



ASIAN DEVELOPMENT FUND (ADF)
ADF XI MIDTERM REVIEW MEETING
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Overview of ADF XI at Midterm

Asian Development Bank

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAREC	–	Central Asian Regional Economic Cooperation
CPA	–	Country Performance Assessment
CPS	–	country partnership strategy
DEAP	–	Disaster and Emergency Assistance Policy
DEfR	–	Development Effectiveness Review
DMC	–	developing member country
DRF	–	Disaster Response Facility
DSC	–	departmental scorecard
DVA	–	direct value added
EOD	–	Environmental Operational Directions
FCAS	–	fragile and conflict-affected situation
FY	–	fiscal year
GACAP	–	Governance and Anticorruption Action Plan
GAP	–	Gender Action Plan
GPIP	–	Good Project Implementation Practice
ICT	–	information and communication technology
IDA	–	International Development Association
IDRM	–	integrated disaster risk management
IED	–	Independent Evaluation Department
ISTS	–	information systems and technology strategy
Lao PDR	–	Lao People's Democratic Republic
MDG	–	Millennium Development Goal
MSME	–	micro, small and medium-sized enterprises
MTR	–	midterm review
OCR	–	ordinary capital resources
OPPP	–	Office of Public-Private Partnership
PBA	–	performance-based allocation
PCP	–	Public Communications Policy
PCR	–	project completion report
PPP	–	public–private partnership
PSD	–	private sector development
PSO	–	private sector operation
RAMP	–	risk assessment mitigation plan
RCI	–	regional cooperation and integration
SASEC	–	South Asia Subregional Economic Cooperation
SDR	–	special drawing rights
SPOP	–	Social Protection Operational Plan
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

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

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

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EXECUTIVE SUMMARY

Development context. Developing member countries (DMCs) in Asia and the Pacific continue to face serious socioeconomic challenges, in spite of rapid economic growth and significant progress towards the elimination of income poverty. Many of these challenges are particularly pronounced in Asian Development Fund (ADF) countries. While they have made great strides on several socioeconomic indicators, ADF countries on average continue to have higher poverty, slower growth, weaker institutions, greater susceptibility to climate change, and poorer social and economic infrastructure compared to countries accessing only ordinary capital resources. In 2014, 27 of the 29 ADF countries are at risk of failing to achieve at least a quarter of non-income millennium development goals. Furthermore, 9 of the 29 ADF countries are classified as fragile and conflict-affected situations (FCAS). As global economic prospects remain uncertain, ADF countries will continue to need support to meet their investment demands and address their challenges and constraints.

ADF resource allocation. During the tenth replenishment of the ADF (ADF XI), the Asian Development Bank (ADB) continues to focus resources where they are most needed. Per capita average annual ADF country allocations for ADF-only and low income countries are projected to rise between ADF X (2009–2012) and ADF XI (2013–2016). Resources allocated through the performance-based allocation (PBA) system balance country needs and performance. ADB has introduced a minimum allocation of \$3 million a year in the PBA system for all DMCs, to be implemented starting in 2015. This will particularly benefit small Pacific island countries, several of which are FCAS, where PBA allocations may be too low to support reasonably-sized operations. The Disaster Response Facility—established on a pilot basis in 2012 to help ADF countries respond to disasters—has supported three projects, accounting for 31% of its resources for 2013–2014, with another project in the pipeline. ADB has allocated significant assistance during ADF XI to Afghanistan (post-conflict) and Myanmar (upon reengagement).

ADF resource utilization. ADF XI resources are expected to be fully utilized. ADB's projected operational program under ADF XI is about \$13.2 billion, compared to actual ADF approvals aggregating \$11.9 billion under ADF X. The operational program exceeds the ADF XI replenishment amount, indicating strong demand. Approvals and disbursements are both projected to strengthen under ADF XI, compared to ADF X. Moreover, success rates for completed ADF operations have improved in 2013, compared to ADF X.

Alignment with the ADF XI development agenda. The key mandate of ADF XI was to reduce poverty in Asia and the Pacific through the implementation of ADB's Strategy 2020 and its three complementary development agendas: inclusive growth, environmentally sustainable growth, and regional cooperation and integration. The 2014 midterm review (MTR) of Strategy 2020 reconfirmed the relevance of the agenda. ADB has taken several measures to enhance its interventions on these three fronts, including (i) the issuance of new guidelines to integrate support for inclusive economic growth into the formulation of country partnership strategies, (ii) efforts to improve diagnostics and monitor performance and results more rigorously, and (iii) the rollout of a new project classification system that helps staff report operations more accurately. ADB is working towards the greater incorporation of inclusion objectives into its operations and strategies; stronger support for social protection, financial inclusion, and inclusive business; better mainstreaming of climate adaptation; and the promotion of second generation regional cooperation and integration reforms related to trade facilitation, investment climate improvement, access to finance, and skills development.

Special considerations for ADF XI. ADF XI assistance remains well aligned with the three Strategy 2020 drivers of change that were identified as special considerations for ADF countries: gender, governance, and private sector development. The proportion of ADF loan and grant operations supporting these special considerations is projected to be higher under ADF XI, compared to ADF X. Going forward, ADB can further improve country- and sector-level diagnostics related to governance and enhance the coverage of private sector operations in ADF countries. Effective measures have been taken to enhance operations in FCAS and food security, which were also regarded as special considerations by ADF XI donors. Under the FCAS operational plan, approved in April 2013, ADB is enhancing its ability to respond flexibly to the unique challenges faced by FCAS countries. A new operational plan to promote food security in the region, taking a multi-sector approach to upgrade food systems and integrate smallholders into emerging food value chains, is expected to be finalized in 2014.

Internal ADB reforms. As prioritized in the ADF XI negotiations, ADB has implemented several internal reforms to enhance efficiency and effectiveness. These cover efforts to (i) improve project performance and outcome achievement; (ii) leverage ADF resources to mobilize additional investments from the private sector; (iii) transform ADB into a more dynamic knowledge institution; (iv) align human resources with Strategy 2020 priorities; (v) strengthen transparency and accountability, including better sharing of information on aid with stakeholders; (vi) enhance capacity in resident missions for supervision, monitoring, procurement and policy dialogue; and (vii) refine ADB's corporate results framework. The action plan to implement the recommendations of the Strategy 2020 MTR has identified several areas where reforms need to be intensified, to improve ADB operations on the ground, build skills, and provide better service to clients. Accordingly, ADB will further strengthen support for reforms to improve its strategic directions, business processes, institutional settings, skills and staffing, resource mobilization, and results monitoring.

ADF resource mobilization. Donors are encouraged to provide ADF contributions on time because delayed contributions may necessitate scaling down ADF XI operations. Also, the ADF has experienced a steady decrease in investment returns because of the prolonged low interest rate environment. This trend is expected to persist in the short term for key currencies that constitute special drawing rights (SDR). This could reduce the prospective investment income and the ability to extend ADF operational commitments in the future.

Conclusions. Overall, there has been significant progress towards fulfilling commitments made during ADF XI negotiations. ADF assistance has remained aligned with the ADF XI strategic agendas and special considerations identified as important for ADF countries. ADB has undertaken many internal reform initiatives that were agreed, while several other reforms identified under the Strategy 2020 MTR are also under implementation. ADB will continue to strengthen its efficiency and effectiveness through the remaining years of ADF XI, and beyond.

I. INTRODUCTION

1. The tenth replenishment of the Asian Development Fund (ADF XI), covering 2013–2016, became effective on 4 June 2013. The total replenishment amounted to \$12.4 billion (SDR 7.9 billion), consisting of \$12.0 billion (SDR 7.7 billion) for ADF XI and \$0.4 billion (SDR 0.2 billion) for the fifth replenishment of the Technical Assistance Special Fund (TASF). This is larger than the \$11.3 billion (SDR 7.1 billion) agreed at the conclusion of the ninth replenishment of the ADF (ADF X). Donor's new contributions totaled \$4.6 billion (SDR 3.0 billion), or about 37.5% of the total, with the rest coming from internal Asian Development Bank (ADB) resources (reflows and usable liquidity) and net income transfer from ordinary capital resources (OCR).

2. ADB's ADF operations during 2013–2016 are guided by the ADF XI donors' report.¹ The key mandate of ADF XI was to reduce poverty in ADF countries by implementing ADB's Strategy 2020,² and focusing on three complementary development agendas: (i) inclusive growth, (ii) environmentally sustainable growth, and (iii) regional integration. Within this context, ADB committed to giving special consideration to three special themes considered particularly relevant for ADF countries:³ gender, fragile and conflict-affected situations (FCAS), and food security. Donors also highlighted the importance of the ADF in promoting private sector development and investment, and good governance in ADF countries. In addition, various internal reforms were identified that could further transform ADB into a more efficient and dynamic organization.

3. This overview report complements the detailed analysis of the stand-alone discussion papers and reviews the implementation progress under ADF XI. It first describes the overall context in developing member countries (DMCs), with a focus on ADF countries. The overview accounts for the use of ADF resources, and highlights initiatives and developments during the ADF XI period with regard to resource allocations. It reviews the alignment of assistance with the priorities identified during the ADF XI replenishment negotiations, and reports on progress on the various internal reform initiatives expected to enhance ADB's efficiency and effectiveness. Finally, the report provides an update on ADF financial resources.

II. DEVELOPMENT CONTEXT

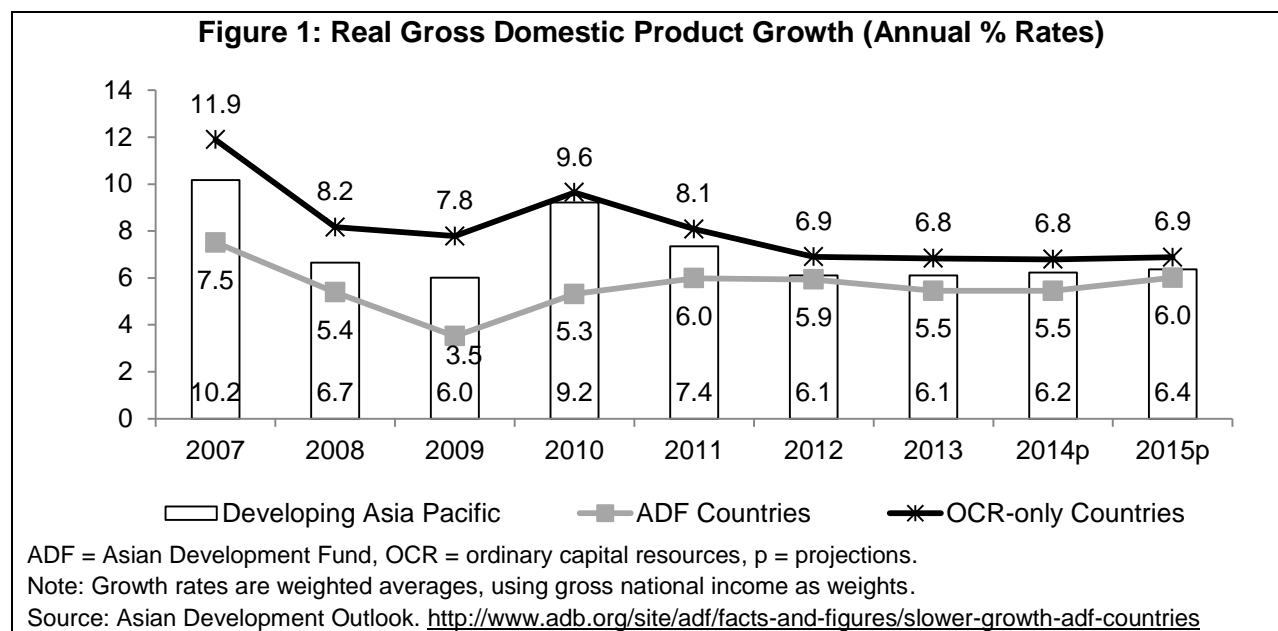
4. The DMCs in Asia and the Pacific have grown steadily during the ADF XI period. Following a slowdown in 2008–2009 due to the global economic crisis, the region recovered strongly in 2010 (Figure 1). Although growth has remained below pre-crisis levels since then, DMCs in Asia and the Pacific grew at around 6.5% during 2011–2013, while the world economy grew at less than 3.0% per year. The 29 ADF countries have grown more slowly than the 11 OCR-only countries, although the divergence in average growth rates between the two groups of countries has narrowed since 2010. Of the 29 ADF countries, 23 were classified as middle

¹ ADB. 2012. *Asian Development Fund XI Donors' Report: Empowering Asia's Most Vulnerable*. Manila.

² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

³ ADF countries are a subset of ADB's DMCs that have access to the ADF. These can be disaggregated into ADF-only countries, which only have access to the ADF; and blend countries, which have access to both the ADF and ordinary capital resources. ADB has 29 ADF countries: 17 ADF-only countries (Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Marshall Islands, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, and Vanuatu); and 12 blend countries (Armenia, Bangladesh, Georgia, Federated States of Micronesia, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Timor-Leste, Uzbekistan, and Viet Nam). India is eligible for ADF assistance under ADB's Graduation Policy but currently does not have access to the ADF. Thus, it is not considered an ADF country in this paper.

income countries in 2013 (17 lower middle income and 6 upper middle income).⁴ Of the 23 ADF middle income countries, 7 are Pacific DMCs considered to be FCAS.⁵



5. Rapid economic growth has translated into a decline in extreme poverty in the DMCs in Asia and the Pacific, although the vulnerable population has increased. The number of poor people living on less than \$1.25/day in OCR-only countries⁶ fell from 1,258 million in 1990 to 616 million in 2010, while in ADF countries, it fell from 220 million to 117 million. In line with the rest of the region, ADF countries achieved the Millennium Development Goal (MDG) of halving the proportion of the population in extreme poverty (living on less than \$1.25/day) ahead of the 2015 deadline. At the same time, the number of vulnerable people (living between \$1.25/day and \$2.00/day) increased in both country groups during 1990–2010 from 640 million to 737 million in OCR-only countries and from 81 million to 162 million in ADF countries. Extreme poverty, as measured by the head count index, remains higher in ADF countries than in OCR-only countries (Table 1).

Table 1: Poverty in Developing Member Countries, 2010

Country Group	\$1.25/day poverty		\$2.00/day poverty		Number of Vulnerable (Million)
	Poverty Incidence (%)	Number of Poor (Million)	Poverty Incidence (%)	Number of Poor (Million)	
OCR-only	20	616	45	1,353	737
ADF	23	117	55	279	162

ADF = Asian Development Fund, OCR = ordinary capital resources.

Source: Asian Development Bank staff calculations, based on World Bank Povcalnet data.

⁴ As per the World Bank, the lower middle income countries are those with gross national income per capita of at least \$1,045 but below \$4,125 in 2013. Upper middle income countries are those with income of at least \$4,125 but below \$12,746. See <http://data.worldbank.org/news/2015-country-classifications>. The six upper middle income ADF countries are all small islands: Maldives, Marshall Islands, Nauru, Palau, Tonga, and Tuvalu.

⁵ These are Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Solomon Islands, Timor-Leste, and Tuvalu.

⁶ OCR-only countries are those DMCs which do not have access to ADF: Azerbaijan, People's Republic of China, Cook Islands, Fiji, India, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, and Turkmenistan.

6. ADF countries have made significant, if uneven, progress towards meeting the non-income MDGs. Apart from the MDG for income poverty, recent data from the United Nations Economic and Social Commission for Asia and the Pacific shows that ADF countries as a group have already achieved the MDG for access to safe drinking water. Gender parity has been realized in primary and secondary education, and is expected to be achieved in tertiary education. At the same time, ADF countries are unlikely to meet the MDGs related to reducing malnutrition, under-5 mortality, and maternal mortality, and improving access to basic sanitation. Although ADF-only countries achieved the MDG of universal primary education in 2011, some of the larger ADF countries have made slower progress, and ADF countries as a group are unlikely to meet the target by 2015. Of the 29 ADF countries, 27 are at risk of failing to achieve at least a quarter of non-income MDGs (Appendix 1). Of these 27, 9 countries are classified as FCAS.

7. Although DMCs in Asia and the Pacific are projected to grow at an average rate of 6.2% during 2014–2019, growth must be sustained in a global environment that is more fragile than in the pre-crisis years of 2000–2007. There will likely be continued uncertainties faced by advanced economies, falling relative prices of manufactured goods, increasing competition for shrinking export markets, and periods of inflation. The regional economic giants, the People's Republic of China and India, also face a slowdown.⁷ Overall, the OCR-only countries are projected to grow at 6.8% in during 2014–2019, compared with 5.8% growth for ADF countries.⁸ In line with sustained growth, extreme poverty is estimated to have declined further in the current group of ADF countries, from 23% in 2010 to 17%–20% in 2013, and is expected to fall to 2%–10% by 2024. However, a large number of people will remain vulnerable, with more than 100 million people in ADF countries projected to be living below \$2.00/day in 2024.

8. There are concerns around food security, as the DMCs in Asia and the Pacific are home to 552 million or two-thirds of the global undernourished population; 82 million of them are in ADF countries.⁹ Micronutrient deficiencies are high or extreme in all South Asian and in many South East Asian countries. During 2007–2011, about a third of children below the age of 5 were stunted in ADF countries, compared to less than 20% in OCR-only countries. Given the region's growing population, rapid urbanization, volatile food prices, scarce resources, and climate change challenges, food insecurity will intensify unless it is addressed appropriately.

9. Several ADF countries face the challenge of making growth more inclusive. The Asia-wide Gini coefficient increased from 39% in the mid-1990s to 46% in the late 2000s. Income inequalities are projected to rise by 2020 in several ADF countries like Bangladesh, Cambodia, Kyrgyz Republic, Lao People's Democratic Republic (Lao PDR), Nepal, Pakistan, and Tajikistan, unless stronger steps are taken to enhance the inclusiveness of growth. ADF countries need to ensure the equality of opportunities as well as the equality of outcomes. Inequalities of access to education and health are of particular concern. For example, in Bangladesh, Mongolia, and Myanmar, children from the poorest quintile were three times as likely as those from the richest quintile to be out of school.¹⁰

⁷ Efforts to forge a more balanced and sustainable growth path in People's Republic of China than the recent path led by exports and investment will lead to moderation of growth. Shortage of infrastructure and the need for further structural reforms continue to weigh on industry and investment in India, hampering growth.

⁸ International Monetary Fund. 2014. World Economic Outlook 2014. Washington, DC. <http://www.imf.org/external/pubs/ft/weo/2014/01/>

⁹ Food and Agriculture Organization of the United Nations (FAO), World Food Programme (WFP), International Fund for Agricultural Development (IFAD). 2012. *The State of Food Insecurity in the World 2012. Economic growth is necessary but not sufficient to accelerate reduction of hunger and malnutrition*. Rome.

¹⁰ ADB. 2012. *Asian Development Outlook 2012: Confronting Rising Inequality in Asia*. Manila.

10. ADF countries have made significant progress on a range of institutional indicators, although they are still behind OCR-only countries. For example, the average Global Competitiveness Index ranking for ADF countries rose from 3.65 in 2006–2007 to 3.78 in 2013–2014. However, they lag OCR-only countries, which averaged 4.55 on the Global Competitiveness Index in 2013–2014.¹¹ The policy environment in ADF countries also remains generally less conducive to private sector development than in OCR-only countries.¹²

11. DMCs in Asia and the Pacific face considerable risk from environmental factors. Global warming and climate change (including increased natural disasters) threaten agricultural production, coastal populations, and major urban areas. The share of urban populations living in low elevation coastal zones exceeds 55% in large ADF countries such as Bangladesh and Viet Nam. About 45% of the world's natural disasters occurred in DMCs in Asia and the Pacific in the last 3 decades.¹³ The Pacific island countries are especially vulnerable to the effects of climate change. Without appropriate strategies, the economic and social impact of disasters will continue to hamper development, particularly in ADF countries. Also, since 2005, the region's share in global carbon dioxide emissions has risen from less than one-third to more than 40%.

12. Nine ADF countries continue to be affected by fragility and conflict in 2014 (para. 68), and face particular challenges. Countries categorized as FCAS tend to lack basic infrastructure, have poor policy regimes and weak institutions that are unable to deliver basic services, demonstrate weak governance, and suffer from political instability.¹⁴ FCAS DMCs also tend to be relatively far from achieving MDGs (Appendix 1).

13. Overall, despite considerable progress, ADF countries continue to face significant development challenges and constraints. In view of these, their need for developmental resources remains evident. The global development finance landscape is changing, and new financing sources are emerging. However, poorer and more vulnerable countries are still hampered by risks to creditworthiness, which makes it relatively difficult for them to access market-based resources.¹⁵ Furthermore, as and when the post-2015 development agenda is finalized, ADF countries will also need support to achieve new targets, which could be more ambitious than the MDGs.

14. ADF assistance till date has contributed to development progress and helped to transform the lives of poor and vulnerable people, including those in FCAS. The success of ADF operations is based on strong partnerships between ADF countries, ADB, and other development partners. With ADF support, millions of poor people have gained access to quality education, reliable supplies of electricity and clean water, and economic opportunities.¹⁶ Recent ADF operations have supported the development of key infrastructure and services needed to facilitate economic growth and have helped countries to improve their institutional capacities. Accordingly, ADF assistance can continue to play a strong role in helping DMCs meet their development goals.

¹¹ World Economic Forum. *The Global Competitiveness Report 2013–2014*. Geneva.

¹² World Bank. 2014. Doing Business Indicators. <http://www.doingbusiness.org/rankings>

¹³ United Nations Development Programme. 2012. *One Planet to Share: Sustaining Human Progress in a Changing Climate*. Bangkok.

¹⁴ ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

¹⁵ Of the 29 ADF countries, only 10 have private credit agency ratings for long-term sovereign borrowing from at least one of Standard & Poor's, Moody's, and Fitch Ratings, and none are considered investment grade.

¹⁶ ADB. 2014. *Development Effectiveness of the Asian Development Fund*. Manila. Paper prepared for ADF XI Midterm Review.

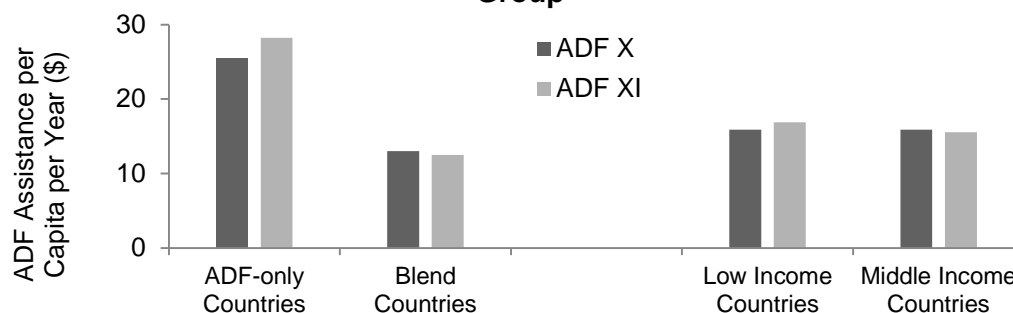
III. ALLOCATION OF ADF XI RESOURCES

15. In view of the importance of ADF resources to help meet development challenges in poor and vulnerable countries, ADB is taking various steps during the ADF XI period to focus resources where they are needed the most. The overall allocation of ADF resources continues to be guided by the performance-based allocation (PBA) system. Furthermore, ADB has enhanced allocations for small countries and implemented various set-asides for Pacific islands, post-conflict and reengaging countries, disaster response, and regional cooperation and integration (RCI). The graduation of wealthier DMCs from access to new ADF resources is also being pursued, in order to enhance future resources for the poorest and most vulnerable countries.

A. Country Allocations

16. Country-specific ADF assistance during 2013–2016 has become more focused on ADF-only and low income countries. ADF XI resources allocated for ADF-only countries are \$4.3 billion (or 35.5% of total ADF XI resources), as compared to \$3.7 billion (or 32.4% of total ADF X resources) during ADF X, taking into account the exceptional allocation for Myanmar as a reengaging country (para. 25).¹⁷ The share of ADF resources allocated to the six ADF countries that are currently low income¹⁸ has gone up from 39.5% during ADF X to a projected 41.2% during ADF XI. On a per capita basis, average annual ADF allocations to the current groups of ADF-only and low income countries are projected to rise between ADF X and ADF XI, at the cost of marginal declines in allocations to blend¹⁹ and middle-income countries (Figure 2).

Figure 2: Average Annual Asian Development Fund Allocation Per Capita by Country Group



ADF = Asian Development Fund.

Note: Data for 2015–2016 are estimates. ADF allocations include exceptional country allocations for Myanmar, which is a low-income ADF-only country. Population data are from United Nations World Population Prospects, 2012 Revision. <http://esa.un.org/wpp/Excel-Data/population.htm>.

Source: Asian Development Bank.

17. The PBA system continued to be the basis for the allocation of ADF XI resources, taking into account country portfolio performance, as well as needs, absorptive capacity, and special circumstances. While overall allocations have expanded in country groups with the greatest needs, the share of PBA resources allocated to stronger performers, as measured by the Country Performance Assessment (CPA) scores, has simultaneously improved (Figure 3).²⁰

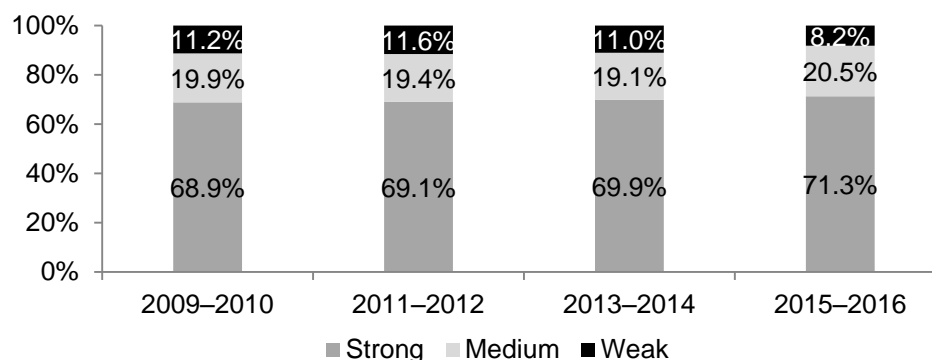
¹⁷ The analysis is based on the set of countries classified as ADF-only, as of 30 June 2014.

¹⁸ The low income ADF countries in 2013 are Afghanistan, Bangladesh, Cambodia, Myanmar, Nepal, and Tajikistan.

¹⁹ Blend countries are those ADF countries which also have access to OCR.

²⁰ Myanmar is excluded from this analysis since it does not have a full CPA after reengagement, as of 2013.

Figure 3: Asian Development Fund Performance-Based Allocations by Performance Group



Note: Data for 2015–2016 are estimates. Categorization by performance group is based on 2011–2013 average Country Performance Assessment (CPA) scores. Strong performers have CPA scores above 3.75, medium performers have CPA scores between 3.25 and 3.75, and weak performers have CPA scores below 3.25.
Source: Asian Development Bank.

18. Grants are projected to come down during ADF XI. ADB continued to provide grants to countries based on their risk of debt distress, as based on a forward-looking debt sustainability analysis.²¹ Country-specific grants are expected to decline from \$2.45 billion (or 24.5% of the total country allocations) during ADF X to \$1.27 billion (or 11.8% of the total country allocations) during ADF XI. Afghanistan is projected to be the single largest recipient of ADF XI grants, accounting for 70.4% of the total country-specific grants during 2013–2016.

19. The grant shares of several countries have changed during ADF XI, based on the debt sustainability analysis results. The grant shares of Nepal and Lao PDR were reduced from 50% in 2012 to 0% in 2013, while the grant share of Tajikistan is expected to be reduced from 100% in 2014 to 50% in 2015 and the grant share of Kyrgyz Republic is expected to be reduced from 50% in 2014 to 0% in 2015. On the other hand, the grant share of Samoa was raised from 0% in 2012 to 50% in 2013 and further to 100% in 2013 on an exceptional basis because of fiscal difficulties following the destruction caused by Cyclone Evan in December 2012. Furthermore, Marshall Islands was reclassified from blend to ADF-only in 2013 and has been eligible for ADF resources as 100% grant starting 2014.

B. Introducing a Minimum Allocation

20. Under the PBA system, 4.5% of the ADF has been set aside for Pacific DMCs since ADF VIII (2001–2004). However, with a significant increase in investment demand and a particular vulnerability to climate change effects, ADF allocations in many Pacific DMCs have been inadequate to provide meaningful assistance. Even with this set-aside, some small DMCs such as Nauru and Tuvalu were receiving allocations less than \$1 million a year.

21. In order to overcome this challenge, ADB has introduced a minimum allocation of \$3 million a year in ADB's PBA system for all DMCs, to be implemented starting 2015. The proposal was formally approved by the Board of Directors in July 2014. It responds to recent increases in minimum allocations by other development partners.²² It is estimated that 2015–2016 ADF country allocations for the 12 Pacific ADF DMCs would go up from \$197.2 million

²¹ ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila.

²² International Development Association (IDA) has increased its minimum allocation for ADF countries from SDR 3 million during IDA16 (FY2012–FY2014) to SDR 4 million during IDA17 (FY2015–FY2017).

without the minimum allocation to \$216.4 million with the minimum allocation, while that for the 9 FCAS countries would similarly go up from \$786.2 million to \$800.8 million.

22. While this minimum allocation is expected to better serve the needs of vulnerable countries, it introduces a distortion to the PBA allocations under the earlier mechanism. Accordingly, the implementation of this minimum allocation will be reviewed in future, including whether it is adequate to meet the needs of small countries and whether countries are able to absorb the allocation. Adjustments will be proposed, if and as warranted by the review.

C. Special Allocations for Post-Conflict and Reengaging Countries

23. During the ADF XI negotiations, donors agreed to continue enhanced assistance to Afghanistan and to monitor closely the evolving situation in Myanmar for possible reengagement and ADF support. Both countries have received significant ADF XI allocations.

24. Under ADF XI, Afghanistan continues to benefit from exceptional post-conflict support, in addition to its PBA allocation.²³ To sustain the ADB operations and build on hard-won but still-precarious progress in post-conflict reconstruction and recovery, ADB suspended in June 2010 the phaseout of post-conflict assistance to Afghanistan for 2 years, 2011–2012. ADB resumed the phaseout of post-conflict assistance to Afghanistan in 2013, with the phaseout period extended until 2018.²⁴ The allocation for Afghanistan under ADF XI is \$523.1 million in 2013–2014, followed by \$364.4 million in 2015–2016.

25. ADF XI resources have helped ADB reengage with Myanmar.²⁵ ADB coordinated closely with the Japan Bank for International Cooperation and the World Bank²⁶ in the clearance operation for Myanmar's arrears to the multilateral development banks, which was a required condition precedent for the clearance of bilateral arrears under the Paris Club. The interim Country Partnership Strategy (CPS) 2012–2014, approved in October 2012, embodies the strategic thrusts of (i) building human resources and capacities, (ii) promoting an enabling economic environment, and (iii) creating access and connectivity. In view of its low per capita income, Myanmar was classified an ADF-only country. Once the arrears to ADB were cleared in January 2013, ADF donors provided a special allocation of ADF resources for Myanmar, indicatively amounting to \$1.024 billion for 2013–2016, including the policy-based loan for \$0.576 billion that was approved in January 2013. Following the clearance of Myanmar's arrears, the demand for ADF-financed investments was assessed based on the interim CPS, government priorities, ADB economic and sector work, and consultation with other development partners.

26. Assistance to post-conflict and reengaging countries poses a particular challenge for the ADF. These countries have special needs for concessional assistance in view of their unique circumstances. However, it is important to strengthen their incentives to demonstrate development results and reduce dependency on continued support. Assistance to such countries should link considerations of enhanced allocations with operational effectiveness and performance incentives. To address this, the International Development Association (IDA) has

²³ ADB. 2014. *ADB Support in Afghanistan: Achieving Results in a Challenging Environment*. Manila. Paper prepared for ADF XI Midterm Review.

²⁴ ADB. 2012. *Afghanistan: Proposed Revision of Post-Conflict Assistance Phaseout*. Manila.

²⁵ ADB. 2014. *Myanmar: Building the Foundations for Growth*. Manila. Paper prepared for ADF XI Midterm Review.

²⁶ The Japan Bank for International Cooperation provided bridging loans to the government in January 2013 to clear arrears to ADB (and World Bank), which allowed disbursement of policy-based loans from ADB (and World Bank) to clear the bridging loans within one business day.

introduced an exceptional allocation regime for countries facing “turn-around” situations. Starting from IDA17 (FY2015–FY2017)²⁷, this new regime covers post-conflict and reengaging countries. Allocations to eligible countries will be based on performance—as per the post-conflict performance indicators and portfolio performance ratings—and needs, as reflected in notional maximum per capita allocation levels under the previous allocation regime.²⁸ Once a country is determined to be eligible for turn-around support, the duration of assistance will be determined taking into account national plans for achieving the turn-around. Only if a country demonstrates success on the transition process, based on the post-conflict performance indicators and other state-building indicators, can it be reconsidered for further support under the turn-around regime.

D. Disaster Response Facility

27. The Disaster Response Facility (DRF) was established on a pilot basis in 2012 to help ADF countries respond to rehabilitation and reconstruction needs following disasters. Since its establishment, the DRF has supported three recovery and/or reconstruction projects, through two grants (\$12.73 million) and one loan (\$31.00 million), or 31% of the total DRF allocation of \$142.71 million during 2013–2014 (Box 1). All DRF-funded projects (i) are in response to severe natural disasters; (ii) support recovery and/or reconstruction, with an emphasis on reducing risks from future natural hazards; (iii) ensure ADB’s delivery capacity through the use of project implementation arrangements under ongoing ADB projects; and (iv) have cofinancing arrangements or demarcation of assistance areas through coordination with other donors.

Box 1: Assistance under the Disaster Response Facility during ADF XI

In 2013, the Asian Development Bank (ADB) approved an Asian Development Fund (ADF) grant to Samoa, drawing \$8.21 million from the Disaster Response Facility (DRF), in response to damage to energy infrastructure caused by Cyclone Evan in 2012. This project is rehabilitating and reconstructing small hydropower plants, resulting in greater energy security, enhanced disaster resilience, and improved sustainability in the country. In 2014, ADB approved an ADF loan to Cambodia, drawing \$31.00 million from the DRF, in response to the extensive damage to Cambodia’s national, provincial, and rural roads, and irrigation systems as a result of serious flash floods. Also, in January 2014, Cyclone Ian, the most powerful storm ever recorded in Tonga, damaged housing, power, and education infrastructure in the country. ADB approved an ADF grant to Tonga, drawing \$4.52 million from the DRF, to help finance the Cyclone Ian Recovery Project. The project will reconstruct and climate- and disaster-proof the electricity network and school facilities.

Upon request from the Government of Solomon Islands in May 2014, ADB allocated \$13.22 million from the DRF for Solomon Islands in June 2014 and is currently conducting due diligence on the Transport Sector Flood Recovery Project for a \$6.61 million ADF grant and \$6.61 million ADF loan, both from the DRF. The project is in response to Cyclone Ita, which damaged and destroyed roads and bridges, sewerage, and water supply systems in Solomon Islands in April 2014.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Grants and Administration of Grant Independent State of Samoa: Renewable Energy Development and Power Sector Rehabilitation Project*. Manila; ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant Kingdom of Tonga: Cyclone Ian Recovery Project*. Manila; and ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing and Administration of Grant for Additional Financing Kingdom of Cambodia: Flood Damage Emergency Reconstruction Project*. Manila.

²⁷ The fiscal year starts on 1 July.

²⁸ World Bank. 2013. *IDA’s Support to Fragile and Conflict-Affected States*. IDA Resource Mobilization Department Concessional Finance and Global Partnerships. Washington, DC.

28. ADB approved a new operational plan for integrated disaster risk management in 2014, within the broader context of its disaster and emergency assistance.²⁹ This plan provides guidance on the implementation of ADB's Disaster and Emergency Assistance Policy (DEAP) over 2014–2020. It seeks to (i) promote an integrated disaster risk management (IDRM) approach in ADB operations, supporting products and business processes to strengthen disaster resilience and enhance residual risk management, and encouraging a more coordinated and systematic approach to disaster risk management; (ii) strengthen IDRM capabilities, knowledge, and resources in DMCs to reduce disaster risk and respond to disaster events in a timely, cost-efficient manner; and (iii) mobilize additional public and private partnerships and resources for IDRM. This succeeds the 2008 DEAP Action Plan.³⁰

E. Regional Set-Aside

29. The share of ADF XI resources earmarked for regional cooperation was maintained at 10%. Each participating country is required to match every dollar drawn from this pool with 50 cents from its own PBA allocation, subject to a ceiling of 20% from a country's overall PBA pool. The total ADF resources for RCI-themed projects under ADF XI are projected to be \$3.8 billion, higher than the resources allocated for RCI during ADF X (\$3.6 billion), and in excess of 28% of the projected ADF XI operational program. This is also significantly higher than the 10% earmarked resources for RCI, reflecting financing through country-specific PBA allocations.

F. Graduation from ADF Resources

30. Analysis undertaken at the time of the ADF XI negotiations indicated that all countries with access to the ADF during ADF X would continue to require ADF assistance under ADF XI. In August 2014, the Board of Directors approved the graduation of Armenia and Georgia, effective January 2017. Therefore, these two DMCs will not receive new ADF resource allocations starting ADF XII (2017–2020). ADB will continue to assess the readiness to graduate of selected ADF countries.

IV. TRENDS IN ADF RESOURCE UTILIZATION

31. The projected utilization of resources during the ADF XI period looks positive. Demand for ADF resources is projected to remain strong, and ADF disbursements are expected to improve. The utilization of technical assistance (TA) resources is likely to strengthen and become more focused on country needs as well as performance.

A. Lending and Disbursement

32. ADF XI resources are expected to be fully utilized. Based on the latest estimates, ADB's operational program under ADF XI (excluding TA) is almost \$13.2 billion.³¹ ADF approvals reached a record high in 2013, at almost \$3.9 billion (Figure 4). The increase partly reflects ADB's reengagement in Myanmar, which included a policy-based loan of \$0.6 billion. In 2014, the expected ADF approvals are \$3.2 billion. Compared to an annual average of \$3.0 billion during ADF X (2009–2012), annual approvals under ADF XI are projected to touch \$3.3 billion annually during 2013–2016. The size of the average ADF operation approved during ADF XI is

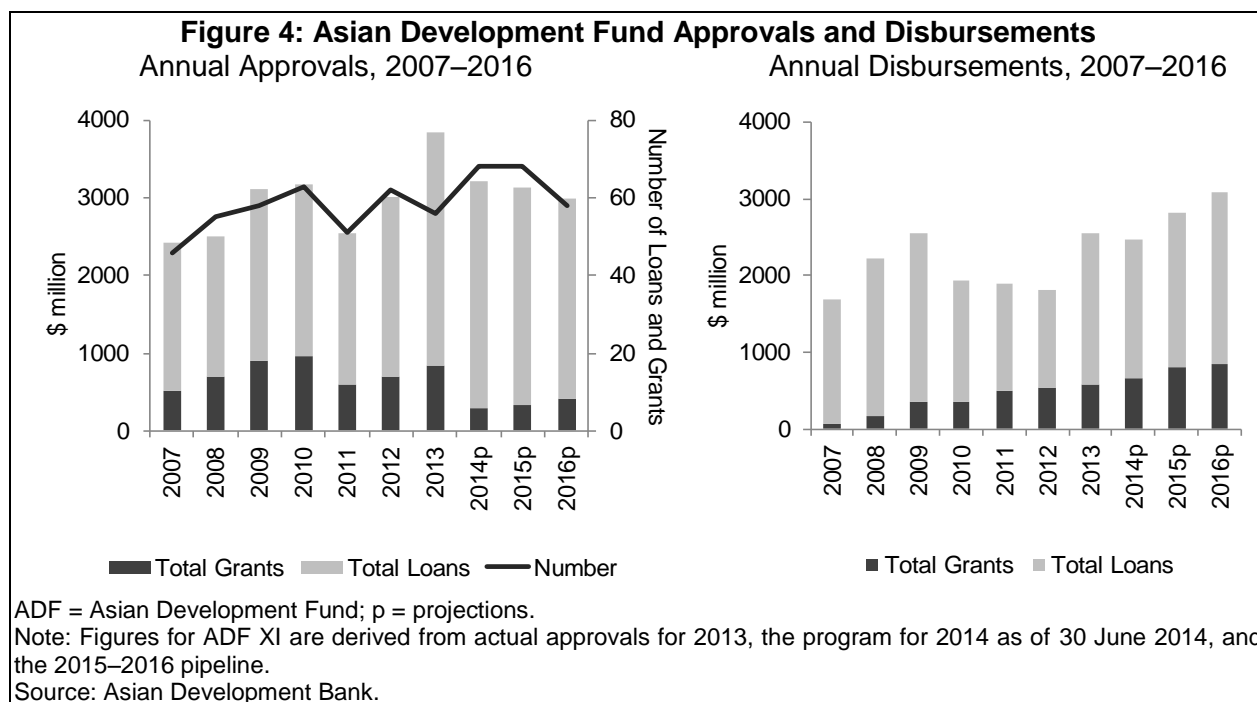
²⁹ ADB. 2014. *Operational Plan for Integrated Disaster Risk Management 2014–2020*. Manila.

³⁰ ADB. 2008. *Action Plan for Implementing ADB's Disaster and Emergency Assistance Policy*. Manila.

<http://www.adb.org/documents/action-plan-implementing-adb-s-disaster-and-emergency-assistance-policy>

³¹ The operational program, based on the pipeline of ADF operations, exceeds the resources available. While there are uncertainties around the future pipeline, this indicates that demand for ADF XI resources exceeds supply.

expected to be about \$52.7 million, compared with \$50.7 million under ADF X. By the end of 2014, ADF approvals are likely to reach 55% of the ADF XI commitment authority, compared with 50% of the ADF X commitment authority at the midterm of ADF X.



33. Similarly, disbursements have strengthened under ADF XI, exceeding \$2.5 billion in 2013. Average annual disbursements are projected to be \$2.7 billion under ADF XI, during 2013–2016, which is higher than the \$2.0 billion under ADF X (2009–2012). This includes higher disbursements under policy-based loans and grants, which averaged \$548.5 million annually during 2009–2012 but are estimated at \$834.3 million annually during 2013–2016.

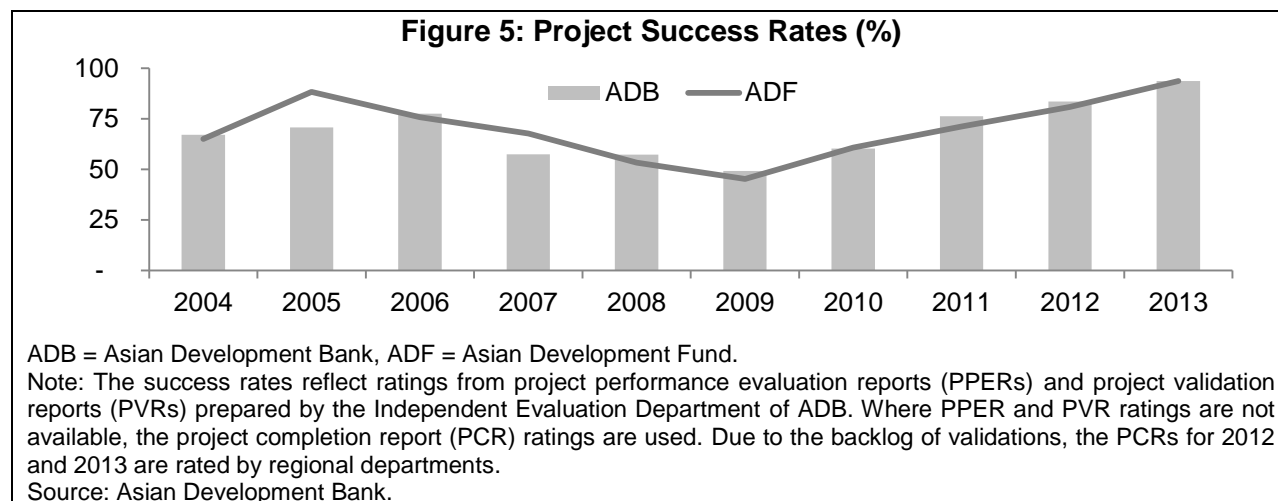
B. Technical Assistance

34. TA operations continue to be important in ADF countries, as they help in a variety of initiatives including capacity building and project preparation. In 2013, ADB's aggregate TA program (including TASF, the Japan Fund for Poverty Reduction, and other externally funded TA) was \$433.8 million, of which more than 24% went to individual ADF countries (excluding regional TA). Compared to an average of \$99.0 million a year during ADF X (2009–2012), \$104.4 million went to ADF countries in the first year of ADF XI. The expected TA program for 2014 came down to \$338.8 million at midyear, largely reflecting a decline of almost 50% in externally funded TA. The TASF remains an important source, accounting for more than 37% of the aggregate TA program for 2014.

35. ADB is taking steps to improve the TA allocation process, to be implemented starting 2015. The objectives of the revised process are to (i) allocate TA resources more strategically, (ii) link the TA allocation better with ADB's future operational and knowledge program, and (iii) ensure that the allocation matches needs, capacity, and performance. Under the new process, various ADB departments will receive a base allocation for the year, in relation to their future program, adjusted for utilization of existing TA resources. From 2015, ADB will also enhance the allocation of TA resources for FCAS.

C. Project Performance

36. Available data on project success rates indicates improving performance in 2013, with 94% of completed ADF operations rated as satisfactory (Figure 5). During ADF X (2009–2012), 64% of completed ADF operations were rated satisfactory.



V. LONG TERM VISION FOR ADF FINANCES

37. At the ADF XI replenishment negotiations, ADB committed to developing a long-term strategic vision for the ADF.³² An analysis of strategic and financial options for the ADF has resulted in an innovative proposal to enhance ADB's financial capacity in a sustainable manner.³³ It entails combining ADF lending operations with the OCR balance sheet in January 2017. This would increase OCR equity from a projected \$18.3 billion to \$53.0 billion. The ADF would henceforth provide only grant assistance, while ADB would continue concessional lending through its OCR window.

38. The key benefit of the proposal would be to allow ADB to strengthen support to ADF countries and better address their development needs. It would enhance OCR lending and risk-bearing capacities. It would also facilitate ADB's ability to (i) support the transition of ADF-only countries to blend status, and their graduation from blend status to OCR-only status, and (ii) increase support for private sector operations, especially in ADF countries. It has the advantage of significantly reducing the future financial burden on ADF donors by leveraging ADB's resources more efficiently to provide concessional loans to ADF countries and enabling larger transfers from OCR to ADF grant operations.

VI. ALIGNMENT OF ADF ASSISTANCE WITH ADF XI STRATEGIC PRIORITIES

39. During the ADF XI replenishment negotiations, donors endorsed that ADF assistance should remain focused and aligned with the key development agendas under Strategy 2020. The key mandate of ADF XI was to reduce poverty in ADF countries through the strategy's complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. Within this context, donors identified five areas for special consideration in

³² ADB. 2012. *Asian Development Fund XI Donors' Report: Empowering Asia's Most Vulnerable*. Manila.

³³ ADB. 2014. *Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific*. Proposal Paper. October. Manila.

ADF countries: gender, governance, private sector development and investment, FCASs, and food security. The first three special consideration areas are also considered drivers of change under Strategy 2020. ADB has recently undertaken a midterm review (MTR) of Strategy 2020,³⁴ which has reaffirmed its relevance (Box 2).

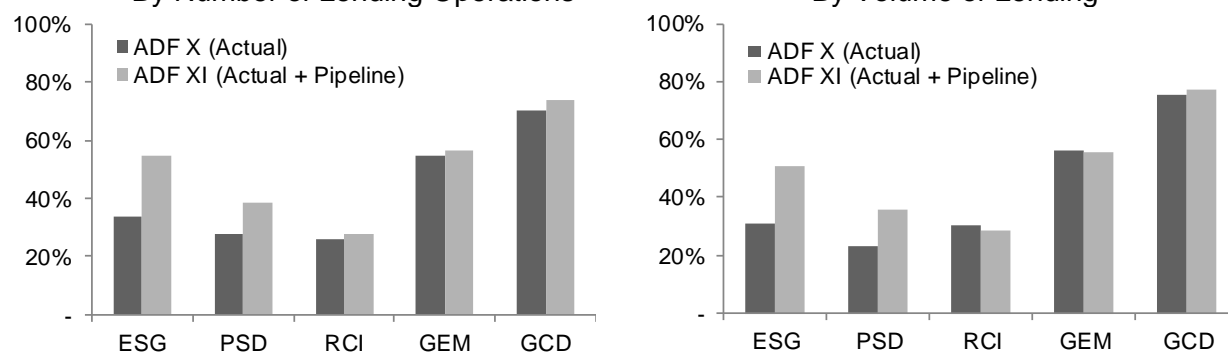
Box 2: Midterm Review of Asian Development Bank's Strategy 2020

The midterm review of Strategy 2020 was completed in April 2014, as the culmination of a year-long process announced at the Annual Meeting of the Asian Development Bank's (ADB) Board of Governors in May 2013. ADB undertook the review to prepare itself to meet the challenges of a transforming Asia and Pacific region. The review concludes that Strategy 2020 remains relevant in its broad strategic directions. However, the region is changing fast—and so must ADB. Based on the findings, ADB identified 10 strategic priorities to sharpen its operational focus, respond to the changing business environment, and strengthen its capacity and effectiveness. In April 2014, the President constituted a high-level steering group to oversee the preparation of an action plan to implement the key recommendations. Working groups have been established to (i) strengthen knowledge-related issues; (ii) improve project implementation, including procurement; (iii) increase efficiency through the more effective use of information and communication technology; (iv) strengthen resident missions; and (v) promote innovations in ADB processes and operations. A time-bound action plan, with clear responsibilities and timelines, was approved in July 2014. Implementation of the action plan is being monitored closely.

Source: ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

40. Projected ADF XI assistance remains broadly aligned with the Strategy 2020 agendas and the three specific Strategy 2020 drivers of change identified as special considerations for ADF XI (Figure 6). In particular, support for environmentally sustainable growth and private sector development is presently expected to increase significantly compared with ADF X.

Figure 6: Actual and Projected Approval by Selected Strategy 2020 Strategic Agendas and Drivers of Change, ADF X and ADF XI (as % of Total Approvals)
By Number of Lending Operations By Volume of Lending



ADF = Asian Development Fund, ESG = environmentally sustainable growth, PSD = private sector development and private sector operations, RCI = regional cooperation and integration, GEM = gender equity and mainstreaming, GCD = governance and capacity development.

Note: A lending operation may contribute to any or all of the strategic agendas and the drivers of change. Thus, the sum of the percentages may add to more than 100%. Data for ADF XI are derived from actual approvals for 2013, the program for 2014 as of 30 June 2014, and the 2015–2016 pipeline.

Source: Asian Development Bank.

³⁴ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

A. Broad Development Agenda for ADF XI

1. Inclusive Growth

41. ADB has strengthened its efforts to support inclusive economic growth during ADF XI, in line with its commitments to improve monitoring, strengthen diagnostics, systematically review operations and strategies to ensure support to inclusive growth, and develop indicators to capture ADB's contribution to inclusive growth in the results framework. ADB's approach to inclusive growth is built on three pillars: growth and creation of jobs and opportunities, inclusive access to jobs and opportunities, and social protection.

42. A thematic special evaluation study by the Independent Evaluation Department (IED) undertaken in 2014 assessed ADB's interventions in promoting inclusive growth during 2000–2012.³⁵ A key finding is that ADB's financing over the last 13 years has been largely geared toward the first pillar aimed at promoting economic growth in countries, thereby leaving limited support for the other two pillars of the inclusive growth agenda (para. 41). The study calls for greater incorporation of inclusion objectives in projects and country strategies. Accordingly, ADB will base its support more strongly on particular country needs and pay special attention to inequality trends. Conscious efforts are being made to ensure that projects support inclusive growth. ADB also recognizes the need to improve the quality of tracking the performance of inclusive growth interventions. Based on the recommendations of the evaluation, ADB has prepared a time-bound action plan with several actions—including preparing health sector, financial sector, and inclusive business operational plans; further revising staff guidelines to reflect national targets for inclusive economic growth indicators (where available) in CPS results frameworks; and training staff.

43. The Strategy 2020 MTR reinforces that ADB will expand its support for achieving rapid and inclusive economic growth. Infrastructure projects will contribute to this by connecting the poor to markets and increasing their access to social services. ADB will also support infrastructure projects that benefit lagging areas and help achieve the MDGs. In parallel, by 2020, ADB will expand education operations to 6%–10% and health operations to 3%–5% of its annual approvals of financial assistance, from 3% for education and 2% for health during 2008–2012. It will emphasize support for social protection, financial inclusion, and inclusive business. ADB will provide more resources for low income and FCAS DMCs. ADB will place greater emphasis on measuring progress and results in reducing poverty, lowering vulnerabilities, and increasing inclusion.

44. At the country level, ADB is making efforts to improve diagnostics to enhance understanding of the impediments to inclusive growth and to monitor performance more rigorously during ADF XI. For CPSs, the revised *Operations Manual* on country partnership strategy places stronger emphasis on inclusive growth and clarifies the role of IED in the review and evaluation of CPSs.³⁶ CPSs are required to address unique country contexts, and adopt actions to address challenges to inclusive growth. Knowledge products required to be available at the time of CPS preparation include economic, poverty, and gender analyses, which should contain an assessment of the challenges to inclusive growth. In March 2013, ADB issued new guidelines on the integration of support for inclusive economic growth into the formulation of CPSs. All CPSs approved in 2013 for ADF countries focus on inclusive growth (Box 3).

³⁵ ADB. 2014. *ADB's Support for Inclusive Growth*. Manila.

³⁶ ADB. 2013. Country Partnership Strategy. *Operations Manual*. OM A2/OP. Manila.

Box 3: Inclusive Growth in Country Partnership Strategies

Inclusive economic growth is a strategic objective of the Asian Development Bank (ADB) country partnership strategy (CPS), 2013–2017 for Nepal. The CPS aims to address the country's severe energy deficit by enhancing power generation, transmission, and distribution capacity. This will enable Nepal's existing industries to operate with higher capacity and help establish new ones, leading to much-needed job creation. Investment in other critical infrastructure will lead to higher agricultural growth and the expansion of industries, trade and tourism, and services. To broaden the access of the poor and disadvantaged to economic opportunities, the CPS seeks to build human capital by investing in school and higher education, and technical and vocational education and training. To enhance their access to economic opportunities and basic social services, the CPS also prioritizes investments in water supply and sanitation, rural roads, and agriculture market infrastructure. To reduce the vulnerability of the poor, the CPS seeks to strengthen Nepal's resilience against natural disasters and climate change risks by building mitigation and adaptation measures in all investment projects. The CPS also includes assistance aimed at developing skills and strengthening the government's social protection system.

The overarching goal of ADB's CPS, 2013–2017 for Kyrgyz Republic is poverty reduction through inclusive economic growth. A diagnostic study financed by ADB identified serious constraints to inclusive economic growth to be political instability, weak rule of law, and corruption. Other constraints are (i) a shortage of skilled labor due to the low quality of education and training, (ii) the high cost of finance, and (iii) an unreliable electricity supply. The population—especially young people in remote areas and the poor and vulnerable—must be provided with greater access to the quality training and education that will make them employable. ADB will assist the government to achieve inclusive economic growth by addressing key constraints to economic growth, improving the investment climate, and reducing disparities in access to economic opportunities. It will do this by helping reform legal and regulatory frameworks to improve the business environment, expand access to affordable finance across the country, improve the reliability of electricity services, assist people to become more employable, maintain and enhance connectivity, and reduce the gaps between regions in levels of basic infrastructure and services.

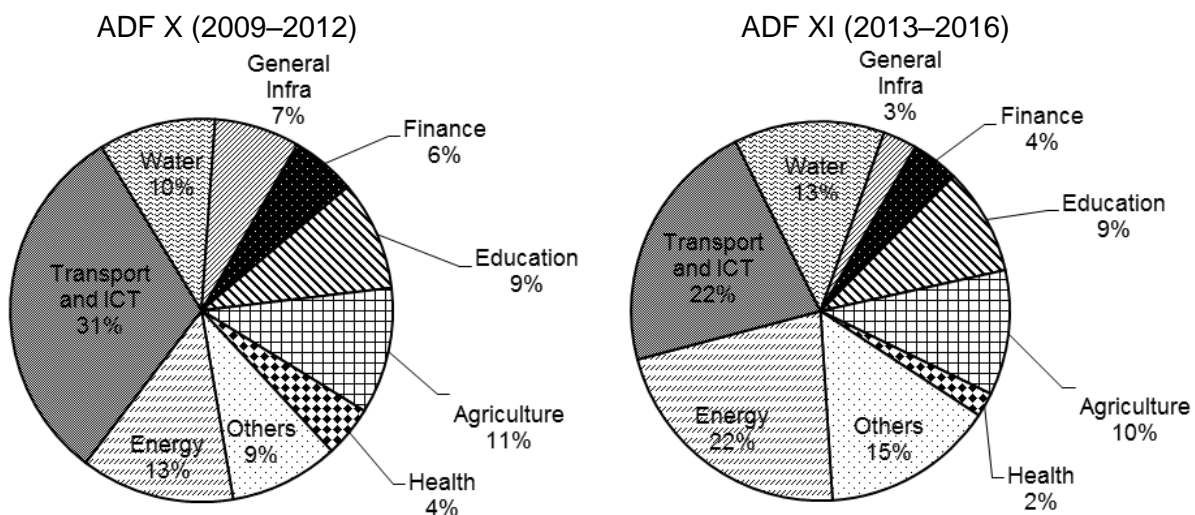
Source: ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila; and ADB. 2013. *Country Partnership Strategy: Nepal, 2013–2017*. Manila.

45. At the operations level, infrastructure will continue to constitute the bulk of ADF lending. The share of infrastructure projects (water, energy, transport and information and communication technology, and general infrastructure) in approvals is expected to decline marginally from 61.0% during ADF X to 59.3% during ADF XI (Figure 7).³⁷ However, the volume of assistance in these sectors is projected to increase, from \$7.2 billion during ADF X to \$7.8 billion during ADF XI. As per the Strategy 2020 MTR, ADB will deepen efforts to ensure that infrastructure contributes to inclusive growth.

46. During ADF XI, the share of education in ADF approvals is expected to be in line with the Strategy 2020 target of 6%–10% (para. 43). ADB will seek to promote human capital development and the acquisition of the skills demanded by the market in order to improve the employment prospects of the population in DMCs, and their resilience to economic shocks. While the share of health in ADF approvals is presently not projected to reach 3%–5% during ADF XI, further efforts will be made during the implementation of the Strategy 2020 MTR action plan to achieve this target by 2020. Reviving assistance to the health sector is considered necessary to support inclusiveness, reduce vulnerabilities, and improve the preparedness of DMCs to face epidemics and infectious diseases.

³⁷ ADB. 2014. *Asian Development Fund and Infrastructure Sustainability: Building the Capacity for Asset Management*. Manila. Paper prepared for the ADF XI Midterm Review. The paper includes a detailed discussion on the sustainability of ADB's infrastructure investments during 2000–2012.

**Figure 7: Actual and Projected Approval by Sectors, ADF X and ADF XI
(as % of Total Approvals)**



ADF = Asian Development Fund, ICT = information and communication technology, Infra = infrastructure.
 Note: Percentages for ADF XI are derived from actual approvals for 2013, the program for 2014 as of 30 June 2014, and the 2015–2016 pipeline.
 Source: Asian Development Bank.

47. Several initiatives have been introduced during ADF XI to better monitor ADB's contribution to inclusive growth. The new project classification system, rolled out in 2014, prescribes a filtering technique to help staff report operations supporting specific inclusive economic growth pillars. An important new area in the results framework (para. 104) is the tracking of operations contributing to inclusive economic growth by monitoring support to each of the three pillars (para. 41). For ADF countries, fewer operations supported pillar 1 during 2011–2013 than during 2010–2012, and more supported pillar 2 (Table 2). At the same time, a larger proportion of ADF operations supported pillar 3 during 2011–2013.

Table 2: Share of Asian Development Fund Operations supporting Various Pillars of Inclusive Growth

Inclusive Growth Pillar	2010–2012		2011–2013	
	Number	Volume	Number	Volume
Pillar 1: Growth and creation of jobs and opportunities	39%	42%	44%	45%
Pillar 2: Inclusive access to jobs and opportunities	60%	56%	54%	49%
Pillar 3: Social Protection	9%	6%	11%	10%

Note: Since various pillars overlap, the total adds up to more than 100%.
 Source: Asian Development Bank.

48. In order to better operationalize the social protection pillar of the inclusive growth agenda of ADB's Strategy 2020, a Social Protection Operational Plan (SPOP) 2014–2020 was adopted in 2013.³⁸ This provides strategic direction for ADB's support to its DMCs to strengthen social protection systems. The SPOP draws upon a comprehensive assessment of ADB's operational activities supporting social protection since 1996, findings of the 2012 IED special evaluation study on the Social Protection Strategy, and a series of consultations with ADB staff. The SPOP

³⁸ ADB. 2013. *Social Protection Operational Plan, 2014–2020*. Manila.

proposes five priority areas for action between 2014 and 2020: (i) continued development of ADB-financed social protection projects; (ii) active identification of opportunities to integrate social protection into projects, particularly in the education, finance, health, and public management sectors; (iii) support to capacity building and policy, and knowledge sharing; (iv) cultivation of partnerships and South–South cooperation; and (v) monitoring and reporting on social protection programs and trends in Asia and the Pacific.

2. Environmentally Sustainable Growth

49. ADB continues to strengthen support for environmental sustainability and climate change under ADF XI, as per discussions during the ADF XI negotiations. Efforts are ongoing to improve natural resource management in key regional landscapes. Initiatives to strengthen country safeguard systems and improve environmental compliance and enforcement will improve environmental governance in ADF countries. In the Strategy 2020 MTR, ADB commits to providing greater financial and technical support to DMCs to reduce their vulnerabilities arising from environmental degradation and rising levels of water and air pollution, including greenhouse gas emissions, and enhance their resilience to climate change and natural hazards.

50. ADF XI operations are expected to focus strongly on environmental issues. About 54% of the operational program by volume and 51% by number are projected to support projects with environmental sustainability as a theme, compared to 50% as targeted during the ADF XI negotiations. The amount of lending expected to address environmental sustainability during ADF XI is projected at \$6.7 billion, which is almost double the volume (\$3.7 billion) during ADF X. Total ADF support for climate change is projected to reach \$2.4 billion under ADF XI, with \$1.4 billion addressing adaptation. A bank-wide climate risk management framework for the design and implementation of ADB investment projects is being implemented beginning with an initial risk screening at project inception, a climate risk and vulnerability assessment for medium and high-risk projects, and the integration of adaptation options in project design.

51. The Environmental Operational Directions (EOD) prepared in the context of Strategy 2020 and in the follow-up to the United Nations Conference on Sustainable Development (Rio + 20), articulates how ADB will help the region transition to environmentally sustainable growth or green growth.³⁹ The EOD, approved in 2013, identifies four mutually supportive directions for operations based on challenges facing the region: (i) promoting a shift to sustainable infrastructure, (ii) investing in natural capital, (iii) strengthening environmental governance and management capacity, and (iv) responding to the climate change imperative. The EOD priorities are reflected in sector and thematic operational plans, and in the Strategy 2020 MTR priorities.

52. A special evaluation study by IED on ADB's initiatives to support access to climate finance⁴⁰ found that the primary area where ADB has been able to mainstream action is for mitigation in clean energy interventions. However, the study also recommends that this activity can go much further, for instance, with sustainable transport and resilient land use. Further effort is required to mainstream adaptation and manage the climate risks of projects. In response to the recommendations of the study, ADB proposes to intensify several actions, including create new partnerships with institutions that have expertise and knowledge on climate change and development issues, and further employ innovative financing approaches to leverage public and private finance, building on measures such as the issuance of clean energy and water bonds that ADB has already undertaken.

³⁹ ADB. 2013. *Environment Operational Directions, 2013–2020*. Manila.

⁴⁰ ADB. 2014. *Real-Time Evaluation of ADB's Initiatives to Support Access to Climate Finance*. Manila.

Box 4: Examples of Asian Development Fund Support to Environmentally Sustainable Growth

Uzbekistan Samarkand Solar Project. The \$110 million loan will improve sustainability of the energy supply in Uzbekistan through increased renewable energy generation. While Uzbekistan is almost 100% electrified, its aging, inefficient, and overloaded power system causes a supply–demand gap, resulting in prolonged and frequent outages. Renewable energy supplies only 11% of demand, and only from hydro resources. With Uzbekistan’s high solar irradiance and abundant suitable land, solar energy is the most sustainable resource to quickly bridge the supply–demand gap, diversify the mix, and reduce emissions. The project, the first of its scale in Central Asia, will construct the first among six solar power plants planned to be developed in Uzbekistan with ADB support: a 100 megawatt solar photovoltaic power plant. The project’s expected 159 gigawatt-hours of clean electricity will avoid 88,000 tons of carbon dioxide equivalent emissions annually.

Cambodia Climate Resilient Rice Commercialization Sector Development Program. The \$55 million loan will increase the availability of quality seed, improve rural water management on farms, enhance drying and storage capacities, and enrich the resilience of rice cultivation systems, consequently boosting crop yields by 25% by 2019. The loan is among the first initiatives in Southeast Asia that contemplate rice commercialization and address the resilience of underlying agroecological systems. The program’s interventions will increase resilience by promoting sound agricultural land use zoning, soil productivity potential mapping, water use or irrigation efficiency management, and environmental and climate change risk or vulnerability mapping. The program could be a role model for climate resilient cropping practices for rice in response to growing global food demand.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Uzbekistan Samarkand Solar Project*. Manila; and ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Cambodia Climate Resilient Rice Commercialization Sector Development Program*. Manila.

3. Regional Integration

53. The Strategy 2020 MTR reaffirmed that RCI remains an important strategic agenda for ADB. The inclusion of RCI as a strategic agenda has strengthened the implementation of ADB’s RCI strategy,⁴¹ and has led to its better integration in ADB’s operational priorities. ADB continues to implement a set-aside for operations supporting RCI (para. 29). As outlined in the Strategy 2020 MTR action plan, ADB plans to expand connectivity and value chains by enhancing cross-border infrastructure investments, as well as promoting second generation RCI reforms related to trade facilitation, investment climate improvement, access to finance, and skills development. IED is presently undertaking a thematic evaluation study to assess ADB’s efforts on RCI, which is expected to be completed in 2015.

54. ADB’s different subregional programs have increasingly aligned their own priorities with the RCI strategy, and RCI is now better reflected in the CPSs. For instance, increased focus on transport, trade facilitation, and energy, which was called for in the South Asia Regional Cooperation Strategy (2011–2015),⁴² is consistent with the sector focus of individual South Asian countries. In East Asia, the CPS for Mongolia has identified RCI as a major driver. The CPSs for Armenia and Georgia, under preparation, are aligned to Central Asian Regional Economic Cooperation (CAREC) strategic agenda identified in CAREC 2020. The interim CPS

⁴¹ ADB’s RCI Strategy identifies four pillars: (i) cross-border infrastructure and related regulations, procedures, and standards; (ii) trade and investment cooperation and integration; (iii) monetary and financial cooperation and integration; and (iv) cooperation in regional public goods. ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

⁴² ADB. 2011. *South Asia: Regional Cooperation Strategy (2011-2015)*. Manila.

for Myanmar⁴³ identifies RCI as a means of positioning the country to leverage participation in regional cooperation initiatives by increasing connectivity to promote trade and investment.

Box 5: Examples of Asian Development Fund Support to Regional Integration

Bangladesh-India Electrical Grid Interconnection Project. This \$112 million loan under the ADB-supported South Asia Subregional Economic Cooperation (SASEC) program aims to establish cross-border power interconnection between the western grid of Bangladesh and the eastern grid of India to facilitate electricity exchange. By enabling 500 megawatts (MW) of power to flow into Bangladesh from India (with provision to boost power flow to 1,000 MW subsequently), this grid-to-grid interconnection will help Bangladesh cope with power supply crises and reduce dependence on small, inefficient generation facilities. It will also act as a key building block of the South Asia regional grid and promote energy cooperation in SASEC by enabling Bangladesh to participate in the regional power market with potential access to clean energy sources, including hydropower.

Central Asia Regional Economic Cooperation Regional Improvement of Border Services Project. The \$21 million loan aims to accelerate trade growth within the Central Asia Regional Economic Cooperation (CAREC) region and with the rest of the world by improving customs facilities in Karamyk in the Kyrgyz Republic and Guliston in Tajikistan. The project will also streamline transport, trade logistics, customs, and other border control operations to increase cross-border trade in Central Asia through improving IT systems to enable trade- and transport-related information and documents to be submitted only once through a single entry point and be reviewed and processed by relevant government agencies prior to cargo arriving at the border. The project is expected to reduce the border crossing time by 30%, and to increase annual cargo volume by 30% at both Karamyk and Guliston.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing SASEC Bangladesh–India Electrical Grid Interconnection Project*. Manila; and ADB. 2013. *Report and Recommendation to the Board of Directors: Proposed Loan and Grants to the Kyrgyz Republic and the Republic of Tajikistan for the Central Asia Regional Economic Cooperation Regional Improvement of Border Services project*. Manila.

B. Special Considerations for ADF XI

1. Gender

55. The essential role of gender equity as a driver of change for poverty reduction and inclusive growth was reiterated in the Strategy 2020 MTR. A new operational plan for gender equality and women's empowerment was approved in April 2013.⁴⁴ It sets out the strategic directions and the guiding framework for advancing gender equality in DMCs in Asia and the Pacific by 2020. The plan serves as the roadmap for undertaking concrete and measurable operations to support gender equality outcomes. It reflects the directions set in ADB's revised corporate results framework to improve implementation and deliver better outcomes.

56. ADB has strengthened its efforts to monitor its work on gender at the country and operational levels. In 2013, 59% of all new ADF operations supported gender mainstreaming at design, exceeding the 2016 target of 55%. ADB's revised corporate results framework (para. 104) has incorporated more indicators related to gender equality to be monitored on an annual basis, as committed during ADF XI negotiations. This includes sex-disaggregated sector-level indicators in education and microfinance.⁴⁵ To measure the effectiveness of ADB operations in

⁴³ ADB. 2012. *Myanmar: Interim Country Partnership Strategy (2012-2014)*. Manila.

⁴⁴ ADB. 2013. *Gender Equality and Women's Empowerment Operational Plan, 2013–2020*. Manila.

⁴⁵ Indicators related to ADB's contributions to development results (or level 2 indicators) now include sex-disaggregated data on: students benefiting from new or improved educational facilities, students educated and

supporting gender equality, a new indicator was added to measure the proportion of completed operations that delivered intended gender equality results.⁴⁶ ADB now monitors quality at entry of CPSs in integrating gender equality concerns.⁴⁷

Box 6: Examples of Asian Development Fund Support to Gender Equity and Mainstreaming

Pakistan Social Protection Development Project. The \$430 million loan supports Pakistan's national social safety net program, the Benazir Income Support Program (BISP). The project helps reduce poverty by enhancing the resilience of BISP female beneficiaries and their families. One-quarter of Pakistan's poorest families are directly affected by project operations. The project enables the expansion of the cash transfer program by locating and enrolling the currently unregistered eligible families. The project finances cash transfers, with payments made directly by bank debit card to the female head of all targeted poor families. The project supports the strengthening and phased expansion of the pilot health insurance and skills development programs for BISP beneficiaries.

Viet Nam Secondary Cities Development Project. The \$95 million loan aims to improve urban environment and climate resilient infrastructure in target cities in Viet Nam. It includes important gender actions to ensure (i) women's participation in decision-making related to the planning and design of local urban infrastructure; (ii) equal access to training related to disaster risk reduction and management, urban planning, financial management and procurement, and related topics; (iii) vocational training and credit for income generation; and (iv) project-related employment.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Pakistan Social Protection Development Project*. Manila; and ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Viet Nam Secondary Cities Development*. Manila.

57. ADB has taken actions to improve the quality of project gender action plans (GAPs) and strengthen the supervision and monitoring of their implementation, as discussed at ADF XI negotiations. A rigorous at-entry screening process has continued to further improve the quality of the GAPs. Gender tip sheets were prepared in 2013 to guide staff on developing quality project GAPs, monitoring GAP implementation, and reporting on gender equality results.⁴⁸

58. Generating new knowledge on gender equality is a priority in the operational plan. Among ADF countries, a country gender assessment was prepared for Uzbekistan,⁴⁹ while those for Myanmar, Pakistan, and Timor-Leste are near completion. Studies on the gender dimensions of the labor market in Cambodia⁵⁰ and a diagnostic study of gender issues in Bhutan in selected sectors were completed in 2013.⁵¹ Gender sector tool kits on energy; public sector management; transport; micro, small and medium-sized enterprise finance and development; and gender equality results and indicators were published in 2013–2014. These were integrated in the regular gender training programs for ADB staff and DMC executing

trained under improved quality assurance systems, teachers trained with quality or competency standards, and microfinance loan accounts opened or end borrowers reached.

⁴⁶ In 2013, 63% (3-year average, 2011–2013) of ADF operations met the criteria of delivering intended gender equality results, against the 2016 target of 70%. This is a jump from the baseline of 53% in 2010–2012.

⁴⁷ Of the CPSs approved for ADF countries in 2010–2012, 54% fully met all the gender requirements, while the figure for 2011–2013 went up very marginally to 55%.

⁴⁸ The tip sheets covered (i) understanding and applying gender mainstreaming categories, (ii) preparing a project GAP, (iii) implementing GAPs including roles and responsibilities, (iv) project reviews including monitoring and reporting on GAPs, and (v) gender-inclusive results in project completion reports. 77% of gender mainstreaming loans reported on GAP implementation status at midterm review in 2013, an improvement from 61% in 2012.

⁴⁹ ADB. 2014. *Uzbekistan: Country Gender Assessment 2014*. Manila.

⁵⁰ ADB. 2013. *Gender Equality in the Labor Market in Cambodia*. Manila.

⁵¹ ADB. 2013. *Bhutan: Gender Equality Diagnostic of Selected Sectors*. Manila.

agencies. The operational plan for FCASs (para. 67) emphasizes the importance of gender analysis in guiding FCAS operations.

59. ADB has hosted several learning events to support staff and clients' capacity on gender mainstreaming. Three staff training sessions on gender analysis were organized in 2013, and gender trainings for resident mission staff are conducted regularly. Learning workshops for government implementation staff were also undertaken at country, sub-regional, and regional levels.⁵² In September 2013, a thematic learning event was held for executing agencies focusing on gender equality in secondary education, vocational training, and employment skills.

2. Governance

60. The Strategy 2020 MTR reaffirmed the importance of promoting governance and capacity development as a driver of change for 2014–2020. As committed during the ADF XI negotiations, ADB's operational approach to governance continues to be guided by the Second Governance and Anticorruption Action Plan (GACAP II), adopted in 2006.⁵³ GACAP II introduced a risk-based approach to assessing three priority areas: public financial management, procurement, and combating corruption. Governance risk assessments identify vulnerabilities in country systems and suggest mitigation measures at the country, sector, and project levels. These assessments also assist DMCs in prioritizing reforms and investments that strengthen governance and reduce risks.

61. In 2013, ADB reviewed its implementation of GACAP II, and noted progress along several dimensions.⁵⁴ Since 2006, governance risk assessments and risk management plans have informed ADB operations in 34 DMCs, including 25 ADF countries. The review reinforced that ADB should continue to mainstream governance in its operations. This includes building governance interventions into CPSs, sector road maps, and operational plans; and streamlining governance risk assessments and improving their quality and implementation. The review also recommended strengthening the analysis of institutions in priority sectors and increasing DMC ownership of GACAP II by closely involving them in assessing governance risks and implementing mitigating actions. ADB is currently implementing the recommendations of the review.

62. The deepening support for governance is reflected in higher lending volumes and the number of projects between ADF X and ADF XI, which identify governance and capacity development as a driver of change (Figure 6). More rigorous risk assessment mitigation plans (RAMPS)⁵⁵ are being prepared starting from the CPS stage and cascaded from the national to sector and project levels, including capacity assessments of project executing and implementing agencies. Work on further streamlining is ongoing, and revised staff guidance on the implementation of the GACAP II is expected to be completed by December 2014. Given the spread of ADB operations to lagging areas and to the local level tier of the government, special attention will be paid to identifying risks and remedial measures.

⁵² Other events include the following: Gender Equality and Food Security in 2013; Women, Water Leadership in 2014; and the Multilateral Development Banks jointly sponsored the Gender, Voice, and Agency Global Workshop in 2014. In September 2014, ADB launched a new pilot Asia Women Leaders Program.

⁵³ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.
<http://www.adb.org/documents/secondgovernance-and-anticorruption-action-plan-gacap-ii>

⁵⁴ ADB. 2013. *Implementation Review: Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

⁵⁵ To date, 32 country-level and 88 sector-level RAMPS in 25 countries have been completed since 2006. RAMPS for country and/or sector levels are ongoing for ADF countries including Cambodia, Georgia, Pakistan, Tajikistan, and Viet Nam. RAMPS are planned for Lao PDR and Myanmar.

63. IED has undertaken a thematic evaluation study to examine ADB support for enhancing governance through public sector operations.⁵⁶ The evaluation recognizes ADB's efforts, and stresses the need for continued governance support. However, achieving better results will require improvements in direction, diagnostics, and delivery. The study has recommended that ADB should improve its country- and sector-level governance-related diagnostics, sharpen its corporate-level guidance for crosscutting public sector management oriented operations, and design and deliver interventions that carefully consider countries' governance contexts, public sector management capacities, and political commitment. A review of ADB's support for capacity development and the preparation of a capacity development operational plan for 2015–2020 are scheduled for 2015.

Box 7: Example of Asian Development Fund Support to Governance

Tonga: Strengthening Public Financial Management Program. The \$4.5 million grant was the second policy-based operation by the Asian Development Bank (ADB) in Tonga, following the substantial fall in remittances, declining private sector activity, and reduced government revenue emanating from the global economic crisis. Ongoing dialogue between the government and development partners (ADB, the Government of Australia, the International Monetary Fund, the New Zealand Aid Programme, the Pacific Financial Technical Assistance Centre, and the World Bank) resulted in the preparation of a multiyear joint policy reform matrix. The joint matrix shared reform priorities in public financial management, fiscal policy, and structural reform, and was aimed at stabilizing the government's finances and improving Tonga's long-term growth prospects. For fiscal year 2014, measures were aimed at strengthening revenue mobilization and compliance, expanding the use of corporate planning and medium-term budgeting, accelerating reform of state-owned enterprises through improved corporate governance and privatization, and business environment reform. Strong government commitment and coordinated technical assistance from development partners saw all policy actions achieved, and the grant was disbursed in full in 2013.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant Kingdom of Tonga: Strengthening Public Financial Management Program*. Manila.

3. Promoting Private Sector Development and Investments

64. Strategy 2020 aims to scale up private sector development (PSD) and private sector operations (PSO) to reach 50% of ADB's annual operations by 2020. ADB has increased its allocations for PSOs and improved the accuracy and consistency of the classification of projects supporting PSD. Financing volumes for PSD and PSOs for ADF countries has improved from 22% of ADB's total operations in 2012 to 27% in 2013. ADB seeks to adjust its practices such that in screening projects, the first priority will be for private sector financing, followed by public-private partnerships (PPP), before resorting to sovereign financing.⁵⁷

65. During the ADF XI negotiations, ADB reiterated the target for the share of PSOs approved in ADF countries to be at least 40% of total PSOs approved across all DMCs by 2015. Of the 54 private sector operations approved during 2010–2012, 35.2% (or 19) were in ADF countries, excluding regional projects. This ratio fell to 27.2% in 2013, but is projected to rise to 38.7% in 2014. Additionally, ADB's Trade Finance Program supports trade transactions, with 90% of the trade supported in ADF countries. Under the Strategy 2020 MTR action plan, ADB is planning to introduce an Economic Capital Planning Model to allocate resources for PSOs, which will enhance the ability to operate in frontier economies.

⁵⁶ ADB. 2014. *ADB Support for Enhancing Governance in its Public Sector Operations*. Manila.

⁵⁷ ADB. 2012. *Work Program and Budget Framework 2014–2016*. Manila.

66. During the ADF XI negotiations, ADB specifically recognized the importance of the gender dimensions of private sector investments and agreed to increase financing of creditworthy micro, small and medium-sized enterprises (MSME) owned and/or managed by women. ADB has begun collecting sex disaggregated data on employment for several projects and actively supports MSME development by means of commercial bank financing, through PSOs in Mongolia and Sri Lanka in 2014. ADB will actively seek opportunities to further expand such operations in ADF countries. Gender sector tool kits issued include those for MSME finance and development (para. 58). ADB is expanding PSOs in renewable energy, presently in OCR-only countries.

Box 8: Examples of Asian Development Fund Support to Private Sector Development

Bangladesh Irrigation Management Improvement Project. The \$58 million loan will focus on the modernization of the 38,600-hectare Muhuri-Kahua Irrigation Project in the Chittagong division. It will address the recurrent lack of sustainable management, operation and maintenance (MOM), and increase water productivity by transferring the MOM schemes to private operators and introducing innovative infrastructure modernization. The Bangladesh Water Development Board will recruit a private consulting company or consortium through competitive selection and enter into a 5-year management contract agreement to be the irrigation management operator. The operator will be responsible for (i) the delivery of efficient service and revenue collection to recover MOM cost, (ii) the construction supervision of civil works, (iii) the participatory design of modernization of the tertiary network system, and (iv) the development of pilot agricultural demonstrations and income-generating activities. It is envisaged that after 5 years, a long-term irrigation management operator will be recruited through a 15-year lease contract to maintain the MOM levels established during the initial 5-year period, to be awarded through competitive tender.

Samoa Agribusiness Support Project. This \$10.34 million grant is designed to promote the commercialization and export of agricultural produce and processed products along agro-value chains. Most agribusinesses in Samoa are small-scale, family-owned enterprises with fewer than 400 employees. However, they provide income-earning opportunities for many smallholder families in Samoa as suppliers for raw materials. Specific project activities comprise the provision of business support services and financing to agribusinesses, both identified as major constraints to private sector agribusiness development. Using a financial intermediary modality, participating banks will provide financing to agribusinesses that are sound and have bankable business plans, based on their own credit assessment. The approach includes cash collateral to partly secure the loans and to address the constraints of inadequate collateral, and repayable supplemental seed capital to address inadequate capital and weak balance sheet structure of the agribusinesses.

Sources: ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Bangladesh Irrigation Management Improvement Project*. Manila; and ADB, 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Samoa Agribusiness Support Project*. Manila.

4. Fragile and Conflict-Affected Situations

67. During the ADF XI negotiations, donors supported ADB's engagement in FCAS DMCs, building on its existing approach. ADB's 2013 operational plan for FCAS provides guidance on key actions to enhance ADB's effectiveness in FCAS countries.⁵⁸ The Strategy 2020 MTR highlights support to FCASs and notes the importance of understanding the local context, making long-term commitments, and ensuring country ownership, in addition to flexibly responding effectively to the unique challenges in FCASs. ADB has made significant progress on most actions agreed at ADF XI negotiations.

⁵⁸ ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

68. ADB committed to improving its already strong coordination with development partners on FCAS issues. Accordingly, ADB identified 9 FCASs based on a harmonized approach by multilateral development banks to classification: Afghanistan, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Nepal, Solomon Islands, Timor-Leste, and Tuvalu.⁵⁹ These DMCs account for more than \$1.8 billion in country allocations during ADF XI (almost 17% of the total). Of this, Afghanistan and Nepal together account for close to \$1.7 billion.

69. In order to enhance capacity in FCAS countries as agreed during ADF XI negotiations, training and sharing of good practices on FCASs were undertaken in 2013 through (i) a high-level forum on building resilience to fragility, (ii) a workshop on political economy analysis, and (iii) seminars on gender and FCASs. An e-learning course was developed. An introduction to FCASs was incorporated in the Project Design and Management Program.⁶⁰ Several knowledge products and videos on FCAS have also been produced and disseminated.⁶¹

70. Fragility issues are now highlighted in the recent country operations business plans for Afghanistan, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Timor-Leste, Tuvalu, and Vanuatu; the Pacific regional operations business plan; and the CPS for Nepal. A customized risk management framework and an institutional strengthening framework have been developed through extensive consultation with ADB staff. The customized risk management framework aims to guide staff in managing risks differently in FCASs. It highlights ADB's business processes with existing flexibilities to be customized in each phase of the project cycle to better address or mitigate economic, political, governance, and natural risks.⁶² It presents a results-based approach with steps designed to identify, prioritize, and refine an understanding of FCAS institutional and capacity gaps, as well as to fill these gaps.⁶³

71. ADB's revised corporate results framework (para. 104) introduced indicators to track results in FCASs, including (i) the average change in FCAS country performance assessment scores, (ii) FCAS-specific performance analyses on operational quality at completion, (iii) implementation quality and quality at entry, and (iv) efficiency and client orientation. To support increasing financial resources to FCAS countries, ADB has introduced a minimum allocation of \$3 million per year for ADF DMCs (para. 21). Several fragile small Pacific island countries including Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, and Tuvalu will benefit from these enhanced allocations.

5. Food Security

72. Under ADF XI, Strategy 2020 and the Operational Plan for Sustainable Food Security in Asia and the Pacific guide ADB's food security-related operations.⁶⁴ The plan addresses the three critical constraints that contribute to the vulnerability of the food systems, namely (i) stagnating food productivity and production, (ii) poor connectivity and lack of resilience due to the threat of climate change, and (iii) the volatility of food prices.

⁵⁹ Under its 2013 FCAS operational plan, ADB adopts the harmonized Country Policy and Institutional Assessment (that is, the average of World Bank's Country Policy and Institutional Assessment and ADB's CPA) quantitative cutoff of 3.2 or less, or the presence of a United Nations and/or regional peacekeeping or peace-building mission during the past 3 years, for determining an FCAS country.

⁶⁰ The Project Design and Management Program is a staff development program at ADB.

⁶¹ These are available at www.adb.org/fragile-situations.

⁶² ADB. Forthcoming. *Engagement in Fragile and Conflict-Affected Situations: Customized Risk Management Framework*. Manila.

⁶³ ADB. Forthcoming. *Engagement in Fragile and Conflict-Affected Situations: Institutional Strengthening Framework—A Guidance Note*. Manila.

⁶⁴ ADB. 2010. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.

73. During 2010–2013, ADB sustained its food security related investments at about \$2 billion per year, in line with the action plan targets of the Strategy 2020 MTR. About 50% of these investments by volume and 60%–70% by number of projects were in ADF countries. The investments were mainly for upgrading and constructing irrigation and rural infrastructures, with specific focus on improving the productivity and connectivity of farming communities as well as building resilience against extreme weather events and climate change. Among the food security related operations in ADF countries, investments in agriculture and natural resources accounted for 34% of the total value. Most of these operations focus specifically on smallholder farmers, as they dominate Asian agriculture, and improving their productivity and engagement into more productive, efficient, and resilient food value chains that will serve both household and regional food security.

74. Moreover, food security-related investments have supported a unique set of initiatives that will help build inclusive and sustainable food value chains. These include introducing advanced storage technologies for onion and potato farmers in Afghanistan to substantially reduce quality loss and wastage and to smoothen seasonal variability of local food supply, and designing weather-index insurance as a risk mitigation tool that will help farmers adopt new technologies and higher-value cropping in Bangladesh.

75. ADB's private sector investments in agricultural food value chains in ADF countries have increased since 2010. In 2013, the total approved private sector portfolio in agriculture amounted to \$93 million. Such investments are helping to (i) improve access to formal credit for 400 rural dairy farmers in Pakistan and engage them into commercial milk supply chains, and (ii) expand a primary food processing company's capacity in Bangladesh and generate new business opportunities for 50,000 farmers to supply maize and wheat to the company.

76. ADB continues to support research works on key thematic issues relevant for regional food security and smallholder agriculture. These include a comprehensive study of climate change impacts on agriculture, and value chains and food security. Ongoing knowledge initiatives include supporting the Integrated Food Security Program of the Association of Southeast Asian Nations, disseminating climate resilient rice varieties in South Asia and Southeast Asia, pilot testing the technologies to produce more food with less water, adopting innovative financing models to improve outreach, and introducing innovative farming and post-harvesting practices for Punjab basmati rice.

77. Food security challenges in Asia and the Pacific are expected to intensify, given the region's growing population, urbanization, volatile food prices, scarce resources, and climate change issues. Based on a review of the existing plan, ADB is preparing a new operational plan for sustainable food security to further refine ADB's operations in this area and to maximize effectiveness of agriculture and natural resources investments in addressing food security concerns of DMCs.⁶⁵ The new plan is expected to be finalized in 2014.

VII. PROGRESS ON ADB INTERNAL REFORMS

78. During the ADF XI negotiations, various internal reforms were identified to improve ADB's effectiveness, with due consideration to the cost and efficiency of operations.⁶⁶ Significant progress has been made per commitments made along several dimensions.

⁶⁵ ADB. Forthcoming. *Operational Plan for the Agriculture and Natural Resources Sector: Promoting Food Security in Asia and the Pacific in 2014–2020*.

⁶⁶ ADB. 2012. *Asian Development Fund XI Donors' Report: Empowering Asia's Most Vulnerable*. Manila (para. 22).

A. Improve Project Performance and Outcome Achievement

79. In line with the agreement to improve project quality at entry and performance during implementation, ADB adopted an action plan in response to the recommendations of the Good Project Implementation Practice (GPIP) report.⁶⁷ ADB continues to implement the GPIP action plan and reports on performance annually. By the end of 2013, 26 of 37 GPIP action items had been completed and/or are being implemented on an ongoing basis. The 11 remaining actions are scheduled to be completed by the end of 2014.

80. Performance in several GPIP areas had improved by the end of 2013, particularly for upstream activities: (i) the use of readiness filters was agreed upon with 18 DMCs, up from 13 during 2012; (ii) safeguards specialists and disbursement support were present in more resident missions than in 2012; and (iii) more staff were accredited under the Procurement Accreditation Skills Scheme. In 2013, 93% of ADB operations and 94% of ADF operations were rated satisfactory—exceeding the annual target of 85%. In 2013, ADB also adopted indicators and targets to achieve full project readiness for infrastructure projects. Of the infrastructure projects approved, 67% were design-ready and 43% were procurement-ready. The time from approval to first contract award for project contracts signed in 2013 improved to 11.6 months from 12.9 in 2012 moving towards the GPIP target of 9.0 months. The start-up time for ADF operations also improved to 11.5 months in 2013 from 13.7 months in 2012.

81. The ADF XI negotiations identified the need to promote efficient procurement. Accordingly, ADB undertook a review of procurement in 2013.⁶⁸ The review examined the existing governance structure of procurement decisions, covering the oversight function, procedural efficiency, packaging policy, thresholds, and accreditation. It developed recommendations to reduce project delay and increase the economy and the quality of results. ADB has started implementing the recommendations of the review. The Strategy 2020 MTR action plan highlights several time-bound actions to inform and supplement a 10-point action plan on procurement reform. This includes developing a procurement governance framework and draft guidelines on procurement capacity assessment, categorizing project risk, setting thresholds for international competitive bidding, and establishing a streamlined procurement committee process that provides for parallel reviews and clarifications to executing agencies. In 2013, a blanket waiver of member country procurement eligibility was introduced in cases of cofinancing for ADF-financed operations.⁶⁹

82. Steps have been taken to improve the implementation of ADB's Safeguard Policy Statement (2009), as agreed at ADF XI negotiations. A report on the implementation update of the Safeguard Policy Statement was prepared for the ADF donors' consultation meeting in May 2013.⁷⁰ As per the Safeguard Policy Statement, IED is required to conduct an evaluation of ADB's safeguard implementation after 5 years. An operational review of the use of country safeguard systems and safeguards for financial intermediaries has been undertaken. The approach paper for a larger review of the effectiveness of the Safeguard Policy Statement has been prepared.⁷¹

⁶⁷ ADB. 2010. *Good Project Implementation Practice. Report of the Project Implementation Working Group*. Manila.

⁶⁸ ADB. 2013. *Procurement Governance Review*. Manila.

⁶⁹ ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources*. Manila.

⁷⁰ ADB. 2013. *Progress Report on the Asian Development Bank's Implementation of the Safeguard Policy Statement*. ADF Donors' Annual Consultation Meeting. 2 May 2013.

⁷¹ ADB. 2013. *Thematic Evaluation Study on the Effectiveness of ADB's 2009 Safeguard Policy Statement (Phase 1)*. Manila.

83. In order to systematically apply lessons in designing and implementing projects, ADB has made progress towards updating business processes and formats of project completion reports (PCRs). Departmental consultations were conducted to align with IED's project validation criteria, and these will be reflected in the new PCR formats. Revised project administration instructions on PCRs are expected to be finalized in 2014.

B. Leverage ADB Resources Effectively to Mobilize Additional Investments

84. Since the development needs of DMCs cannot be met by ADB resources alone, Strategy 2020 targets that ADB's total annual direct value added (DVA) cofinancing will exceed the value of ADB's stand-alone project financing by 2020. During ADF X, ADB financing leveraged \$17.6 billion in total DVA cofinancing in ADF countries, or an average of \$4.4 billion a year. During the first 18 months of ADF XI alone, ADB financing has leveraged \$7.1 billion in total DVA cofinancing in ADF countries, or an average of \$4.7 billion a year. The Strategy 2020 MTR action plan includes time-bound actions to enhance cofinancing, including streamlining cofinancing processes, establishing credible targets at the corporate and departmental levels, and allocating earned administrative fees to project teams to administer cofinanced projects.

85. PPPs are regarded as an important instrument that can mobilize additional investments in DMCs. The Public–Private Partnership Operational Plan,⁷² approved in 2012, guides ADB's PPP operations through its four pillars: (i) advocacy and capacity development, (ii) enabling environment, (iii) project development, and (iv) project financing. All operations departments at ADB have established the requisite specialized staffing structures to facilitate the implementation and mainstreaming of the PPP operational plan. The Strategy 2020 MTR found that staff with PPP skills are scattered across various departments, and recommended centralizing PPP transaction advisory services that require specialized skills and capacities.

86. To enhance the institutional effectiveness and efficiency, a new Office of Public-Private Partnership (OPPP) has been established under the President. The OPPP will coordinate ADB's PPP operations, including transaction advisory services to DMCs. It will provide ADB-wide support for the implementation of PPP operations and act as a resource center for regional departments. The OPPP, with its initial team members, was launched in September 2014. Full operations are expected to commence by January 2015.

C. Deliver Knowledge and Innovations Better

87. In line with commitments made during the ADF XI negotiations, ADB's new action plan for knowledge was approved in 2013.⁷³ It aims to broaden and improve the effective operationalization of knowledge management at ADB, including in cooperation with the Asian Development Bank Institute, to strengthen ADB-wide efforts to deliver investment and/or knowledge-based programs and projects to DMCs. ADB is taking steps to strengthen the relationships between the specialized knowledge units and the operations departments. It is also upgrading the capabilities of the communities of practice to prepare and deliver higher-quality projects. The action plan took into account several recommendations of IED's special evaluation study on knowledge products and services, completed in 2012.⁷⁴

⁷² ADB. 2012. *Public–Private Partnership Operational Plan, 2012–2020: Realizing the Vision for Strategy 2020—The Transformational Role of Public–Private Partnerships in Asian Development Bank Operations*. Manila.

⁷³ ADB. 2013. *Knowledge Management Directions and Action Plan (2013–2015): Supporting "Finance++" at the Asian Development Bank*. Manila.

⁷⁴ ADB. 2012. *Special Evaluation Study on Knowledge Products and Services: Building a Stronger Knowledge Institution*. Manila.

88. New institutional arrangements were adopted to consolidate the disparate functions and initiatives for knowledge management across ADB. The Knowledge Sharing and Services Center was established in the Regional and Sustainable Development Department in 2012 to support knowledge-related services across ADB and in DMCs. The center develops partnerships with DMCs and recognized knowledge institutions in member countries to generate and share knowledge with external and internal clients.

89. With a view to improving the management of knowledge products and services, ADB is seeking to introduce a unified knowledge results framework with indicators for knowledge management, developed for the Economics and Research Department, the Office of Regional Economic Integration, and the Regional and Sustainable Development Department.⁷⁵ The results frameworks of specialized knowledge departments are expected to be agreed upon in 2014. The Strategy 2020 MTR action plan stresses the importance of realigning roles and responsibilities of communities of practice, to strengthen them further.

90. The Strategy 2020 MTR has also committed to strengthen ADB's internal information and communication technology (ICT) systems to simplify and streamline business processes and procedures. A working group has been set up specifically to explore options to increase efficiency through a more effective use of ICT to reduce transaction costs for DMCs. Stronger ICT systems and platforms will provide seamless access to all key institutional and operational information, knowledge products, and services (regardless of location), and will promote better communication. The use of ICT, including social media, will also lead to greater openness and transparency at all stages of ADB's project cycle.

D. Align Budget and Human Resources with Strategy 2020

91. With a view to aligning human resources with Strategy 2020, ADB continues to implement its strategy, as agreed at ADF XI negotiations.⁷⁶ The implementation of a 3-year workforce plan for 2010–2012 has strengthened in-house skills in the core operational areas defined in Strategy 2020 by about 48% compared with 2009 in terms of staff positions.⁷⁷ ADB continues to monitor vacancies and use internal redeployment as possible for the optional allocation of staff resources. In 2014, in response to the findings of the Strategy 2020 MTR, ADB introduced a talent management process to ensure that there is a strong mix of high performing and high potential staff with skills aligned with the future needs of clients. This initiative is meant to acquire, assess, develop, engage, and retain staff, so that they are motivated to produce expected business outputs and outcomes.

92. ADB is committed to implementing the gender action program extension (2011–2012) to improve the gender balance at all levels of the institution. ADB has 2,943 staff as of 30 June 2014, of which 58.2% are women: 34.6% of the international staff, 61.8% of the national staff, and 77.5% of the administrative staff. Building on the success of its gender action programs, ADB approved a focused diversity and inclusion framework in November 2013. The framework

⁷⁵ At the end of 2011, ADB consolidated the three specialized knowledge units (the Economics and Research Department, the Office of Regional Economic Integration, and the Regional and Sustainable Development Department) and the Office of Information Systems and Technology under the Vice-President for Knowledge Management and Sustainable Development.

⁷⁶ ADB. 2010. *Our People Strategy: Skills and Passion to Improve Lives in Asia and the Pacific*. Manila; and ADB. 2010. *Human Resource Function Strategic Paper and Action Plan*. Manila.

⁷⁷ To ensure the quality of its expanding portfolio under the fifth general capital increase, ADB implemented a 3-year (2010–2012) budget transformation plan to remove persistent resource gaps. ADB. 2009. *Work Program and Budget Framework 2010–2012*. Manila.

for 2013–2016 retains the objectives of ADB's institutional gender action programs and continues to pursue the important objective of increasing women international staff representation at entry, pipeline, and senior levels. The broadened focus to managing diversity and inclusiveness, implemented within the new talent management framework, will put ADB in a better position to fully leverage its diverse workforce in order to provide the innovative development solutions expected by its DMCs.

93. Based on the findings of the 2012 Staff Engagement Survey, departments finalized their action plans during the last quarter of 2012 to address key issues identified. This was agreed at ADF XI negotiations. The action plans were monitored and reported against during 2013. Another staff engagement survey is planned for 2015.

94. ADB has been vigorously undertaking various measures to maximize budget efficiency and value for money. The gains from these efficiency measures enabled ADB to reduce its internal administrative budget growth from 12.9% in 2011, to 9.8% in 2012, to 5.9% in 2013, and to 3.9% in 2014 (the lowest in the past 15 years). During 2014, ADB has intensified its efficiency measures, which can be broadly categorized as (i) human resource management, and organizational changes; (ii) business travel reforms, including the introduction of economy class for shorter flights; (iii) business process improvements; (iv) outsourcing and the use of contractors; (v) the effective use of ICT; (vi) environmental initiatives; and (vii) efficient office space management.

E. Strengthen Transparency and Accountability

95. As agreed at ADF XI negotiations, ADB revised its Public Communications Policy (PCP) 2011, advancing a practice of presumption in favor of disclosure and improved access to information about ADB operations.⁷⁸ The new projects section of ADB.org was launched in July 2012 to improve stakeholder access to project information. An annual report on the implementation of the PCP in 2012 was released in August 2013,⁷⁹ and a compliance monitoring system was rolled out. Compliance with the posting requirements for operations documents was found to have improved. In 2013, 213 staff were trained on disclosure workflows and functions in eOperations. Briefings on project communications were conducted for staff from operations departments.

96. ADB remains committed to improve the effectiveness of the Accountability Mechanism Policy.⁸⁰ In order to better implement recommendations of the review of the policy, an *Operations Manual* section on the Accountability Mechanism was issued in May 2012.⁸¹ The new staff structure for the Office of the Compliance Review Panel is in place. The complaint-receiving officer has been appointed. Workshops, briefings, and lectures are organized regularly to keep new staff as well as the safeguard and environmental specialists abreast of the new policy. External outreach to key stakeholders in donor countries and DMCs continues.

⁷⁸ ADB. 2011. *Public Communications Policy 2011: Disclosure and Exchange of Information*. Manila.

⁷⁹ ADB. 2013. *Annual Report on the Implementation of the Public Communications Policy in 2012*. Manila.

⁸⁰ ADB. 2012. *Review of the Accountability Mechanism Policy*. Manila. In 1995, ADB established an inspection function to provide an independent body that people affected by ADB-assisted projects could appeal to for matters relating to ADB's compliance with its operational policies and procedures. In 2003, following an extensive review, ADB introduced the Accountability Mechanism, which built on the Inspection Function. The Accountability Mechanism was designed to enhance ADB's development effectiveness and project quality; be responsive to the concerns of project-affected people and fair to all stakeholders; reflect the highest professional and technical standards in its staffing and operations; be as independent and transparent as possible; and be cost-effective, efficient, and complementary to the other supervision, audit, quality control, and evaluation systems at ADB.

⁸¹ ADB. 2013. Accountability Mechanism. *Operations Manual*. OM L1. Manila.

97. With a view to strengthening ADB's capacity to share aid information as discussed during ADF XI negotiations, ADB has been implementing geomapping of its projects since February 2014, following consultation with the World Bank and the African Development Bank. The exercise is also expected to improve ADB's compliance with the transparency standard set by the International Aid Transparency Initiative,⁸² and raise its ratings in international surveys such as the Aid Transparency Index.⁸³ ADB's geomapping activities are being undertaken in two phases. Phase 1 includes geocoding⁸⁴ of ADB's ongoing projects and the establishment of an information technology support system to enable ADB staff to continue geocoding beyond the completion of the initial exercise in September 2014. In phase 2, planned for late 2014 through early 2015, ADB will develop a mapping platform to visualize the geocoded information and make the platform available to the public through ADB's external website, along the lines of World Bank's Mapping for Results.

98. In support of openness and to increase the reach and impact of ADB's knowledge, ADB is working on an open access initiative. The initiative focuses on making formal publications (scholarly analysis and research) available free of financial, legal, and technological barriers. This 2014 initiative translates to the creation of an open access repository that (i) provides free access to ADB's academic content; (ii) provides a liberal license for each content element for use and/or reuse; and (iii) lowers technological barriers to sharing information about the content on the site, making it more discoverable.

F. Improve ADB's Responsiveness through Decentralization

99. ADB continued to decentralize, as discussed during ADF XI negotiations. The empowerment of resident missions is an important priority highlighted in the Strategy 2020 MTR action plan. During 2010–2012, 141 new positions (28 international staff, 113 national and administrative staff) were allocated to resident missions. In 2013, another 14 new positions were allocated to resident missions to absorb the core resident mission functions previously performed by contractors. These were in addition to the redeployment of existing resources to strengthen resident mission staff capacity, such as staff outposting and redeployment of existing positions to resident missions. Overall, the number of authorized staff positions in resident missions increased from 556 in 2009 (or 28.7% of staff positions in headquarters) to 724 as of 30 June 2014 (or 32.5% of staff positions in headquarters).

100. ADB has enhanced the capacity of staff in resident missions to strengthen project implementation, procurement, and monitoring. Several new resident missions and development coordination offices were established in ADF countries during ADF XI (Box 9). During 2010–2012, 55 new positions were provided to resident missions for project implementation and portfolio management. ADB has also adopted flexible approaches in outposting the sector staff at headquarters to resident missions in order to strengthen client support, while retaining a close supervision and reporting relationship with headquarters. At the end of 2013, 40 staff were outposted to strengthen the sector focal points in resident missions. Procurement accreditation

⁸² The International Aid Transparency Initiative is a multi-stakeholder initiative of donors, developing countries, and civil society organizations to promote an international standard for publishing aid information. It was launched in September 2008 during the Third High Level Forum on Aid Effectiveness in Accra.

⁸³ The Aid Transparency Index is published annually by Publish What You Fund (www.publishwhatyoufund.org), an international campaign by a coalition of civil society organizations. ADB's continued efforts to enhance transparency led to an improved overall ranking of 5 out of 68 funding organizations in 2014 from 16 out of 58 in 2011.

⁸⁴ Geocoding involves digitally recording the geographic location of activities by means of location names (e.g., state, province, city, municipality, and district) and geographic coordinates (latitude and longitude).

is ongoing, including for resident mission staff. In 2013, 185 staff completed the final exam for consultant recruitment, of which 94 were from resident missions. In addition, 183 staff completed the procurement final exam, of which 92 were from resident missions.

Box 9: Establishment of Asian Development Bank Missions and Offices in Asian Development Fund Countries

An extended mission in Myanmar was established and initially colocated with the World Bank Group in Yangon from August 2012. A Board paper for the establishment of a full resident mission in Myanmar was approved by the Board in October 2013, calling for two offices: a large one in the capital Nay Pyi Taw and a smaller one in Yangon, the commercial center and base of most development partners. The Host Country Agreement was signed shortly thereafter. In April 2014, the Asian Development Bank (ADB) completed the establishment of the Myanmar Resident Mission, with offices in Yangon and Nay Pyi Taw. ADB was the first of the multilateral banks, and one of the first development partners, to establish a significant presence in Nay Pyi Taw. Six international staff have been fielded, of which four are in Nay Pyi Taw, one in Yangon, and a peripatetic country director covers both offices.

A Board paper for the establishment of a resident mission in Bhutan was approved in October 2012. The Host Country Agreement was subsequently signed in March 2013. The office of the Bhutan Resident Mission was inaugurated by the ADB President and the Prime Minister of Bhutan in February 2014. It is located in the Bhutan Development Bank Limited building in Thimphu, where the offices of the International Finance Cooperation, World Bank, and South Asian Association for Regional Cooperation Development Fund are housed. Two national staff have been fielded to run the resident mission.

ADB's Special Office in Timor-Leste, which had been in operation since 2000, was renamed to a resident mission via a Board paper approved in September 2013. The Timor-Leste Resident Mission, which moved to a new and larger location in Dili, was inaugurated by the Finance Minister in November 2013. In the smaller Pacific island countries, where the ADB portfolio is not considered to be of a size to support a full resident mission, ADB continues to expand its network of development coordination offices (DCO). A DCO commenced operations in Pohnpei, Federated States of Micronesia in April 2013, while a DCO in Palau was officially opened by an ADB Vice-President and Palau's Finance Minister in August 2014. The north Pacific DCOs are each run by a national consultant who reports to the Country Director—Pacific Urban, Social Development, and Public Management Division—and allows improved information flows between the government and ADB, as well as strengthened on-the-ground development partner coordination.

Source: Asian Development Bank.

101. The revised results framework (para. 104) includes indicators on resident mission involvement in projects, and the 2013 Development Effectiveness Review (DEfR) reports on functions of resident missions. In countries where ADB has a field presence, resident missions are substantially involved in 70% of 271 ongoing ADF operations (including the administration of 116 projects). Resident mission staff account for about 50% of regional departments' total staff, exceeding the 48% target by the end of 2012. The establishment of new deputy country director positions in large resident missions has contributed to stronger field expertise.

102. Regional departments have been instructed to establish clear responsibilities for improving teamwork between headquarters and resident missions. Country directors are responsible for country relations and overseeing the country portfolio, while sector directors manage the sector portfolio. Sector focal points have been identified, and the work plans of staff reflect accountability in terms of country and sector portfolio management. Through the active involvement of cofinancing anchors in resident missions, regular coordination and dialogue with the local representatives of the bilateral agencies support ADB's efforts to expand cofinancing.

103. Deployment of the travel system to resident missions was completed in 2012 under the Information Technology Strategy and Capital Expenditure Requirements: 2004–2009 (ISTS II). With the substantial completion of ISTS II, resident missions have full data, voice, and videoconference connections to headquarters, as well as quality support for their equipment, network, and connections. Furthermore, ISTS III was approved in April 2013 and covers additional information technology improvements at resident missions including (i) resident mission fixed assets implementation, and (ii) network architecture improvement. It is expected that ISTS III will result in fully connected and integrated headquarters and field offices.

G. Refine and Further Mainstream Results-Based Management Approaches

104. As agreed during ADF XI negotiations, ADB continues to review and update its corporate results framework to ensure that it remains up-to-date, relevant, and fully aligned with its strategic priorities. In 2012, ADB undertook a comprehensive review of the results framework to ensure its continued relevance as a corporate performance management tool.⁸⁵ ADB's Board of Directors approved the revised results framework in January 2013.⁸⁶ Following this comprehensive review, ADB is in the process of further updating the results framework to align it with the outcomes of the Strategy 2020 MTR. The MTR identified 10 strategic priorities, which are further cascaded into 67 key actions. The update will involve ADB-wide and Board consultations, as well as feedback from ADF donors. It is expected to be completed during 2014.

105. The updated results framework will continue to include both the ADB results framework, as well as the ADF results framework as a subset. The updated results framework will be applied for 2014–2016. Similar to the previous results frameworks, the updated results framework will serve three interlinked objectives, to (i) support the delivery of development results that benefit DMCs, (ii) support the realization of the Strategy 2020 MTR agenda and priorities, and (iii) communicate with stakeholders on both the results supported by ADB and ADF, and on the operational and organizational performance of ADB. Performance against the updated results framework will be reported through the DEFs. A full-fledged review of the results framework will be implemented starting in 2015 to further revise the framework and introduce new targets for 2017–2020.

106. The introduction of a departmental scorecard (DSC) system is in process, as per the Strategy 2020 MTR action plan. This will further enhance results orientation and accountability. ADB has made considerable progress in cascading Strategy 2020 corporate results down to results-based departmental work plans, after implementing the corporate scorecards for 7 years. The objectives of DSCs are to monitor and report on the performance of departments and offices in core areas, support the identification of areas for improvements, promote joint efforts and shared results between operations and non-operations departments, and contribute to ADB's operational and organizational performance. Following consultations and corporate guidance, departments and offices have finalized their core indicators for the DSC. Scorecards for 2014 performances are expected to be generated by March 2015 for internal discussion. Departmental work plans from 2015 are expected to be aligned with their DSCs. In addition, in 2014, improvements have been introduced to the format of annual individual work plans, which will enhance their results focus.

⁸⁵ ADB adopted its results framework in 2008 to monitor progress toward the goals of Strategy 2020. The results framework has driven the institutionalization of results-based management at ADB, strengthened accountability for results, and improved the communication of corporate performance.

⁸⁶ The corporate results page was launched in January 2013 and can be accessed at <http://www.adb.org/site/developmenteffectiveness/results-ADB-supported-operations>

107. ADB has taken several other relevant steps to improve its results focus. To sharpen the results orientation of corporate sector and thematic plans, staff instructions on processing and monitoring sector and thematic operational plans were approved in April 2013.⁸⁷ With a view to consolidating results management in countries and projects, and improving communication on results with external stakeholders, country results pages have been completed for 32 countries and the related project pages have been updated to include results data. The results pages were updated to include 2012 data on outputs delivered by ADB operations and will continue to be updated annually with the completion of the DEfR. Guidelines for preparing country briefs were completed in December 2012. A more consistent results presentation is being incorporated in the new briefs under preparation. The revised guidelines provide clearer directions on the reporting of ADB contributions to results in the country brief. In 2014, ADB introduced a new publication on projects with clear development impacts to highlight to external stakeholders its successful operations, best practices, and innovations.⁸⁸

VIII. UPDATE ON ADF FINANCIAL RESOURCES

[This information has been removed as it falls within exceptions to disclosure specified in paragraph 97 (viii) of ADB's Public Communication Policy (2011).]

IX. CONCLUSIONS

108. In spite of rapid economic growth and advancement towards the elimination of income poverty, the DMCs in Asia and the Pacific continue to face serious socioeconomic challenges. Many of these challenges are particularly pronounced in ADF countries. As global economic prospects remain uncertain, ADF countries will continue to need support to meet their investment demands and address their constraints. Based on latest estimates, ADB's operational program under ADF XI (excluding TA) is almost \$13.2 billion, indicating strong demand for ADF resources.

109. Per capita average annual ADF country allocations for ADF-only and low income countries are projected to rise between ADF X and ADF XI. Resource allocations through the PBA system continue to balance country needs and performance, with a greater share of resources going to strong policy performers as well as to low income countries. The introduction of a minimum allocation under ADF XI will particularly benefit many small Pacific island countries—several of which are FCASs—where normal PBA allocations may be too low to support reasonably-sized operations. Approvals and disbursements are projected to strengthen during ADF XI, compared to ADF X.

110. Significant progress has been made in developing a long-term vision for the ADF, including an innovative financial proposal for combining ADF lending operations with the OCR balance sheet. ADF assistance has remained aligned with the ADF XI strategic agendas: promoting inclusive economic growth, environmentally sustainable growth, and regional integration. It is in line with the three drivers of change that were identified as special considerations for ADF countries during the ADF XI replenishment negotiations. Important measures have been taken to enhance operations in FCAS and food security, which were also regarded as special considerations by donors for the ADF XI period.

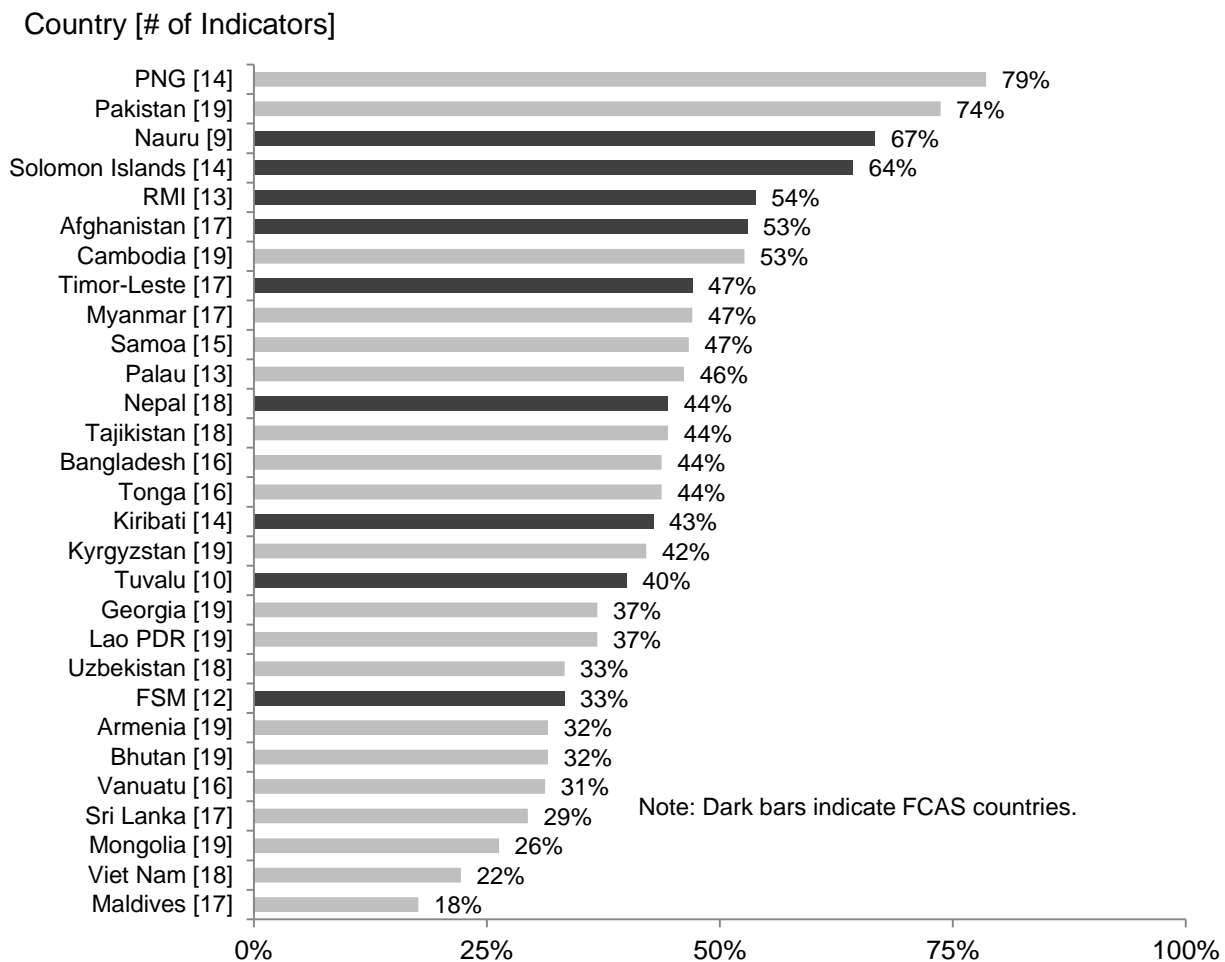
⁸⁷ <http://www.adb.org/documents/results-based-public-sector-management-rapid-assessment-guide>

⁸⁸ ADB. 2014. *Together We Deliver: 10 Stories from ADB-Supported Projects with Clear Development Impacts*. Manila.

111. Since the completion of ADF XI negotiations, ADB has implemented the agreed internal reforms, with a view to enhancing ADB's efficiency and effectiveness. Several other reforms have been initiated, as identified under the Strategy 2020 MTR. ADB remains committed to strengthen implementation of these measures through the remaining years of ADF XI, and beyond.

NON-INCOME MILLENNIUM DEVELOPMENT GOAL ACHIEVEMENT IN ADF COUNTRIES

Non-Income MDGs
(% of Indicators Off Track)



ADF = Asian Development Fund, FCAS = fragile and conflict affected situation, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, MDG = Millennium Development Goals, PNG = Papua New Guinea, RMI = Republic of the Marshall Islands.

Source: Economic and Social Commission for Asia and the Pacific, Asian Development Bank, and United Nations Development Programme. 2013. *Asia-Pacific Regional MDG Report 2012/13 Asia-Pacific Aspirations: Perspectives for a Post-2015 Development Agenda*. Bangkok.

<http://www.unescap.org/resources/asia-pacific-regional-mdg-report-201213-asia-pacific-aspirations-perspectives-post-2015>

ADF XI FINANCING FRAMEWORK

[This information has been removed as it falls within exceptions to disclosure specified in paragraph 97 (viii) of ADB's Public Communication Policy (2011).]

**STATUS OF ADF XI CONTRIBUTIONS
(AS OF 30 SEPTEMBER 2014)**

[This information has been removed as it falls within exceptions to disclosure specified in paragraph 97 (viii) of ADB's Public Communication Policy (2011).]

**DELAYED PAYMENTS AND AMOUNTS WITHHELD
AS OF 15 OCTOBER 2014
(MILLION)**

[This information has been removed as it falls within exceptions to disclosure specified in paragraph 97 (viii) of ADB's Public Communication Policy (2011).]