiative, Pacific Economic Management, the Pacific Region Infrastructure Facility, and the Pacific Infrastructure Advisory Center.

55. **Strategy and focus during ADF XI.** Greater use of regional ADF resources is planned for the Pacific. Further submarine cable projects are expected to strengthen regional interconnectivity, while regional support for higher education in the Pacific will be provided through lending to the University of the South Pacific, a regional organization. To promote greater economic integration, ADB is examining ways to enhance subregional trade between Papua New Guinea and Timor-Leste and Indonesia, and is preparing the necessary transport links to support it. A new area with considerable potential is climate change adaptation, where ADB is preparing national and regional programs under the Pilot Program for Climate Resilience, which will identify new opportunities for lending and TA to be supported through

ADF funding, leveraged through cofinancing from global sources. Future regional TA will ensure a greater understanding and awareness of the benefits of regional cooperation, with the aim of ensuring increased commitment and ownership. This will be of particular relevance for activities where policy changes are important. It will involve not just the governments but also the wider community in the consultations leading to TA project preparation. Building on the successful mobilization of cofinancing in the Pacific over the past 3 years, ADB will intensify its efforts to leverage increased cofinancing from its development partners, as well as private sector investments into regional projects.

56. **Partnerships and coordination.** ADB strongly supports efforts to improve aid effectiveness and development partner coordination, and engages through policy dialogue and cofinancing with a range of partners. The Australian Agency for International Development, the European Union, the New Zealand Agency for International Development, and the World Bank are full partners in the high-level consultation and quadrilateral coordination process, as well as in regional TA projects. ADB has promoted high-level dialogue with the Pacific Islands Forum Secretariat and the Secretariat of the Pacific Community—the largest regional organizations.

57. The Cairns Compact, overseen by the Pacific Islands Forum Secretariat, has refocused attention on aid coordination and effectiveness. ADB supports the compact and works with the dialogue process to seek ways to implement it effectively. ADB has already taken steps to strengthen its ties with the People’s Republic of China, India, and Japan, and will continue to seek to expand development partnerships and coordination.

## D. South Asia

### 1. Bangladesh

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		6.2%
GDP per capita (current \$)		673 (2010)
Population below \$1.25 per day (%)	49.9 (1990)	44.4 (2008)
Primary school completion rate, both sexes (%)	59.5 (2000)	60.5 (2009)
Gender parity index for primary school enrollment	1.04 (2005)	1.04 (2009)
Children under 5 years moderately or severely underweight (%)	64.1 (1992)	41.3 (2007)
Tuberculosis prevalence rate per 100,000 population (midpoint)	499 (1990)	425 (2009)
Proportion of population using improved drinking water sources (%)	78 (1990)	80 (2008)

58. **Key development issues.** Bangladesh has achieved inclusive and broad-based economic growth over the past 3 decades. The private sector grew strongly, and served as the engine of growth. The country is progressing towards the targets of the MDGs. The pace of poverty reduction has recently been picking up, although poverty remains a challenge. Women are playing more important roles in political and economic spheres, and gender disparity has been eliminated in primary and secondary education enrollment. In spite of its impressive economic and social progress, Bangladesh needs to address major infrastructure deficits, skills gaps, and challenges posed by rapid urbanization and adverse climate change impacts to elevate the country to a higher growth trajectory and reduce poverty.

59. **ADF assistance to date.** ADF resources make up 76% (\$12.1 billion) of cumulative ADB assistance to Bangladesh. ADF funding contributed to enhancing agricultural productivity

through investments in rural infrastructure, crop diversification, and integrated water resource management including irrigation. During 2004–2010, 348,554 hectares of land were improved through irrigation, drainage, and flood management. ADF assistance in primary and secondary education focused on building schools; improving teacher recruitment and training; providing students with equipment, textbooks, and teaching aids; revising curricula; and helping strengthen technical and vocational education. This contributed to improved access to education, and the achievement of gender parity in primary and secondary schools. Gross enrollment in secondary education rose from 42.7% in 2005 to 53.9% in 2010, and the primary education completion rate rose from 52.1% in 2005 to 60% in 2010. In the urban sector, ADF resources assisted in improving urban governance and expanding access to improved water supply, sanitation, solid waste management systems in secondary towns, and urban primary health care. During 2004–2010, 45,018 new households were provided with water supply and 26,521 with sanitation. ADF assistance contributed to developing energy and transport infrastructure as 738,999 new households were connected to electricity and 90,476,906 people benefited from road projects.

**60. Strategy and focus during ADF XI (2013–2016).** ADF XI operations will support the goals of the government’s Sixth Five-Year Plan. ADF resources will (i) help improve the quality and relevance of the education system, including technical education, and promote public–private partnership (PPP) in higher education; (ii) support rural infrastructure development to increase agricultural productivity, reduce rural poverty, and enhance food security; (iii) support urban development and environment improvement, promote environment-friendly urban transport facilities, and improve urban public health by expanding access to clean water including through reforming selected municipal water supply providers and rehabilitating water supply and sanitation infrastructure in coastal towns; (iv) support regional transport connectivity to promote trade; and (v) support government efforts to increase the efficiency of the capital and financial markets. During ADF XI, ADB will increase its assistance to develop capacity and enhance institutional frameworks for PPPs, set up robust fund management structures for PPP-funding vehicles, and cofinance a project development facility for PPP projects.

**61. Partnerships and coordination.** ADB works closely with other development partners through the local consultative group mechanism. The local consultative group has 18 working groups; ADB and the government cochair the energy working group. ADB is also one of the group’s seven executive committee members. The Bangladesh Joint Cooperation Strategy, signed in June 2010 by the government and 18 development partners, provides the framework for development partner coordination and aid effectiveness.

## 2. Bhutan

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		9.1%
GDP per capita (current \$)		2,088 (2010)
Population below \$1.25 per day (%)	51.0 (1990)	7.2 (2008)
Primary school completion rate, both sexes (%)	50.8 (1999)	88.5 (2009)
Gender parity index for primary school enrollment	0.85 (1999)	1.01 (2009)
Children under 5 years moderately or severely underweight (%)	14.1 (1999)	12 (2008)
Tuberculosis prevalence rate per 100,000 population (midpoint)	495 (1990)	179 (2009)
Proportion of population using improved drinking water sources (%)	91 (2000)	92 (2008)

62. **Key development issues.** Over the last 2 decades Bhutan has achieved considerable economic growth, diversification, and modernization, with major improvements in social indicators, communications, governance, and the standard of living. GDP growth has averaged more than 7%, raising per capita GDP to about \$2,000. Despite this progress, Bhutan faces serious development challenges, including the country's increasing economic dependence on electricity exports to India to generate revenue; its narrow economic base; the lack of private sector development; the high cost of infrastructure investments due to country conditions; rising unemployment, particularly of young people; and lack of rural employment opportunities.

63. **ADF assistance to date.** ADB is Bhutan's largest multilateral development partner. As of 31 December 2010, ADB had provided a total of \$310.4 million in lending and grant assistance. The four core areas receiving assistance are energy, roads, urban sector development, and finance and private sector development. Through a series of rural electrification projects, ADF operations have supported government efforts to provide electricity to all rural households. The 2010 Rural Renewable Energy Development Project supplemented the Rural Electrification and Network Expansion Project in bringing electricity to more areas of the country through the installation of solar panel units. ADF resources have helped install or upgrade 1,260 km of transmission lines and 1,770 km of distribution lines, bringing electricity to nearly 17,000 households. ADF-funded power interventions have enabled poor households to establish income-generating microenterprises and strengthened small-scale cottage industries that have benefited from targeted microcredit from the Small and Medium Enterprise Sector Development Project. ADF support has helped build or upgrade 346 km of roads and highways, reducing vehicle operating costs by up to 38%, cutting travel time by 25%, and directly benefiting nearly 100,000 people. Provision of much-needed investments in urban infrastructure in Thimphu and Phuentsholing has improved the quality of life and environment of the more than 130,000 residents. Urban infrastructure projects have increased pedestrian access, enhanced traffic flow, lowered driving times, reduced flooding, and improved parking in both cities.

64. **Strategy and focus during ADF XI (2013–2016).** ADB's country partnership strategy for Bhutan is closely aligned with the priorities identified in Bhutan's national poverty reduction strategy and ADB's Strategy 2020 (as confirmed by the 2010 Country Assistance Program Evaluation); therefore it will continue to guide ADB operations for the remainder of Bhutan's Tenth Five-Year Plan. The current key areas for development—energy (including rural electrification and renewable energy), transport, urban sector development, and finance and private sector development—are likely to continue. Pipeline projects include road networks, urban infrastructure, and rural connectivity.

65. **Partnerships and coordination.** ADB's country partnership strategy is being implemented in coordination with other development partners to avoid duplication. Examples of effective partnerships include ADB's rural electrification project loans following the Rural Electrification Master Plan developed by the Japan International Cooperation Agency. Similarly, development partners are using the Road Sector Master Plan, developed with ADB assistance. ADB has maintained close cooperation with other multilateral and bilateral funding agencies, and with civil society organizations, to strengthen the effectiveness, quality, and sustainability of the services it provides.



### 3. Maldives

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		9.8%
GDP per capita (current \$)		4,685 (2010)
Population below \$1.25 per day (%)		
Primary school completion rate, both sexes (%)	148.1 (2003)	119.4 (2009)
Gender parity index for primary school enrollment	1 (1999)	0.95 (2009)
Children under 5 years moderately or severely underweight (%)	32.5 (1994)	25.7 (2001)
Tuberculosis prevalence rate per 100,000 population (midpoint)	286 (1990)	47 (2009)
Proportion of population using improved drinking water sources (%)	90 (1990)	91 (2008)

66. **Key development issues.** Persistent fiscal and external imbalances in recent years have left the Maldives vulnerable to external shocks. While the country graduated to middle-income-country status in January 2011, it suffers from debt distress, and therefore is currently eligible for 50% ADF grant. The government is undertaking a reform program with support from the international community to correct these macroeconomic imbalances. However, given the small size of the economy, heavy dependence on imports for almost all its consumption, lack of economic diversification and dependence on tourism as a source of foreign exchange, and sticky nature of civil service reforms necessary for fiscal discipline, correcting the fiscal and external imbalances is a difficult task. Income disparities are another big challenge: reducing the inequalities between Malé and the atolls is important to achieve inclusive growth. Facilitating private sector investment to create jobs in the more remote islands is a major government priority. Strengthening institutions and improving human resources are additional challenges to development. The enormity and complexity of the difficulties facing this small economy makes it imperative that the international community continues its engagement, notwithstanding the Maldives' newly gained middle-income status.

67. **ADF assistance to date.** ADB is the leading development partner in the Maldives with cumulative lending comprising 21 loans for a total of \$152.8 million, a grant of \$20.0 million, and 58 technical assistance (TA) projects for a total of \$23.2 million. ADF operations have focused on public sector management, transport, and energy. The Economic Recovery Program—part of the government's broad emergency program—supports policy actions for fiscal consolidation as well as changing the role of government in the economy from a service provider to an enabler of sustainable and equitable growth. The tranche release provided the government with resources for the structural adjustments. The Domestic Maritime Transport Project upgraded the Malé North Harbour; the preliminary results show good prospects for progress in lowering transport costs between remote islands and Malé, with more usage, higher turnover, and shorter length of stay for each boat. The Outer Island Electrification Project supported electrification of 19 remote islands by providing new powerhouses, power generation equipment, and new distribution systems linking each household to the new system. The Tsunami Emergency Assistance provided resources to rehabilitate tsunami-damaged infrastructure, including power, transport, fisheries, and water supply and sanitation, benefitting thousands of Maldivians on the islands, improving their standard of living and economic opportunities.

68. **Strategy and focus during ADF XI (2013–2016).** The Maldives interim country partnership strategy for 2012–2013 currently under preparation proposes that ADF operations focus on three priority areas—development of small and medium-sized enterprises, energy, and

transport—to address the country’s development challenges, achieve inclusive and environmentally sustainable growth, and promote private sector development. The strategy will also emphasize the need for capacity development for critical policy formulation and project implementation. In addition, it will explore options for interventions in skills development.

69. **Partnerships and coordination.** ADB works closely with its development partners, including the International Monetary Fund, the Japan International Cooperation Agency, the United Nations Development Programme, and the World Bank, through close consultation and coordination efforts. It also explores cofinancing opportunities with bilateral donors.

#### 4. Nepal

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		4.0%
GDP per capita (current \$)		524 (2010)
Population below \$1.25 per day (%)	77.0 (1990)	52.0 (2008)
Primary school completion rate, both sexes (%)	51.1 (1991)	70 (2002)
Gender parity index for primary school enrollment	0.63 (1991)	0.86 (2002)
Children under 5 years moderately or severely underweight (%)	44.1 (1995)	38.8 (2006)
Tuberculosis prevalence rate per 100,000 population (midpoint)	335 (1990)	240 (2009)
Proportion of population using improved drinking water sources (%)	76 (1990)	88 (2008)

70. **Key development issues.** Despite prolonged internal conflict, Nepal has made remarkable progress to achieve the MDGs. Absolute poverty declined from 77% in 1990 to 52% in 2008. However, rapid economic development has been constrained by (i) long-standing infrastructure bottlenecks, particularly electricity and roads; (ii) limited job opportunities to absorb close to 400,000 new labor market entrants each year, especially in rural areas; (iii) rapid migration, which reduces agricultural productivity; (iv) pressure on urban services; (v) increased reliance on out-of-country remittances; and (vi) unequal distribution of resources within the country.

71. **ADF assistance to date.** As of 31 December 2010, cumulative lending to Nepal was \$3.2 billion, comprising 123 ADF loans and 22 ADF grants. ADB involvement in the education sector—most recently through the Education Sector Reform Program—has contributed to increasing enrollment rates in primary education from 81.0% in 2000 to 93.7% in 2010 and retention rates from 63.0% in 2000 to 77.9% in 2010. The gender gap in net enrollment narrowed from 6.7 percentage points in 2005 to 2.1 percentage points in 2009. As a result of the ADB-supported Small Towns Water Supply and Sanitation Project, about 570,000 people obtained access to improved drinking water and about 600,000 benefitted from new water supply connections through the Community-Based Water Supply and Sanitation Project. The Decentralized Rural Infrastructure and Livelihood Project has created employment for 27,500 individuals, more than 70% of whom are from traditionally disadvantaged groups. The 185 km of roads and 115 trail suspension bridges built through this project have given people in 18 remote districts access to employment opportunities, government facilities, and market centers. Efforts have been made to facilitate trade—both local and cross-border—through road construction, as with the Subregional Transport Facilitation Project, which has resulted in a reduction in goods waiting time and average cargo clearance of about 2.6 hours.

72. **Strategy and focus during ADF XI (2013–2016).** The priority sectors, to be confirmed during country partnership strategy preparation, include infrastructure, urban services, regional cooperation and integration, and gender and social inclusion. ADF resources would enable ADB to increase assistance in these sectors, accelerating progress in achieving MDG targets and helping to prevent a return to conflict. They would also enable Nepal to take advantage of its strategic location between the two fastest-growing economies—the People’s Republic of China and India. Given Nepal’s significant dependence on external concessional financing for its fiscal expenditures, ADF resources are of key importance to implementing the country’s social and economic development programs.

73. **Partnerships and coordination.** ADB closely coordinates with the World Bank; the Department for International Development of the United Kingdom; the International Labour Organization and other United Nations agencies; the Japan International Cooperation Agency; GIZ; the Swiss Agency for Development and Cooperation; the United States Agency for International Development; the European Union; and the governments of Denmark, Japan, and Norway. Coordination takes the form of regular joint coordination meetings, consultations during the programming missions, and joint government–development partner meetings led by the government.

## 5. Sri Lanka

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		6.4%
GDP per capita (current \$)		2,375 (2010)
Population below \$1.25 per day (%)	15.0 (1990)	7.2 (2008)
Primary school completion rate, both sexes (%)	101.2 (1991)	97.5 (2009)
Gender parity index for primary school enrollment	0.96 (1991)	1 (2009)
Children under 5 years moderately or severely underweight (%)	21.1 (2006)	21.6 (2009)
Tuberculosis prevalence rate per 100,000 population (midpoint)	114 (1990)	101 (2009)
Proportion of population using improved drinking water sources (%)	67 (1990)	90 (2008)

74. **Key development issues.** Sri Lanka is at a critical point in its development, having ended a 30-year armed conflict in May 2009. The economy received a boost from the ending of the conflict and grew at 8% in 2010; in the same year the International Monetary Fund categorized Sri Lanka as a middle-income economy. Sri Lanka’s development needs are large, especially in the former conflict areas of the north and east. The rest of the country also suffered the effects of war, and for a long period the economy performed below potential. The government’s strategy aims to accelerate economic growth, improve social indicators, eradicate extreme poverty, and improve the environment. The government has embarked on an ambitious infrastructure development program to achieve high growth and international competitiveness, and to reduce regional disparities by improving connectivity. It also aims to increase equitable access to basic and secondary education, improve the quality of education, strengthen service delivery, increase skills development, and double the number of students entering local universities by 2020. The government is committed to improving the standard of living and preserving the environment by providing access to safe drinking water and adequate sanitation facilities.

75. **ADF assistance to date.** ADB annual lending to Sri Lanka comprises \$200 million in ordinary capital resources and \$100 million from the ADF. ADF funds supported projects in the

former conflict areas and in areas such as water supply and sanitation, education, technical education and vocational training, and rural development. Under the North East Community Restoration and Development (NECORD) Project, ADF funds supported more than 58 village development plans and hundreds of small-scale rehabilitation projects to develop minor roads, hospitals, schools, water supply and sanitation, irrigation, and shelter. The NECORD Project II reestablished civil administration and infrastructure, and repaired 946 classrooms, 5 district hospitals, and 104 km of access roads. The Southern Province Rural Economic Advancement Project constructed a steel suspension bridge, dramatically improving the lives of 680 poor paddy farmers and tea estate workers. Prior to the bridge construction, the village was marooned during monsoon floods, cutting off access to facilities such as medical clinics and schools located on the other side of the river. The project included the repair and upgrading of 126 km of paved roads and 102 km of gravel roads, 605 km of flood-damaged gravel roads, 19 new pedestrian bridges, and 23 rural markets. The Secondary Education Modernization Project (SEMP) and SEMP II improved 1,200 secondary schools, strengthened provincial education offices, provided stipends for up to 50,000 disadvantaged students, streamlined the national examination system, modernized the curriculum, provided 17,000 teachers with scholarship programs, and built capacity in the Ministry of Education. The SEMP contributed to an increase in the ordinary level pass rate from 37% in 2000 to 48% in 2005, and 49% in 2007. Nationwide advanced-level pass rates improved from 51% in 2000 to 58% in 2005 and 61% in 2007. The Technical Education Development Project established the University of Vocational Technology for new technical degree programs and supported new diploma programs for technicians and technologists. The project encouraged students to enter nontraditional, market-oriented vocations, such as female students taking up courses in construction and farm machinery maintenance.

**76. Strategy and focus during ADF XI (2013–2016).** ADF funds will support the government's strategic thrust of regionally balanced, sustained growth. The program will follow the new country partnership strategy (2012–2016), which is based on three pillars: (i) supporting inclusive and sustainable economic growth, (ii) catalyzing private investment and enhancing the effectiveness of public investment, and (iii) developing human resources and knowledge. The ADF will support (i) connectivity of former conflict areas and lagging regions by helping to improve provincial and rural roads; (ii) sanitation improvement by reducing water pollution, building resilience to climate change impacts, and expanding the coverage of urban sewerage to reduce environmental pollution; (iii) technical and vocational education and education development by improving the quality of education through teacher training, curriculum development, greater use of information communication technology, and improved science and technology facilities; and (iv) environmentally sustainable urban development by supporting multimodal transport, building urban infrastructure and services including low-cost housing, and considering embarking on integrated urban renewal initiatives.

**77. Partnerships and coordination.** ADB is involved in Sri Lanka's government-led aid coordination mechanism, which aims to increase the harmonization of aid and technical support. ADB also works closely with development partners through development partner forums and bilateral interaction. ADB is cofinancing projects with several development partners including the Japan International Cooperation Agency, the European Union, Agence Française de Développement, the OPEC Fund for International Development, the Australian Agency for International Development, the Swedish International Development Cooperation Agency, and the Government of Norway. Cofinanced projects are mainly in roads and water supply.

## 6. South Asia Regional Cooperation and Integration

78. **Key regional development issues.** Despite its robust economic growth, South Asia accounts for only 3% of world GDP and is home to a quarter of the world's population. About 40% of its population lives on less than \$1.25 per day. The region continues to be regarded as the least integrated region of the world accounting for 2% of world exports. A meager 5.4% of its trade is intraregional compared with 26.4% for Southeast Asia and 51% for East Asia. Intraregional trade accounts for an average of just 2% of GDP, compared with 20% in East Asia. The quantity and quality of infrastructure in the South Asian region are low in comparison with most other regions. The region's infrastructure quality index (which takes into account road, rail, ports, airports, and electricity) is 51, compared with 100 for the G7 countries<sup>8</sup> and 74 for Southeast Asia. Border crossings are among the most congested in the world, leading to lengthy customs and port clearance times. The region is unable to realize its full potential for trade due to inadequate infrastructure for roads, power generation, and cross-border transmission, which calls for substantial financial investment and enhanced regional cooperation and integration (RCI). Sensitive geopolitical and security issues are among the factors responsible for the slow progress of regional cooperation. However, recent positive developments in bilateral relations among some South Asian countries and signs of improvement in internal security and stability in Nepal and Sri Lanka portend a brighter future for RCI in South Asia.

79. **ADF assistance to date.** During ADF X (2009–2012), the major focus was on developing the analytical basis for cooperation in the transport and energy sectors, as well as providing assistance for capacity development. This included developing transport and energy sector road maps that would encourage the involvement of countries in the region. In particular, support was provided for three flagship studies: (i) the South Asian Association for Regional Cooperation (SAARC) Regional Multimodal Transport Study, (ii) the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Transport Infrastructure and Logistics Study, and (iii) the SAARC Regional Energy Trade Study. The studies identified strategic interventions that create the conditions for potential investment opportunities over the medium term. In addition, ADB provided assistance for three investment projects with the objective of increasing regional connectivity, tourism development, and cross-border energy trade: (i) the Bangladesh–India Electrical Interconnection Grid Project, approved in August 2010, with a loan of \$100 million to Bangladesh; (ii) the South Asia Subregional Economic Cooperation Information Highway Project, the first multicountry investment project in South Asia, approved in December 2007 covering Bangladesh, Bhutan, India, and Nepal with a loan and grant totaling \$16.8 million, and (iii) South Asia Tourism Infrastructure Development Project covering Bangladesh, India, and Nepal, approved in November 2009 for \$57.5 million.

80. **Strategy and focus during ADF XI (2013–2016).** Regional cooperation in South Asia will provide assistance for project implementation and capacity development. Effective gender mainstreaming, enhanced private sector participation, and the promotion of green growth will be the main crosscutting themes. The three core priority sectors will be transport, energy, and trade facilitation. A flexible multitrack, multispeed, building-block approach will be employed to enable countries to process projects at the speed they are comfortable with and build on the success of each step. ADB will continue to play the role of honest broker, facilitate dialogue among policy makers and key stakeholders by supporting regular high-level policy forums, and help translate RCI ideas into viable regional projects through project investments and TA for capacity

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<sup>8</sup> Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

development and support for knowledge products. ADB will continue to facilitate the SAARC finance ministers meeting on the sidelines of ADB's annual meetings.

81. **Partnerships and coordination.** ADB's partners include the Australian Agency for International Development and the Climate Change Facilitation Fund.

## E. Southeast Asia

### 1. Cambodia

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		6.8%
GDP per capita (current \$)		802 (2010)
Population below \$1.25 per day (%)	77.3 (1990)	28.2 (2008)
Primary school completion rate, both sexes (%)	40.1 (1999)	79.5 (2008)
Gender parity index for primary school enrollment	0.87 (1999)	0.94 (2009)
Children under 5 years moderately or severely underweight (%)	42.6 (1996)	28.8 (2008)
Tuberculosis prevalence rate per 100,000 population (midpoint)	1237 (1990)	693 (2009)
Proportion of population using improved drinking water sources (%)	35 (1990)	61 (2008)

82. **Key development issues.** Cambodia's economic performance has been impressive despite challenges in the areas of governance and transparency. GDP per capita rose from \$308 in 1995 to \$802 in 2010. Double-digit average annual growth during 2004–2007 led to a decline in national poverty incidence from 34.7% to 30.1% during the same period. Rural poverty declined, but remains relatively higher than the national average at 35%. Inequality, as measured by the Gini coefficient, increased from 0.34 in 2004 to 0.36 in 2007. To reduce the country's vulnerability to external shocks and make growth more inclusive and competitive, Cambodia needs to accelerate economic diversification and integration. Improving competitiveness will require reducing the high costs of infrastructure and logistics, especially power. Connectivity between rural communities and urban growth poles will need to improve and agriculture must become more commercialized. As the commercialization of agriculture takes hold, rural–urban linkages will catalyze higher incomes overall and poverty will decline.

83. **ADF assistance to date.** ADF operations as of 30 June 2011 totaled \$1.46 billion. Key development impacts have been achieved in all sectors, particularly in finance, education, water supply, transport, energy, decentralization, irrigation, agricultural development, natural resources, and emergency food assistance. For example, the road rehabilitation project significantly reduced travel times, from 6 hours to less than 2 hours, and boosted the flow of trade and tourists between Cambodia and its neighbors—Thailand and Viet Nam. The Emergency Food Assistance Project provided free rice to about 500,000 poor people living around the Tonle Sap Basin, enabling poor households to cope with food price increases. Almost 700 new commune offices were built under the decentralization project, providing official workspace for commune officials and a venue for community gatherings to discuss development issues. The rural water supply and sanitation project has provided access to safe water for more than 500,000 people and improved sanitation for a further 250,000, resulting in better health and greater convenience, especially for women and girls.

84. **Strategy and focus during ADF XI (2013–2016).** ADF operations will continue to support the government's development priorities and reduce poverty through projects and

programs to promote inclusive economic growth. They will maintain a geographic focus on the Tonle Sap Basin, one of the poorest, most environmentally sensitive regions of Cambodia, and strengthen integration of Cambodia into the Greater Mekong Subregion. Priority sectors include transport; water supply, sanitation, and urban development; agriculture and natural resources; education; and finance, supported by activities in public sector management.

85. **Partnerships and coordination.** ADB participates in Cambodia's existing aid coordination mechanisms (e.g., the Cambodia Development and Cooperation Forum, and the Government–Development Partner Coordination Committee) and technical working groups in all sectors of involvement, such as agriculture and water, decentralization and deconcentration, education, infrastructure and regional integration, public financial management, rural water supply, and sanitation and hygiene. In addition, it is selectively strengthening links with (i) a wide range of development partners to improve collaboration and mobilize greater cofinancing resources, (ii) civil society through consultations and roundtables that allow frank discussions and identify engagement possibilities, (iii) the private sector to engage with the business community on ADB's public and private sector operations, and (iv) national research institutes through joint analytical work.

## 2. Lao People's Democratic Republic

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		7.6%
GDP per capita (current \$)		1,208 (2010)
Population below \$1.25 per day (%)	65.9 (1990)	35.1 (2008)
Primary school completion rate, both sexes (%)	70.7 (1999)	74.7 (2008)
Gender parity index for primary school enrollment	0.79 (1991)	0.91 (2008)
Children under 5 years moderately or severely underweight (%)	39.8 (1993)	31.6 (2006)
Tuberculosis prevalence rate per 100,000 population (midpoint)	158 (1990)	131 (2009)
Proportion of population using improved drinking water sources (%)	44 (1995)	57 (2008)

86. **Key development issues.** The Lao People's Democratic Republic (Lao PDR) has posted strong growth over the last 5 years and has significantly reduced poverty in the country. It is now classified as a lower-middle-income country, an achievement that seemed impossible 5 years ago. The Lao PDR is in the process of an economic transition driven by a natural resources boom (hydropower and mining) and aided by 20 years of investment by development partners in areas such as infrastructure, education, and regional cooperation and integration. The government needs to diversify the economy to reduce reliance on volatile commodity prices, provide jobs for a very young population, and stem rising inequality.

87. **ADF assistance to date.** ADB continues to be one of the leading development partners, with cumulative lending through ADF loans and grants totaling \$1.5 billion. ADF operations have focused on education, health, agriculture and rural development, and infrastructure. Assistance to agriculture resulted in an increase in incomes of over 30% in project areas, while yields from wet rice increased from 2.5 tons/hectare to 3.5 tons/hectare. In primary education, more than 58,000 pupils from 426 villages in four provinces benefited from 929 new classrooms and 903 upgraded classrooms. ADF investments in education contributed to an increase in the female enrollment rate to 91.1% in 2009/10 from 78.9% in 2005/06. In the health sector, ADF operations helped strengthen the policy environment, built hospitals and clinics, and introduced a sector program approach with results-based supplementary budget support. In the

infrastructure sector, ADB supported the building or rehabilitation of about 2,500 km of roads, increasing connectivity with neighboring countries; and improved water supply and sanitation systems in small towns, connecting about 19,000 households to the water supply system.

**88. Strategy and focus during ADF XI (2013–2016).** ADF XI operations will support the government's Seventh National Socio-Economic Development Plan (2011–2015), which aims to achieve high sustainable economic growth and reduce poverty and inequality. ADB will promote growth in rural areas, where 75% of the population lives, by improving connectivity, and developing and strengthening agribusiness through value-chain development. Operations will focus on (i) climate change resilience to ensure sustainability; (ii) urban development, especially quality urban services, to ensure the well-being and livelihood of the rapidly increasing urban population; (iii) strengthening human resources through better education and technical and vocational training; and (iv) long-term capacity-building support, especially for public sector management, to improve governance and public service delivery in the economic and social sectors.

**89. Partnerships and coordination.** ADB works closely with its development partners through the government-led round-table mechanism and its eight sector working groups. ADB cochairs the sector working groups on macroeconomics and infrastructure and the subsector working group on water resources and environment, and participates in other working groups.

### 3. Viet Nam

Country Indicators	Earliest (year)	Latest (year)
GDP growth (5-year average, 2006–2010)		7.0%
GDP per capita (current \$)		1,191 (2010)
Population below \$1.25 per day (%)	34.2 (1990)	13.9 (2008)
Primary school completion rate, both sexes (%)	96.2 (1999)	102.3 (2001)
Gender parity index for primary school enrollment	0.93 (1999)	0.95 (2001)
Children under 5 years moderately or severely underweight (%)	36.9 (1992)	20.2 (2006)
Tuberculosis prevalence rate per 100,000 population (midpoint)	395 (1990)	333 (2009)
Proportion of population using improved drinking water sources (%)	58 (1990)	94 (2008)

**90. Key development issues.** Viet Nam has made encouraging progress in economic development during the past 5 years and is now classified as a lower-middle-income country. Per capita GDP rose from \$731 in 2006 to \$1,191 in 2010. Strong growth contributed to the decline in poverty incidence, which is currently estimated at 13.9%. However, ethnic minority groups make up more than half of the poor, although they account for only 14.5% of the total population. Viet Nam faces some critical development challenges, including the need for continued structural reform and effective macroeconomic management. It must address infrastructure bottlenecks, pockets of poverty and vulnerable groups, weak institutions and capacity, and a shortage of educated and skilled labor.

**91. ADF assistance to date.** ADF operations as of 30 September 2011 amounted to \$5.3 billion. They have helped improve access to and quality of secondary education where ADB is the lead development partner by building more than 3,000 classrooms, training nearly 35,000 teachers, and benefitting 1.7 million students from 2007 to 2009, particularly in disadvantaged areas, such as ethnic minority communes. ADF resources have financed many rural projects in water resources management, including irrigation and flood control for nearly



180,000 hectares of land during 2004–2007, basic rural infrastructure, and livelihood improvement, which have helped lift much of the rural population out of poverty and integrated residents into economic activities. The ADF was the essential instrument for wide-ranging policy and institutional reforms, from public administration and restructuring of state-owned enterprises, and capital market and financial intermediation development, to school curriculum and teacher-training improvement and medical human resources management. It has also played a significant role in promoting regional cooperation and trade integration under the Greater Mekong Subregion Economic Cooperation Program, and provided regional public goods including transport and economic corridors, border town development, and communicable diseases control.

92. **Strategy and focus during ADF XI (2013–2016).** The government identifies three critical conditions to attain further development: (i) comprehensive renovation of economic institutions and management, (ii) human resources development, and (iii) infrastructure improvements. To achieve these, ADF operations will focus on education, technical and vocational training, and health projects, which will contribute to human resources development; and rural infrastructure and rural development, which will improve infrastructure and help prevent a serious growth bottleneck. They will target disadvantaged provinces and communities to promote equitable and inclusive growth by addressing persisting pockets of poverty in the country and help narrow the widening income and nonincome gaps. ADF assistance will also give attention to climate change concerns in rural infrastructure and development.

93. **Partnerships and coordination.** ADB works closely with Viet Nam’s development partners to enhance aid effectiveness, and is one of the key partners in preparing the government’s 10-year strategies, 5-year development plans, and official development assistance strategic frameworks. As the largest development partner in the sector, ADB plays an important role in the Health Partnership Group. It is also a member of the Aid Effectiveness Forum and the Six Banks Initiative comprising international financial institutions with active lending programs. Members regularly meet with the government to address common issues including project start-up delays and the harmonization of procurement. ADB also participates in and leads some sector and thematic groups.

#### 4. Southeast Asia Regional Cooperation and Integration

94. **Key regional development issues.** The vision of the Greater Mekong Subregion (GMS) Program is to achieve a more integrated, prosperous, and equitable subregion through increased connectivity, improved competitiveness, and a greater sense of community. While the pragmatic, action-oriented, results-focused approach of the program enables GMS countries to expedite implementation of high-priority subregional projects and initiatives, challenges remain in developing the needed hardware, or physical infrastructure for economic corridor development, and software aspects, such as policies, rules and regulations, procedures and standards, institutional arrangements, and capacity development to ensure the integration of less-developed areas and to address social and environment concerns effectively.

95. **ADF assistance to date.** The three ADF countries of the GMS—Cambodia, the Lao PDR, and Viet Nam—are progressing toward attaining the MDG targets for poverty incidence, literacy, and health, although individual country experience varies. The ADF accounted for 55% (\$1.53 billion) of total ADB support for regional investment projects in the three countries. The development of three economic transport corridors has led to savings in time and costs of cross-border travel, and increased economic opportunities for the local population. For instance, travel time from the Lao PDR–Viet Nam border to Savannakhet in the Lao PDR along the East–West

Economic Corridor has been reduced from 12 hours to only 3 hours, and the total value of trade through the Moc Bai (Viet Nam)–Bavet (Cambodia) border along the Southern Economic Corridor increased by around 40% per annum after improvement of the corridor's main highway.

96. Regional power development and transmission projects have also provided power to rural communities as cross-border transmission lines have made development of local distribution lines more economically viable. In the Lao PDR, household access to electricity nationwide improved from 45% in 1995 to 82% in 2007. In 2010, 70% of rural households had access to electricity; this is expected to reach 90% by 2020. Mekong tourism development and new tourism opportunities have likewise generated positive socioeconomic impacts in terms of increased international tourist arrivals, increased foreign exchange earnings (415% in Cambodia, 237% in the Lao PDR, and 439% in Viet Nam), and increased tourism employment (79% in Cambodia, 31% in the Lao PDR, and 14% in Viet Nam). Health projects have enhanced HIV/AIDS awareness among populations at risk in the border areas.

97. **Strategy and focus during ADF XI (2013–2016).** ADF XI operations will support the activities under the new GMS strategic framework (2012–2022). The framework builds on GMS Program success in achieving hardware connectivity, while enhancing the focus on the software of regional connectivity and bolstering cooperation in emerging areas such as energy efficiency and sufficiency, food security, and climate change. ADF support for investment projects will focus on widening and deepening GMS corridor development through investments in urban and integrated area development along the corridors; as well as investments in transport connectivity, sustainable tourism development, climate change, trade facilitation, and cross-border human resource development issues including labor migration, transmission of communicable diseases, and trafficking.

98. **Partnerships and coordination.** ADB has been working with member governments and other development partners in supporting GMS activities. Since its formation in 1992, in addition to ADB's \$5.0 billion (ADF and ordinary capital resources), GMS governments have provided \$4.3 billion and development partners have contributed \$4.6 billion to support all GMS projects. Development partner activities are coordinated through the sector working group meetings, GMS ministerial conferences, GMS Mekong development forums, and bilateral consultations.