



ASIAN DEVELOPMENT FUND (ADF)
ADF XI REPLENISHMENT MEETING
8–9 September 2011 Manila, Philippines

ADF XI Role and Priorities

Asian Development Bank

August 2011

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
DMC	–	developing member country
FCAS	–	fragile and conflict-affected situations
FDI	–	foreign direct investment
GACAP II	–	Second Governance and Anticorruption Action Plan
GDP	–	gross domestic product
Lao PDR	–	Lao People's Democratic Republic
MDG	–	Millennium Development Goal
OCR	–	ordinary capital resources
ODA	–	official development assistance
RCI	–	regional cooperation and integration
SME	–	small and medium-sized enterprises
UNDP	–	United Nations Development Programme
UNESCAP	–	United Nations Economic and Social Commission for Asia and the Pacific

NOTE

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

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

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EXECUTIVE SUMMARY

Asia and the Pacific is one of the fastest growing regions of the world in terms of economic growth. Despite population growth, the number of people living on less than \$1.25 a day in developing Asia was cut from more than 1.4 billion in 1990 to 754 million in 2008.

Asian Development Fund (ADF) countries, however, have not shared fully in this prosperity and development. The development gap between ADF countries and other countries in the region is widening, which could undermine social cohesion and political stability in the region.

Despite considerable progress, poverty continues to affect the lives of millions in ADF countries. As of 2008, 27% of the population in ADF countries (about 148 million people) lived on less than \$1.25 a day. While ADF countries have made progress towards the non-income Millennium Development Goals (MDGs), more efforts are needed to reach many of the targets by 2015. Based on a set of indicators covering education, health, and water and sanitation, ADF countries as a group are on track to reach just over one-third of the non-income MDGs by 2015.

Solid progress is within reach, however. Analysis by the Asian Development Bank (ADB) suggests that ADF-only countries can still achieve almost two-thirds of the MDG targets in 2015 or soon after. This will require renewed efforts and continued support, as ADF countries are least equipped to deal with the challenges they face. They lag in economic and social infrastructure, and they suffer from weak governance and institutions as well as an environment not conducive to private sector development and private investment. Weak fiscal situations, which have been exacerbated by the global economic downturn, compound these problems.

ADF countries with the greatest needs are also the most vulnerable. Of particular concern are rising food and fuel prices, which undermine many aspects of economic and human development. More than one-third of ADF countries (10 out of 28) are currently classified as conflict-affected or politically fragile. In addition, ADF countries are more vulnerable to crises and to the adverse effects of climate change, although they contribute little to it.

The ADF is a crucial financing source to help ADF countries achieve the MDGs and address their other development challenges, accounting for more than 10% of official development assistance during 1995–2009. Operations supported by the ADF, the largest fund managed by ADB, benefit from ADB's comparative strengths and institutional improvements. The ADF also provides good value for money.

Demand for ADF financing will remain large during the ADF XI period (2013–2016). To address the challenges identified, donors agreed to mainstream Strategy 2020 priorities under ADF XI. The key mandate of ADF XI will be to reduce poverty in Asia and the Pacific through three complementary development agendas: (i) inclusive economic growth, (ii) environmentally sustainable growth, and (iii) regional integration. ADF XI will also mainstream Strategy 2020's five core areas of operations: infrastructure, finance sector development, education, environment, and regional cooperation and integration.

For ADB to remain an effective development partner in these countries, it will have to maintain an adequate volume of ADF assistance. Donors' guidance is sought on the analysis presented in this paper and the proposed directions for ADF XI.

I. INTRODUCTION

1. During the annual consultation meeting of Asian Development Fund (ADF) donors held in Ha Noi, Viet Nam on 4 May 2011, ADF deputies recognized the difficult development context in ADF countries after the global economic crisis, and the importance for the Asian Development Bank (ADB) to remain engaged in those countries.¹ The deputies agreed to start negotiations for the 10th replenishment of the ADF (ADF XI), with the first meeting to be held 8–9 September 2011 in ADB headquarters in Manila. The deputies also agreed to mainstream Strategy 2020² priorities under ADF XI. This paper provides an updated analysis of the development context in ADF countries and discusses the role that ADF can play in helping these countries address the challenges identified. The paper presents an overview of what ADB plans to do in each strategic area. It is complemented by more detailed papers on specific topics: crisis prevention and response, fragile and conflict-affected situations (FCAS), climate change, and food security. A follow-up paper will be presented during the second ADF XI replenishment meeting with quantitative estimates of the projected demand for ADF resources during 2013–2016 as well as the proposed breakdown by region, sector, and theme, including an overview of the proposed use of ADF XI resources by country.

II. DEVELOPMENT CONTEXT

A. Widening Gap between ADF and OCR Countries

2. **Persistent poverty despite solid progress.** Poverty continues to affect the lives of millions of people in ADF countries. From 1990 through 2008, Asia and the Pacific made solid progress in reducing income poverty. Although the population continued to grow, the number of poor people living on less than \$1.25 a day in developing Asia fell from 1,416 million in 1990 to 754 million in 2008.³ However much of this gain was driven by ordinary capital resources (OCR) countries⁴ (Table 1). Extreme poverty incidence, as measured by the head count index, remains higher in ADF countries (27% in 2008) than in OCR countries (21%). ADF-only countries perform notably worse, with a head count index of 37%. Using the \$2 a day poverty line, the number of poor living in ADF countries increased from 278 million in 1990 to 314 million in 2008. In OCR countries, the number of poor based on this metric dropped by almost 30% over the same period.

¹ ADF countries are those with access to the ADF. These can be disaggregated into (i) “ADF-only” countries; and (ii) “blend” countries, which have access to both the ADF and ADB’s ordinary capital resources. ADB currently has 17 ADF-only countries (Afghanistan, Bhutan, Cambodia, Kiribati, the Kyrgyz Republic, the Lao PDR, the Maldives, Mongolia, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Timor-Leste, Tonga, Tuvalu, and Vanuatu); and 11 blend countries (Armenia, Bangladesh, Georgia, the Marshall Islands, the Federated States of Micronesia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam). Azerbaijan, India, and Myanmar are eligible for ADF assistance under ADB’s Graduation Policy but currently do not have access to the ADF. Thus, they are not considered as ADF countries in this paper.

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

³ Poverty estimates are from G. Wan and I. Sebastian. Forthcoming. *Poverty in Asia: An Update*. *ADB Economics Working Paper Series*. No. 267. Manila: Asian Development Bank. Poverty estimates using the World Bank’s global poverty database PovcalNet could not be aggregated at the regional level post 2005.

⁴ For the purposes of this paper, OCR countries are defined as ADB’s developing member countries that have access to OCR resources only. These are Azerbaijan, People’s Republic of China, Cook Islands, Fiji, India, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, and Turkmenistan.

Table 1: Poverty Reduction in Asia Pacific

	Poverty (Under \$1.25)						Poverty (Under \$2.0)					
	No. of Poor (Million)			Head Count Index (%)			No. of Poor (Million)			Head Count Index (%)		
	1990	2008	% Change	1990	2008	Change (Pct. Pt.)	1990	2008	% Change	1990	2008	Change (Pct. Pt.)
OCR	1,242	606	(51)	53	21	(32)	1,871	1,320	(29)	81	45	(36)
ADF	174	148	(15)	46	27	(19)	278	314	13	72	58	(14)
ADF-only	27	24	(9)	66	37	(29)	33	41	25	72	63	(9)

() = negative, ADF = Asian Development Fund, No. = number, OCR = ordinary capital resources, Pct. Pt.= percentage point.

Source: ADB Economics and Research Department (see footnote 3).

3. Tangible but slow progress towards non-income Millennium Development Goals.

ADF countries have made considerable progress towards the non-income Millennium Development Goals (MDGs), but not fast enough to reach many of the 2015 targets (Appendix 1). Based on a set of 14 indicators covering education, health, and water and sanitation, ADF countries as a group are on track to achieve only five (36%) of the non-income MDGs by 2015 and are close to achieving another two (14%). ADF-only countries are also on track to achieve only 36% of the targets, but they are close to achieving another 29% (Figure A1.1). With renewed efforts and continued support, ADF-only countries could still achieve almost two-thirds of the targets in 2015 or soon after.

4. ADF countries have improved access to primary education, with 42% of countries on target and an additional 37% close to target in terms of the primary enrollment rate (Figure A1.3). While primary enrollment rates in ADF countries increased from 72% in 1991 to 79% in 2009, they remain significantly lower than in OCR countries (97%). The primary completion rate has shown less improvement, with only 66% of students completing primary school in ADF countries compared with 96% in OCR countries. While gender parity has improved significantly at the primary and secondary levels—ADF countries as a group are close to the target for these indicators—girls still lag at the secondary level in ADF-only countries and countries classified as FCAS. They also face considerable barriers at the tertiary level (Table A1.2).

5. Concerns regarding health include child and maternal mortality. In Asia and the Pacific, even OCR countries are unlikely to reach the MDG targets for those two indicators. ADF countries perform notably worse. Based on most recent data available, the maternal mortality rate in ADF countries at 348 per 100,000 live births is more than twice as high as that in OCR countries (153). The under-5 mortality rate at 74 per 1,000 live births is much higher than in OCR countries (44).⁵ Child malnutrition is also more acute in ADF countries with 36% of children underweight, compared with 28% in OCR countries (Table A1.2). The comparative figure for Sub-Saharan Africa is 27%.⁶

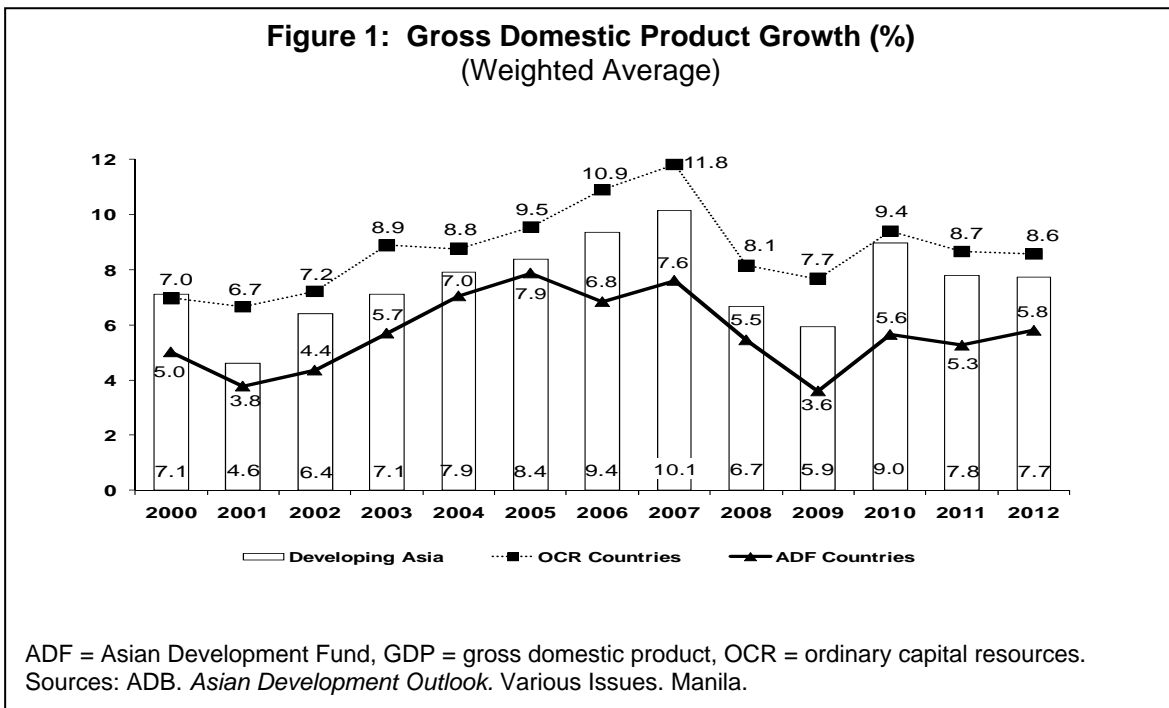
6. Less than 50% of ADF countries are on track to meet the target for access to safe drinking water. Only 25% of ADF countries are on track to reach the target for basic sanitation. However, many ADF countries (about 47% in urban areas and 30% in rural areas) are close to

⁵ ADF-only and FCAS countries perform particularly poorly. Based on most recent data available, the maternal mortality rate in ADF-only countries reached 775 per 100,000 live births, while the rate in FCAS countries was 1,202 per 100,000 live births. The under-5 mortality rate was 118 per 1,000 live births in ADF-only countries and 175 per 1,000 live births in FCAS countries. Five of the 10 countries classified as FCAS are also ADF-only countries, so these two subgroups of countries are not mutually exclusive. Para. 14 shows the complete list of FCAS countries.

⁶ United Nations. 2010. *The Millennium Development Goals Report 2010*. Statistical Annex. New York.

reaching those targets. Thus, with renewed efforts and continued support, most countries should be able to achieve the targets in these areas by 2015 or soon after. Access is more limited in rural areas: only 80% of residents have access to safe drinking water and 51% have access to basic sanitation in ADF countries. ADF-only countries and FCAS countries perform notably worse (Table A1.2).

7. **Slower growth in ADF countries.** Sustained economic growth is necessary to make substantial progress in reducing poverty and reaching the MDGs.⁷ Gross domestic product (GDP) growth in ADF countries has been consistently slower than in OCR countries, contributing to the widening development gap and uneven progress toward the MDGs. In addition, the recent global economic crisis interrupted growth in the region during 2008–2009. While all countries now seem to be on the path to recovery, growth rates for 2010–2012 are projected to remain below pre-crisis levels (Appendix 2).



8. **Rising inequality within countries.** While economic growth is necessary, it is not sufficient for reducing poverty. Recent evidence suggests that the impact of growth on poverty reduction is mitigated or reduced through inequality.⁸ Income inequality (as measured by the Gini coefficient and the income ratio of the highest 20% to the lowest 20%) has been increasing in recent years in the majority of ADF countries for which data is available. Gender inequality is also more acute in ADF countries. According to the 2010 Human Development Report's Gender Inequality Index, which captures three dimensions of gender inequality (reproductive health, empowerment, and labor markets), ADF countries fare worse than OCR countries.⁹ Increased

⁷ World Bank. 2011. *Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs*. Washington, DC.

⁸ M. Ravallion. 2007. Inequality Is Bad for the Poor. In S. Jenkins and J. Micklewright, eds. *Inequality and Poverty Re-examined*. Oxford: Oxford University Press.

⁹ The index measures the loss in human development because of inequality between female and male achievements in these three dimensions. It ranges from 0, which indicates that women and men fare equally, to 1, which indicates that women fare as poorly as possible in all measured dimensions. ADF countries had an average score of 0.637 compared to 0.583 in OCR countries. Source: United Nations Development Programme (UNDP). 2010. *Human Development Report 2010: The Real Wealth of Nations—Pathways to Human Development*. New York.

inequality is also linked to other dimensions of well-being, including physical and mental health, education, social cohesion, and conflict. For example, FCAS countries fared notably worse in terms of gender inequality. Furthermore, increasing inequalities (both within and across countries) could undermine social cohesion and political stability in the region.

B. Limited Capacity for ADF Countries to Catch Up

9. **ADF countries continue to lag in terms of economic and social infrastructure** (Appendix 3). Infrastructure is essential to sustained economic growth. Roads, water supply, sewerage systems, power grids, and telecommunications (i) provide vital inputs to the production of goods and services; (ii) facilitate trade and factor mobility; (iii) reduce business costs; and (iv) open up new opportunities for business. Growth creates jobs, which provide income that leads to poverty reduction. Infrastructure also contributes to poverty reduction by integrating disadvantaged groups into mainstream economic activities and broadening their access to basic social services. A recent study by the ADB Institute found that, in spite of considerable investment, infrastructure improvements have not kept pace with the growth in demand. Consequently, infrastructure remains a development bottleneck in Asia and the Pacific.¹⁰ The 2009–2010 Global Competitiveness Report also highlighted important infrastructure gaps in the region with South Asia, Central and West Asia and the Pacific sub-regions having the worst overall infrastructure composite scores in the world (even below Sub-Saharan Africa).¹¹

10. **Weak governance and institutions.** The link between governance and institutional quality on the one hand and economic growth and income levels on the other is strong. Good institutions and governance drive economic growth through enhanced market exchange, investment, and innovation because of lower transaction costs.¹² Economic growth can also lead to better institutions because rising incomes and education levels create a demand for better governance and accountability. The *Global Monitoring Report 2011* (footnote 7) also highlights the importance of sound governance and a solid policy and institutional environment for the achievement of the MDGs. The World Bank's Worldwide Governance Indicators capture several key dimensions of governance. The aggregate rating of ADF countries has improved in recent years and is now at par with OCR countries, but they perform still poorly overall, with a median ranking below 40 out of 100.¹³ A more disaggregated analysis, however, highlighted important differences in terms of government effectiveness and regulatory quality. ADF countries scored 27 on government effectiveness and 24 on regulatory quality, notably worse than OCR countries (48 on government effectiveness and 44 on regulatory quality). A recent study of the links between institutional quality and economic growth found that developing Asian economies with above-average scores in government effectiveness and regulatory quality grew faster during 1998–2008 by 1.6 and 2.0 percentage points per year on average, respectively, compared with the economies that scored below average in these dimensions.¹⁴

11. **Weak environment for private sector development and investment.** Sustained growth in ADF countries hinges on their ability to foster a thriving private sector that provides good jobs and incomes. However, ADF countries are much less conducive to private sector development

¹⁰ ADB Institute. 2009. *Infrastructure for a Seamless Asia*. Tokyo.

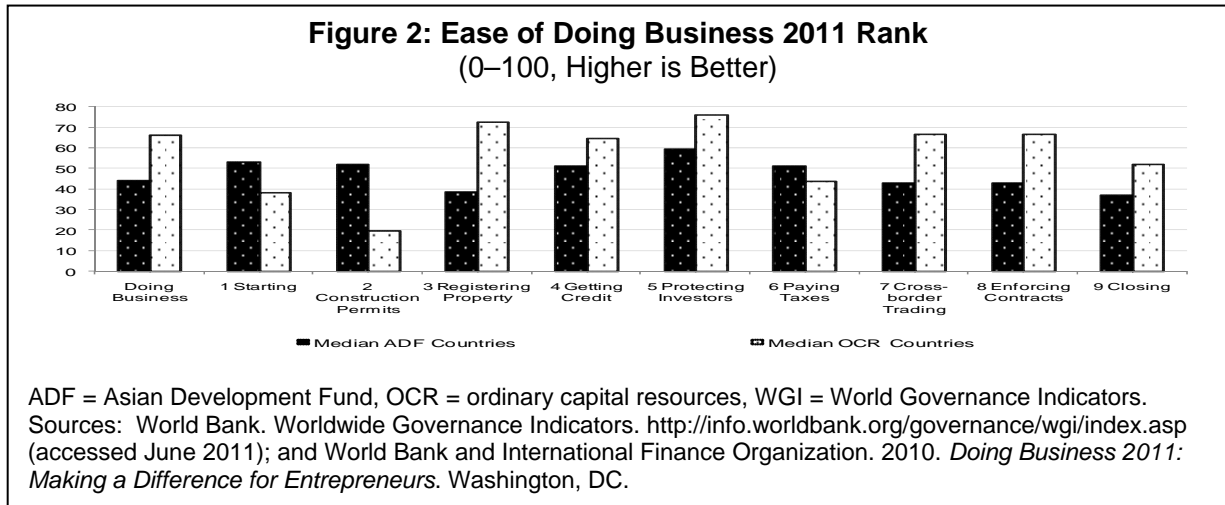
¹¹ World Economic Forum. 2009. *The Global Competitiveness Report 2009–2010*. Geneva.

¹² D. S. J. Acemoglu and J. A. Robinson. 2001. The Colonial Origins of Comparative Development. *American Economic Review*. 91:1369–401.

¹³ World Bank. Worldwide Governance Indicators. <http://info.worldbank.org/governance/wgi/index.asp>.

¹⁴ J. Zhuang, E. de Dios, and A. Lagman-Martin. 2010. Governance and Institutional Quality and the Links with Growth and Inequality: How Asia Fares. In J. Zhuang, ed. *Poverty, Inequality, and Inclusive Growth in Asia*. London: ADB/Anthem Press.

than OCR countries, as shown in the most recent Ease of Doing Business Survey by the World Bank (Figure 2). In addition, credit agencies continue to classify the majority of ADF countries as below investment grade. This perception of disproportionately high risk increases the cost of private financing and capital in ADF countries, leading to higher and often prohibitive private financing costs and consequently fewer private inflows to ADF countries (paras. 18-19).



12. **Limited fiscal space to respond to these challenges.** The recent global economic crisis has weakened the fiscal and external outlook for ADF countries. By 2010, half of the 28 ADF countries reported fiscal deficits exceeding 3.5% of GDP, compared with only nine in 2007.¹⁵ By contrast only 4 of 11 OCR countries reported deficits exceeding 3.5% in 2010. Inflation is accelerating in many countries along with external debt. Based on the latest data available, average external debt as a percentage of gross national income in ADF countries reached 35% in 2009 (40% in ADF-only countries) compared with 30% in OCR countries. According to the latest debt sustainability analyses, five ADF countries are considered at high risk of debt distress: Afghanistan, Nauru, Tajikistan, Tonga, and Tuvalu. Other ADF countries considered at moderate risks include Bhutan, Kyrgyz Republic, Lao People's Democratic Republic (Lao PDR), Maldives, Nepal, and Solomon Islands.

C. Greater Vulnerability of ADF Countries

13. **Impact of high food and oil prices.**¹⁶ Rising food and fuel prices affect many aspects of economic and human development (e.g., economic growth, poverty, nutrition, education, health, and productivity). Global food prices reached new highs in early 2011, a trend that is expected to continue in the near future. ADB estimates that if global food prices increase by 30% in 2011 compared to 2010, GDP growth for some food-importing countries in the region could be reduced by up to 0.6 percentage points. If this is combined with a 30% increase in world oil prices, GDP growth could be reduced by up to 1.5 percentage points compared with a baseline scenario where food and oil price hikes do not occur.¹⁷ Since many ADF countries (especially ADF-only countries) are net food and energy importers, they are more vulnerable to fluctuations in food and oil prices. Commodity price inflation could have a direct and immediate impact on poverty, as inflation erodes the purchasing power of households, especially poor households that

¹⁵ The countries with fiscal deficits exceeding 3.5% of GDP in 2010 include: Armenia, Bangladesh, Bhutan, Cambodia, Georgia, Kyrgyz Republic, Lao PDR, Maldives, Pakistan, Samoa, Sri Lanka, Tajikistan, Tuvalu and Viet Nam.

¹⁶ For a more detailed discussion, see also ADB. 2011. ADF Operations and Food Security. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

¹⁷ ADB. 2011. *Global Food Inflation and Developing Asia*. Manila.

allocate more than 60% of total household consumption to food. ADB estimates that a 10% rise in domestic food prices in developing Asia could push an additional 64.4 million people into poverty or lead to a 1.9 percentage point increase in poverty incidence based on the \$1.25 a-day poverty line (footnote 17).

14. **Fragility and conflict.** Ten ADF countries are classified as FCAS: two countries are considered conflict-affected (Afghanistan and Timor-Leste) and eight Pacific developing member countries (DMCs) are considered fragile (Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, and Tuvalu). Fragile DMCs are characterized by small, isolated, and often dispersed populations and markets. Improving the environment for private sector development is essential for economic growth and job creation in those countries. However, they face the following constraints: (i) the pervasive role of the state in many aspects of economic activity; (ii) inadequate access to finance; (iii) outdated business laws and regulations; (iv) inefficient infrastructure; and (v) lack of competition because of the small market size, public or private sector monopolies, and ineffective regulation. Fragile DMCs also suffer from weaknesses in public governance, which weakens their ability to address these constraints.

15. Afghanistan has endured 3 decades of civil unrest, political instability, and poor law and order. The significant progress that has been made in reconstruction and development is continually compromised by ongoing conflict and weak state institutions. Timor-Leste is on the way to recovery. The main issues remaining are the shortage of experienced government staff and weak delivery of basic services. In both conflict-affected DMCs, investments are needed in critical infrastructure, and in developing human and institutional capacity. The growth of a modern and competitive private sector must be supported. State building and peace building must be strengthened by developing rural livelihoods, empowering communities, improving community relations, and increasing public confidence in the system of government through mechanisms of accountability, transparency, and participation. Data availability in FCAS countries is usually limited. However, for most countries for which data is available, poverty rates and MDG achievements tend to be worse than in other countries.¹⁸

16. **Vulnerability to crises.**¹⁹ The daunting crisis record in Asia and the Pacific is caused both by the frequency and impact of natural hazards and economic shocks. With economies increasingly interdependent, economic shocks and their spillovers are expected to become more frequent with global impact. A joint 2009–2010 MDG report by ADB, the United Nations Development Programme (UNDP), and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) developed a vulnerability index based on the exposure of a country to a global economic crisis and the coping capacity of that country to mitigate such a crisis.²⁰ The severity of exposure to a global economic crisis was assessed as about the same for ADF or OCR countries. However, ADF countries (especially ADF-only countries) were found to have much lower capacity to cope with such crises, therefore making them more vulnerable. Similarly, with changing climate patterns and rapid unplanned urban growth in the region, extreme climate events such as typhoons, floods, and droughts are occurring more frequently and becoming more destructive. Although ADF countries contribute little to climate change, they

¹⁸ For a more detailed discussion, see ADB. 2011. ADB Engagement in Fragile and Conflict-Affected Situations. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

¹⁹ For more details, see ADB. 2011. Preparing for and Responding to Crises; and ADB. 2011. Operations for Climate Change Adaptation and Mitigation. Papers prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

²⁰ ADB, UNDP, and UNESCAP. 2010. *Achieving the Millennium Development Goals in an Era of Global Uncertainty: Asia-Pacific Regional Report 2009/10*. United Nations. See Annex 3 in particular.

are particularly vulnerable to its adverse impacts, both because of high population density in low-lying coastal areas and greater reliance on livelihoods based on natural resources. Recent estimates suggest that adaptation costs in Asia and the Pacific could reach \$40 billion annually, with more than a quarter incurred by ADF countries.²¹ Crises not only cause immediate economic damage and loss of life (in the case of natural disasters), but can also have deep and lasting impacts on growth, poverty, and human development, both as a direct consequence and as a result of diverting development funds to replace lost social and economic infrastructure. The impact on more vulnerable ADF countries is severe and affects the countries' efforts to meet the MDG targets.

III. ROLE AND CONTRIBUTION OF ADF

17. The ADF is a crucial financing source to help ADF countries achieve the MDGs and address their other development challenges. The recent United Nations Conference on Least Developed Countries (LDCs) held in Istanbul, Turkey in May 2011, highlighted the important role that regional development banks such as ADB can play through provision of concessional funds to reduce poverty.²² ADF assistance makes up for the limited availability of alternative financing flows, and complements official development assistance (ODA) provided by other development partners. The ADF also provides value for money and possesses a number of unique strengths.

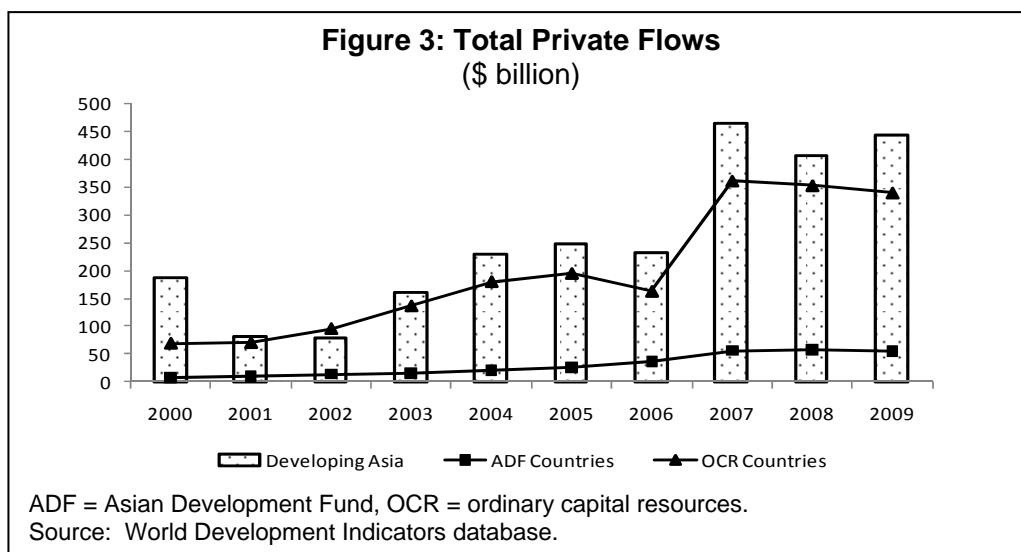
18. **Limited capacity to attract private inflows.** Private inflows have steadily risen in developing Asia since 2000 (Figure 3). However, the majority were targeted to OCR countries (with the bulk going to India and the People's Republic of China). In 2009, only 12% of private flows to developing Asia went to ADF countries, and only 2% to ADF-only countries. The composition of private flows is also substantially different across country groups. ADF countries are far more dependent on remittances, which tend to contribute less to investment and long-term economic growth than foreign direct investment (FDI). In 2009, remittances accounted for 68% of private inflows to ADF countries, compared with 38% in OCR countries. By contrast, FDI accounted for 42% of total private flows to OCR countries, compared with 29% in ADF countries.

19. **Limited access to capital markets.** ADF countries also have limited access to international capital markets to finance development projects. Of the 17 ADF-only countries, only two have sovereign ratings by credit rating agencies: Cambodia (B+) and Mongolia (BB– to BB). The other ADF-only countries are not rated by credit rating agencies, reflecting the lack of interest from international investors. A study conducted to estimate shadow ratings for unrated countries suggests that ratings of ADF countries are lower than those of OCR countries.²³ This implies that the cost of borrowing from international capital markets for ADF countries is higher than for OCR countries.

²¹ World Bank. 2010. *The Costs to Developing Countries of Adapting to Climate Change: New Methods and Estimates*. Consultative Draft. Washington, DC.

²² The Istanbul conference adopted an ambitious plan of action to halve the number of LDCs by half in the next decade, through a significant rise in aid. Currently, LDCs comprise a total of 48 countries, of which 14 are in Asia and 13 are ADF countries.

²³ D. Ratha, P. De, and S. Mohapatra. 2010. *Shadow Sovereign Ratings for Unrated Developing Countries*. Washington, DC.



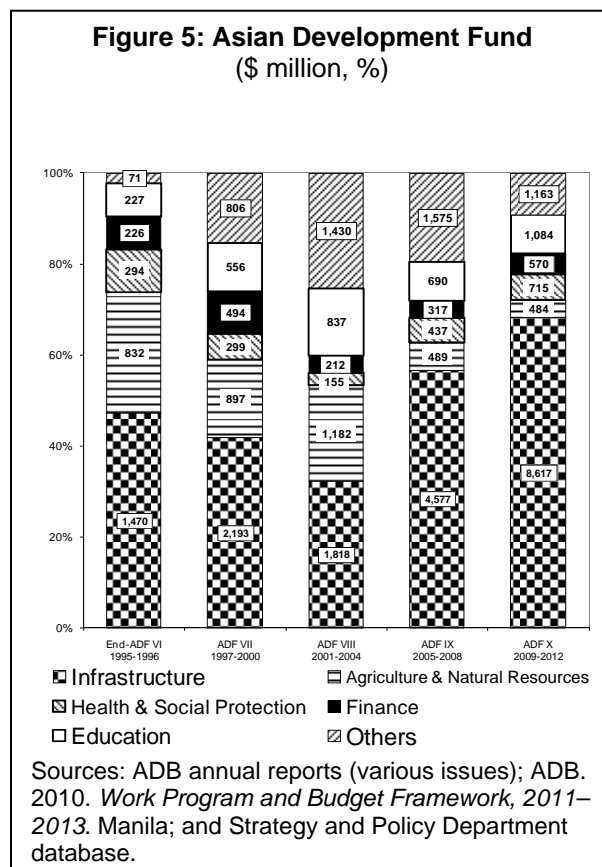
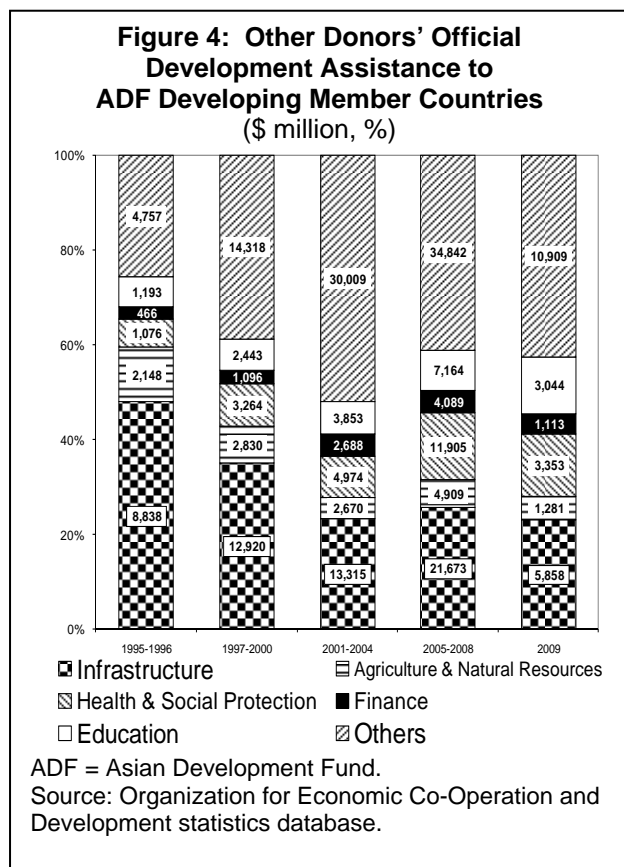
20. **Continued need for official development assistance.** In the absence of sufficient alternative financing sources, ODA continues to be a vital source of development finance in ADF countries. ODA accounted for 5.6% of GDP during 1995–2009, compared with only 0.2% in OCR countries. ADF-only countries are particularly dependant on ODA, which accounted for an average of 16.6% of GDP over the same period. While ODA inflows to ADF countries have increased since 2000, aid flows to Asia remain modest on a global scale. According to the *Global Monitoring Report 2011*,²⁴ per capita aid in 2008 was \$5 for East Asia and the Pacific and \$8 for South Asia, far less than Sub-Saharan Africa (\$49) and the Middle East and North Africa (\$73).

21. **ADF in the official development assistance landscape.** ADB has been an important partner for ADF countries. The ADF's share of total ODA averaged about 10% during 1995–2009. The ADF is a crucial source of development finance in a number of countries and subregions. For example, ADB is the third largest multilateral development partner in Afghanistan. In Nepal, the ADF's share of total ODA averaged 17% during 1995–2009, making ADB the largest donor in the country. The ADF's country coverage within the region is wide, providing concessional resources to 37 countries in Asia and the Pacific during 1995–2009. The ADF can also play an important catalytic role in mobilizing additional resources from other bilateral and multilateral partners, and/or from the private sector.²⁵

22. **Complementarity of ADF and other official development assistance.** The ADF has a focused sector approach, with a strong emphasis on infrastructure. The share of infrastructure investments financed by other development partners declined from 48% of total ODA in 1995–1996 to 23% in 2009. ADB, meanwhile, increased its support for infrastructure from 47% of total ADF assistance in 1995–1996 to an estimated 68% over the ADF X period. The ADF also maintained a strong focus on supporting education, in line with increased support from the entire development community. At the same time, the ADF substantially reduced support for agriculture and selectively supported health and social protection, an area that is increasingly supported by other development partners (Figures 4 and 5).

²⁴ World Bank and International Monetary Fund. 2011. *Global Monitoring Report 2011. Improving the odds of achieving the MDGs*. Washington, DC.

²⁵ Private and commercial financiers may prefer to partner with ADB in ADF countries as a way to mitigate risks.



23. **ADF strengths.** In addition to its financial strength and focused sector expertise, the ADF possesses a number of important features that make it an effective multilateral ODA instrument in the Asia and Pacific region. These include:

- (i) **Full integration of ADF operations in ADB.** Operations supported by the ADF, the largest fund managed by ADB, are fully integrated in ADB and benefit from its comparative strengths and institutional improvements.
- (ii) **Long-standing partnerships with a large number of Asian developing member countries.** ADB has been specializing in providing assistance to countries in the region over a long period and is a trusted partner for many Asian DMCs. Assistance programs have been sustained in selected sectors over several decades, enabling ADB to engage in sensitive policy dialogue. In Bangladesh, for example, ADB has been providing assistance to the power sector for more than 30 years.
- (iii) **Commitment to advance partnerships with members of the international community.** Partnerships are being sought to plan and implement programs, and to mobilize resources for the region's development. For example, the new country partnership strategy (CPS) for Tajikistan²⁶ was designed jointly with the government and 12 development partners, and it identifies the sectors that each partner will focus on. ADF operations are primarily in areas where ADB can make

²⁶ ADB, 2010. *Country Partnership Strategy. Tajikistan 2010–2014*. Manila.

a substantial difference: energy security, road interconnectivity, and private sector development, with regional cooperation and integration as a binding theme.

- (iv) **Ability to offer integrated solutions.** ADB is able to offer development solutions that integrate finance and knowledge. Under strategy 2020, ADB has emphasized knowledge in its operations. At the regional level, high-impact studies highlight ADB's stance on critical challenges in the region and help key regional stakeholders make informed decisions and take positive actions. At the country level, ADB produces diagnostic studies to mainstream in-depth analysis of binding development constraints in ADB CPSs and improvements in project designs (para. 28). At the project level, successful practices are documented through briefs, good practice notes, and evaluation reports, some of which are prepared by ADB's Independent Evaluation Department.
- (v) **Commitment to regional cooperation.** As ADB is active in most Asian DMCs, it is uniquely positioned to contribute to regional cooperation and integration (Box 1). ADB's engagement in many countries also provides an invaluable source of knowledge that can be transferred across countries.

Box 1: ADB Involvement in Subregional Initiatives

Greater Mekong Subregion Economic Cooperation Program. In 1992, with assistance from the Asian Development Bank (ADB), Cambodia, the People's Republic of China (PRC), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam formed the GMS Program. One of ADB's largest and most successful regional programs, it has contributed to the development of infrastructure that has enabled the sharing of an increasing resource base and the freer flow of goods and people in the subregion. The program has also led to international recognition of the subregion as a growth area.

Central Asia Regional Economic Cooperation (CAREC) Program. CAREC involves 10 countries—Afghanistan, Azerbaijan, the PRC (two autonomous regions of Xinjiang Uygur and Inner Mongolia), Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan—and six multilateral institutions (ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank). CAREC's goal is development through cooperation, leading to faster economic growth and poverty reduction. By promoting and facilitating regional cooperation in the priority areas of transport, trade facilitation, trade policy, and energy, CAREC helps Central Asian and neighboring countries realize their immense potential in an increasingly integrated Eurasia.

South Asia Subregional Economic Cooperation (SASEC) Program. SASEC was launched in 2001 to facilitate economic cooperation among Bangladesh, Bhutan, India, and Nepal. In December 2007, ADB approved the SASEC Information Highway Project, the first investment project involving all four countries. ADB has also supported SASEC initiatives to develop regional tourism, improve transport logistics, and establish transport links.

Source: Asian Development Bank.

- (vi) **Wide range of modalities and instruments.** ADB provides a wide range of financial instruments to assist DMCs. For public sector operations, these include multitranches financing, countercyclical support, and additional financing in addition to the more traditional project- and policy-based instruments. ADB has also promoted public-private partnerships and private sector operations in ADF

countries, including the Trade Finance Program. The best suited modality for ADB's assistance is determined in consultation with the borrowing DMC through the joint CPS process.

24. **Contribution to development results.** The ADF has contributed substantially to poverty reduction and human development in ADF countries.²⁷ ADF operations have provided infrastructure and services to (i) boost economic growth; (ii) assist countries classified as FCAS; and (iii) expand the access of the poor, women, and children to quality education and health care, reliable supply of electricity and clean water, and economic opportunities. The ADF has also helped countries improve their institutional capacities and implement needed reforms. ADB's country programs have been rated *successful* in most ADF countries that have undergone country assistance program evaluations. At the project level, however, only 66% of ADF operations completed in 2008–2010 were rated *effective*, falling short of the ADB target of 80%. The success rate of ADF projects in ADF-only countries was higher at 73%.²⁸ ADB recently developed an action plan to improve project outcomes.²⁹ The plan calls for continued implementation of reforms introduced since 2008, and emphasizes the need to improve the quality of sector assessments, road maps, and the results framework to ensure the relevance of projects and their design quality.

25. ADB's efforts to improve its management for development results have progressively been recognized. Several external studies have been undertaken to analyze the quality of aid and assess relative donor performance (Appendix 4). In all these studies, ADB ranked highly and its assistance was considered good value for money. ADB scored particularly well in areas such as relevance, effectiveness, specialization, and alignment and harmonization, in some cases outperforming comparator organizations. These results were confirmed in the latest progress survey on the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.³⁰

IV. STRATEGIC DIRECTIONS FOR ADF XI

26. Demand for ADF financing is expected to remain strong over the ADF XI period, driven by the need to accelerate progress towards the MDGs, reduce the significant gap in economic and social infrastructure, improve the policy environment, and address other pressing development challenges such as climate change and food security (Sections II and III). During the 2011 ADF donors' annual consultation meeting, ADF deputies agreed to mainstream Strategy 2020 priorities in ADF operations during 2013–2016, as it is clear that these strategic priorities remain relevant for addressing the challenges outlined above. The key mandate for ADB and ADF under ADF XI will be to reduce poverty in Asia and the Pacific through three complementary development agendas: (i) inclusive economic growth, (ii) environmentally sustainable growth, and (iii) regional integration. ADF XI will also mainstream Strategy 2020's five core areas of operations: infrastructure, finance sector development, education, environment, and regional cooperation and integration. Within this strategic context, ADB will emphasize food security in view of the recent food price inflation and its potential impact on

²⁷ For a more detailed discussion, see ADB. 2011. Delivering Results through the Asian Development Fund. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

²⁸ The higher score resulted partly from not including operations in Pakistan (a blend country), which accounted for about one-fifth of the 2008–2010 project completion reports, and had a low success rate because of the restructuring of the country portfolio. Excluding Pakistan operations, the 2008–2010 success rate of ADF operations would have been 76%.

²⁹ ADB. Forthcoming. *Improving Project Outcomes*. Manila.

³⁰ ADB. Forthcoming. *Asian Development Bank's Aid Effectiveness Report 2011: Overall Achievement of Paris Declaration Commitments*. Manila.

poverty in ADF countries. Donors also agreed to give special consideration to gender and FCAS, and reconfirmed the importance of development effectiveness as a central underlying theme of the ADF XI negotiations. ADB plans to build on the lessons learned from the implementation of ADF X and ADB's overall comparative advantage to advance its strategic agenda in these areas.

27. Indicative lending and grant operations pipelines for the first 2 years of ADF XI (2013–2014) are in Appendix 5. These pipelines are based on information from the current programming cycle (2012–2014) and assume a constant level of ADF resources compared to ADF X or about \$3 billion per year. Hence, they do not represent the underlying demand for ADF XI resources, which will be presented at the second ADF XI replenishment meeting in December 2011. The actual size of the full ADF XI program will depend on the outcome of the replenishment discussions.

A. Broad Development Agendas

1. Inclusive Economic Growth

28. ADB's inclusive growth agenda is of paramount importance to ADF countries and is based on two mutually reinforcing objectives: (i) rapid and sustainable growth to create and expand economic opportunities, and (ii) broader access to these opportunities to ensure that all members of society can participate in and benefit from growth. Under ADF XI, ADB's inclusive growth agenda will be pursued in all ADF operations. Following the adoption of Strategy 2020, ADB CPSs increased the emphasis on fostering inclusive growth. Based on in-depth analytical studies of binding development constraints, CPSs are defining ways in which ADB can strengthen inclusive growth at the country level. ADB completed such a study for Nepal (Box 2) and is carrying out studies for Papua New Guinea and Lao PDR. Similar studies have been initiated for some other ADF countries, including Bhutan, Cambodia, Maldives, and Viet Nam. These studies, which will guide country operations during the ADF XI period, aim to improve the relevance and effectiveness of ADB operations by focusing the ADB's and the DMCs' strategies on the most binding development constraints.

29. ADB also has a clear approach to inclusive economic growth in all key sectors and thematic areas of operations (Section IV.B). ADB is also contributing to inclusive growth through its knowledge products and services. ADB staff have increasingly contributed to knowledge and understanding of inclusive growth and ways to promote it in ADB operations through several studies and publications.³¹ In addition, in the context of the forthcoming 2011 regional MDG report, ADB is conducting a rigorous empirical study to confirm the positive relationship between infrastructure investment and MDG achievement in developing Asia.

³¹ Examples of such studies include: ADB. 2010. *Strengthening Inclusive Education*. Manila; ADB. 2010. *Poverty, Inequality and Inclusive Growth in Asia: Measurement, Policy Issues and Country Studies*. Manila.

Box 2: Critical Development Constraints in Nepal

In 2009, the Asian Development Bank (ADB) led a study on the critical constraints to economic growth in Nepal, in collaboration with the Department for International Development (DFID) of the United Kingdom and the International Labour Organization (ILO). Using a growth diagnostics approach, the study identified the critical constraints to Nepal's growth as weak governance and slow recovery from civil war and conflict, inadequate infrastructure, labor market rigidities, and slow structural transformation. The study then looked into five factors that impede inclusiveness: (i) lack of productive employment opportunities, particularly in rural areas; (ii) unequal access to opportunities, mainly because of inequity in accessing education and skills development; (iii) unequal provision of infrastructure, including roads, irrigation, and electricity; (iv) unequal access to productive assets, such as land and credit; and (v) inadequate social safety nets.

The study proposed several policy options to address these constraints, which were integrated in ADB's country partnership strategy for 2010–2012, focusing on (i) inclusive economic growth through the development of key infrastructure, private sector strengthening, and income generation through skills development; (ii) inclusive social development by improving access to basic social and financial services, strengthening social protection systems, and designing well-targeted programs for the poor and socially excluded; (iii) governance and capacity building by strengthening local governance, enhancing the transparency and accountability of the public sector, and monitoring the effectiveness of public service delivery; and (iv) climate change adaptation and environmental sustainability.

Sources: ADB, DFID, and ILO. 2009. *Nepal: Critical Development Constraints*. Manila; and ADB. 2009. *Country Partnership Strategy: Nepal, 2010–2012*. Manila.

2. Environmentally Sustainable Growth

30. While growth remains a high priority under ADF XI, its sustainability will depend on how its impact on the environment is managed. The main environmental challenges facing ADF countries include climate change (especially adaptation for ADF countries), and increased vulnerability to natural disasters, water scarcity, pollution and loss of forest cover, and biodiversity. Under ADF XI, ADB will continue to support projects with environmental sustainability as a theme and to address climate change as a priority.³² In particular, ADB will emphasize (i) scaling up clean energy; (ii) encouraging sustainable transport and urban development; (iii) increasing access to reliable and affordable water and sanitation; (iv) facilitating ADF countries' access to carbon market financing through selective engagement in forest and land use management for carbon sequestration; (v) supporting country-driven climate change adaptation programs, with priority given to the least-developed countries and to addressing threats to highly vulnerable segments of society; and (vi) ensuring that climate change is an integral part of ADF countries' recovery through policy dialogue, as well as targeted policy and institutional interventions. ADF projects will also seek to strengthen national resource and ecosystem integrity, focusing on sustainable land and forest management, integrated water resource management, and agriculture sustainability and food security. Finally, under ADF XI, ADB will also seek to further strengthen its ability to help ADF recipient countries (i) prepare for natural disasters and other crises by building country disaster management capacity and institutions; and (ii) better respond to such disasters after they occur.³³

³² For a more detailed discussion on how ADB addresses climate change adaptation and mitigation in ADF operations, see ADB. 2011. *Operations for Climate Change Adaptation and Mitigation*. Manila. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

³³ For more details, see ADB. 2011. *Preparing for and Responding to Crises*. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

Box 3: Addressing the Water-Food-Energy Nexus: Towards Greater Water Security

Water security is a dominant concern in the region, particularly in countries with high population density and climate variability. The poor and disadvantaged are particularly vulnerable to water insecurity, which has five key dimensions: (i) satisfying household water and sanitation needs in all communities; (ii) supporting productive economies in agriculture and industry; (iii) developing vibrant, livable cities and towns; (iv) restoring healthy rivers and ecosystems; and (v) building resilient communities that can adapt to change.

The Water Operational Plan, 2011–2020^a of the Asian Development Bank (ADB) calls for policy reforms that approach water management differently. The link of water to food and energy should be tightened if sustainable and equitable water security is to be achieved in the region.

- (i) **Water and food.** Water is essential for food production. As the Asian population grows in the coming decades, and dietary preferences shift towards food that requires more water to produce, more crop production will be needed for human and animal consumption.
- (ii) **Water and energy.** As the energy needs for Asian countries continue to increase significantly, the water requirements of the energy sector are likely to explode as well. Thermal power will continue to require 80% of all industrial water demand unless technological changes are introduced quickly.

Major policy changes in the water, agriculture, and energy sectors are needed to balance water uses and stabilize the levels of declining water resources. ADB will work in partnership with governments and other key stakeholders in shaping public policy that will help decision makers allocate and rationally manage water use across the food, energy, industrial, and domestic spectrum. ADB will also undertake a study on the future of water in Asia. It will comprise (i) a macro view of the availability of accessible freshwater over the next 20 years; and (ii) forecasts of the impact of water use policies and practices on food and energy production, as well as industrial growth and domestic use, particularly in light of uncertainties created by climate change.

^a ADB. 2011. Water Operational Plan 2011–2020. Draft. Manila.
Source: ADB staff.

3. Regional Cooperation and Integration

31. Regional cooperation and integration (RCI) plays a critical role in accelerating economic growth and reducing poverty and economic disparities in ADF countries. First, because most ADF countries are small, their size restricts domestic demand and supply capacity, and hinders their ability to take advantage of economies of scale. In addition, 22 of 28 ADF countries are landlocked or island economies, making it more difficult for them to connect with external markets. RCI can help ADF countries overcome these problems by building links to the fast-growing and larger economies of the region. Second, ADF countries differ greatly in their initial resource endowment (i.e., a few are resource-rich but most are resource-scarce). At the same time, many countries share transboundary ecosystems, which provide a natural entry point for RCI to help spread resource wealth more efficiently and equitably. Third, ADF countries share a number of vulnerabilities that are increasingly caused by factors such as climate change, migratory diseases, and exogenous shocks such as the recent global economic crisis that cut across national boundaries (Section II.C). Fourth, RCI can be instrumental in improving relations and managing conflict among neighboring countries, and in helping ADF countries exert more influence in regional and global policy discussions.

32. With decades of experience in Asia and the Pacific, ADB is ideally positioned to serve as a catalyst for RCI, linking national and regional priorities. ADB's RCI strategy³⁴ rests on four interrelated pillars: (i) regional and subregional economic cooperation programs on cross-border infrastructure and related software; (ii) trade and investment cooperation and integration; (iii) monetary and financial cooperation and integration; and (iv) cooperation in regional public goods, such as prevention of communicable diseases and environmental degradation. Traditionally, ADB (and ADF) operations have focused heavily on cross-border infrastructure. Studies have shown that cross-border infrastructure has benefited participating countries at the macro and micro levels. At the macro level, cross-border infrastructure has enabled faster economic growth and contributed to poverty reduction. At the micro level, it has helped raise household incomes, especially through better access to markets. The studies also contradict the common presumption that cross-border infrastructure projects benefit predominantly the richer region.

33. In recognition of the important role that the ADF plays in promoting regional cooperation, donors agreed to double the share of ADF resources earmarked for subregional projects under ADF X. As a result, ADF support for RCI has increased significantly. In addition, the composition of the RCI portfolio has diversified considerably—away from cross-border infrastructure towards the other pillars of the RCI strategy. This trend is likely to continue under ADF XI and is linked to two key developments. First, activities supporting each pillar are becoming increasingly intertwined, requiring a better balance both across and within pillars. Second, the trend towards greater funding for regional public goods reflects the rising importance of energy security and climate change issues, as well as the need to address many other social and environmental issues resulting from faster growth. Increasingly ADB regional projects are targeted interventions related to the MDGs. These include projects aimed at controlling the spread of communicable diseases, promoting sustainable environmental management practices, and generating and sharing knowledge resources.

B. ADB's Approach in Key Sectors and Thematic Areas of Operations

1. Energy

34. A significant portion of the population (45% in ADF countries and 68% in ADF-only countries) still has no access to electricity. Providing access to energy for all is one of three pillars under ADB's new Energy Policy,³⁵ along with promoting energy efficiency and renewable energy, and promoting energy sector reform, capacity building, and governance. During ADF XI, ADB will continue to support decentralized models for electrification in rural and remote areas, beyond traditional grid extension. In rural and urban areas, ADB will seek to expand access to clean cooking fuels such as liquefied petroleum gas or biogas from livestock manure. Where access to financing is a constraint, ADB will support credit facilities to expand end-user financing for energy products and services. Under ADB's Clean Energy Program, ADF operations will aim to lower energy-related emissions by improving economy-wide energy efficiency and reducing the rate of energy demand growth, focusing on non-energy sectors such as transport and urban infrastructure services. ADB recognizes that conventional energy will likely remain the first option for ADF countries but will seek opportunities for clean energy development and efficiency improvements over the medium term. ADF's investment portfolio in the energy sector has gradually shifted towards renewable energy development and energy efficiency in recent years. This trend is expected to continue under ADF XI. ADB will also try to promote effective regional cooperation in the energy sector, when appropriate, to strengthen energy security.

³⁴ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

³⁵ ADB. 2009. *Energy Policy*. Manila.

2. Transport

35. Road density in ADF countries remains low, with only 40 kilometer of road per 100 square kilometers of land area. Under ADF XI, ADB will support the development of transport operations that are more sustainable (economically, socially, and environmentally) as part of the recently approved Sustainable Transport Initiative Operational Plan.³⁶ The plan identifies four priority areas: urban transport, climate change and energy efficiency, cross-border transport and logistics, and road safety and social sustainability. In ADF countries, ADB will increasingly focus on rural road construction and maintenance, using labor-intensive approaches whenever feasible. To address the sustainability of existing road assets, ADB will provide more support for road asset management and road maintenance. ADB will also expand its work on pro-poor dimensions of transport, focusing on rural bus services and non-motorized transport, gender mainstreaming, HIV/AIDS and human trafficking, core labor standards, and use of tariff and subsidy options to optimize the balance between accessibility and affordability. With ADF XI prioritizing climate change, ADB will seek to integrate adaptation measures into ADF transport operations. ADF subregional programs also include substantial transport components (more than 40% of the RCI set-aside over 2009–2012).³⁷

3. Education

36. The adult literacy rate in ADF countries at 69% remains much lower than in OCR countries (83%). Education projects support economic growth as they help raise the productive capacity of the economy and hence contribute to poverty reduction. ADB's education sector operations plan³⁸ emphasizes the importance of supporting inclusive education. Under ADF XI, ADF countries will continue to need support to strengthen inclusiveness and the quality of basic and secondary education. In these subsectors, ADB has gained significant experience and success in providing support to poor students, girls, and students from other disadvantaged groups through scholarship schemes and other social protection measures. ADF countries also increasingly seek ADB support for the development of postsecondary education. At this level, ADB pays close attention to equitable access and inclusiveness factors, to provide more opportunities for all to continue their studies and acquire relevant knowledge and skills. ADF countries are unlikely to be able to expand postsecondary education with public financing alone without putting at risk existing public financing for basic and secondary education. Therefore, ADB will support ADF countries in developing and implementing—in partnership with other stakeholders, including the private sector—effective cost-sharing strategies for sustainable, equitable, and high-quality postsecondary education services. Strong attention will be given to social protection measures to enable poor students, girls, and other disadvantaged students to complete their postsecondary education.

4. Finance Sector Development

37. Finance sector development in ADF countries is modest, with small financial assets concentrated in the banking sector and limited development in the nonbanking sector and capital markets. Money and government debt markets needs to be improved, along with the ability of central banks to survey the economy, formulate and execute appropriate monetary policies, and effectively supervise banks. The banking system needs to expand its physical presence to widen

³⁶ ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

³⁷ ADB. 2010. *Development Effectiveness of Regional Cooperation and Integration Initiatives*. Paper prepared for the ADF X midterm review meeting, Manila, 18–19 November.

³⁸ ADB. 2010. *Education by 2020: A Sector Operations Plan*. Manila.

accessibility. Strategy 2020 recognizes the importance of finance sector development for poverty reduction—indirectly through its impact on economic growth and directly by expanding access to credit to the traditionally underserved, such as poor households and small and medium-sized enterprises (SMEs). Guided by ADB's Financial Sector Operational Plan,³⁹ ADB's assistance in ADF countries will support strengthening the foundations for finance sector development, with an emphasis on public debt markets, central banking functions, and other basic financial infrastructure, such as payment and accounting systems and core financial laws. To promote inclusiveness and access for the underserved, ADB will support household access to microfinance and housing finance, with appropriate regulation and consumer protection. To enhance the access of SMEs to finance, ADB will support leasing, factoring, and credit guarantees, and improve access to equity and debt markets as well as trade finance. Consistent with Strategy 2020 and the RCI Strategy, ADF will support regional initiatives, such as adopting common standards for financial transactions and services across the region, and establishing financial infrastructure that supports cross-border transactions. ADB will also support ADF countries in managing the risks of the integration process and ensure the soundness of the finance sector, as needed and appropriate.

5. Private Sector Development

38. The private sector is a key engine of growth in ADF countries, accounting for the largest share of employment, output, and tax revenues. It is also an indispensable partner in promoting inclusive growth because it is able to create jobs and generate income. However, the environment for private sector development and investment in ADF countries remains weak (para. 11). To enhance private sector development, interventions are needed for infrastructure improvements, policy and institutional reforms, deepening of financial markets, and adequate provision of a skilled workforce. ADB is well placed to provide support in these areas under the ADF XI strategic priorities. ADB will also support private sector development through direct private sector lending in ADF countries. Traditionally, ADB private sector operations in ADF countries have focused on infrastructure and capital markets, with pioneering initiatives in Afghanistan (funding for private banking and telecommunications), Cambodia (private equity funds) and Central Asia (SME development). ADB's trade finance program has also focused heavily on ADF countries. ADB's Private Sector Operations Department will explore both new and underserved sectors in ADF countries (such as energy efficiency and renewable energy) that could benefit from private sector involvement. The department is also seeking to increase its private sector operations in ADF countries significantly.

6. Governance and Capacity Development

39. ADF countries suffer from weak governance and institutions (para. 10). ADF's operational approach to governance and capacity development under ADF XI will continue to be guided by the Second Governance and Anticorruption Action Plan (GACAP II).⁴⁰ Under GACAP II, ADB operations and activities focus on four elements of good governance: accountability, participation, predictability, and transparency. The plan focuses on (i) strengthening country systems in public financial management, procurement, and combating corruption; (ii) adopting of risk-based approaches to governance assessment; and (iii) developing risk management plans in ADB priority sectors. GACAP II outlines a comprehensive risk-based approach to managing governance and fighting corruption. Given the region's weak governance capacity, governance risk assessments, with their focus on key public sector systems, are increasingly being used as

³⁹ ADB. 2011. *Financial Sector Operational Plan*. Manila.

⁴⁰ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

the starting point for wider, sector-specific capacity development support to country and sector strategies.

40. ADB's capacity development interventions target the national, subnational, and sector levels and seek to enhance ADF countries' capacity to formulate and implement policies, reforms, and investments needed for poverty reduction. These cover (i) institutional development including civil service reform, public revenue and expenditure and/or procurement management, as well as legal, judicial, and audit reforms; (ii) organizational development including internal relationships (conflict resolution) and coordination and control mechanisms (planning, budgeting, auditing, and monitoring); and (iii) partnership development to improve communications and interactions across sectors and among multiple actors including government agencies, the private sector, nongovernment organizations, and external development partners. This type of intervention aims to develop joint strategic planning processes, joint implementation measures including better alignment with country systems, joint monitoring and evaluation tools, mutual accountability mechanisms, and coalitions for reform and capacity development. Examples of ADB-assisted initiatives in ADF countries include (i) improving public financial management through support for the introduction of a medium-term budget and expenditure framework in Lao PDR; (ii) building public auditing capacity and strengthening the governance and anticorruption orientation of ADB's country strategies in the Pacific; (iii) strengthening internal audit systems in key ministries in Armenia; (iv) assessing capacity of procurement agencies in critical sectors in Lao PDR and the Federated States of Micronesia; (v) empowering communities to make local governments accountable for providing effective and inclusive services in Nepal; and (vi) creating fiscal space for increasing social sector spending by strengthening public expenditure management in Pakistan. A similar approach will be pursued under ADF XI.

C. Special Considerations

1. Gender

41. Gender inequality (as measured by Human Development Report's Gender Inequality Index) is more pronounced in ADF countries than in OCR countries (para. 8). The maternal mortality rate is more than twice as high as in OCR countries (para. 5). Strategy 2020 recognizes gender as a key driver of change and highlights the importance of gender equity in reducing poverty and improving living standards. Under ADF XI, ADB proposes to continue emphasizing gender equality and the empowerment of women as fundamental elements of its approach to inclusive growth. Good progress has already been made under ADF X, with 53% of ADF's public sector operations directly addressing gender equality issues (against corporate targets of 50% to be achieved by 2012). Building on its experience, ADB will intensify efforts under ADF XI to consolidate progress and scale up gender integration in ADF countries. In addition, ADB will seek to promote and support gender equity through gender-inclusive projects, paying careful attention to gender issues across the full range of its operations. ADF resources are particularly suitable for addressing the multiple causes of gender inequality through multisector and integrated approaches over a sustained period. Under ADF XI, further sector diversification will be pursued especially in energy, transport, and finance to increase women's access to essential services and improve their economic livelihoods and opportunities. ADB will also increase efforts to scale up gender-related investments in FCAS countries to address glaring disparities and move forward on meeting gender-related MDGs. Closer attention will also be given to integrating gender in crises response and social protection programs to cushion the impacts of economic shocks. A gender perspective will also be mainstreamed into climate change operations, both to respond effectively to gender impacts as well as to harness women's voice and potential leadership as change agents for climate change adaptation and mitigation. During the second

ADF XI replenishment meeting, to be held in December 2011, progress on gender mainstreaming in ADF operations will be reviewed and proposed next steps will be discussed in more detail.

2. Fragile and Conflict Affected Situations

42. In Asia and the Pacific, 10 ADF countries were classified as FCAS in 2010 (para. 14). Hence, more than one-third of ADF countries are considered fragile or in conflict. FCAS countries have unique development needs that must be addressed to avoid major human, economic, social, and security costs for the country and its neighbors. To improve effectiveness in these difficult settings, ADB developed in 2007 a strategic and operational approach specific to FCAS countries that promotes flexibility, innovations, and partnerships.⁴¹ Since then, ADB lending and grant assistance to FCAS countries has averaged \$654 million per year—or about 6% of combined OCR and ADF loans and grants. The overall share of ADF funding to FCAS countries has been stable, averaging \$435 million or 16% per year. In Afghanistan, ADB is implementing \$1.27 billion worth of infrastructure projects by using innovative approaches to suit the particular conditions in that country. ADB has brought the discussion of fragility to the preparation of CPSs in Papua New Guinea and Timor-Leste, and has started to use information from political economy studies at the project level. ADB's Private Sector Development Initiative and state-owned enterprise reforms in the Pacific are improving the investment climate for the private sector. ADB has strengthened its relations with governments and development partners by opening development coordination offices in several fragile Pacific countries.

43. ADB recognizes that the development path for FCAS countries is diverse and nonlinear because of their constraining and volatile political economies. Over ADF XI, ADB will continue to pursue innovative approaches, focusing on

- (i) **sustaining long-term commitments.** ADB will prioritize fragility and political economy assessments during preparation of CPSs. It will also increase the use of the multitranche financing facility, sector-based approach, and other project modalities; incorporate approaches to peace-building and state-building activities in project design; and strengthen ADB's field presence.
- (ii) **making concentrated capacity development efforts.** At the country level, capacity development will continue to be incorporated into ADB project interventions, and diagnostics based on the country performance assessment will be supplemented with sector- and macro-level assessments. ADB staff will also be trained in approaches relevant to FCAS engagement.
- (iii) **intensifying strategic partnerships.** ADB will engage in international dialogues on FCAS issues, enhance participation of civil society and the private sector in development efforts, and increase cofinancing and collaboration with other development partners.⁴²

3. Food Security

44. ADF countries are particularly vulnerable to the impact of high and volatile food prices (para. 13). Under ADF XI, ADF operations to address food security will be guided by ADB's

⁴¹ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries*. Manila.

⁴² For more details, see also ADB. 2011. *ADB Engagement in Fragile and Conflict-Affected Situations*. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

operational plan for food security,⁴³ which aims to improve the availability and access to adequate and safe food in a sustainable manner, especially for the large number of poor, women, and other vulnerable groups. The plan identifies three main constraints to achieving sustainable food security: (i) stagnating food productivity and production; (ii) lack of access to rural finance, infrastructure, technology, markets, and nonfarm income opportunities; and (iii) the threat of climate change and volatility of food prices. In addressing these constraints, the plan focuses on three areas of influence—productivity, connectivity, and resilience. It takes a multisector approach to sustainable food security, noting that ADB’s core activities (infrastructure, environment, regional cooperation and/or integration, finance, and education) and other areas of operation (agriculture, health, and disaster and emergency assistance) have significantly helped ease food security constraints. Investments in irrigation development and modernization, improved water and natural resources management, and enhanced access to financial services and products are good examples of ADB’s core operations addressing productivity constraints. Similarly, investments in transport infrastructure, trade facilitation, and promotion of rural SMEs address connectivity constraints significantly. Further, investments in disaster management (e.g., flood dikes), nutrition, and vocational training can help address resilience constraints. During 2013–2016, ADF food security operations will focus on three priorities: (i) scaling up infrastructure investments in water, transport and energy, paying close attention to the food-water and energy nexus (box 3); (ii) improving food security safety nets for the poor and vulnerable, with a view to develop these programs into sustainable social protection systems; and (iii) promoting active regional cooperation on food security policies and programs. ADB will continue to pursue strategic partnerships with other development partners to bring synergy and add value to selective agriculture and rural development engagement, building on lessons learned from past operations in the sector.⁴⁴

D. Further Strengthening Development Effectiveness and Maximizing Impact

45. ADB has continually sought to increase the development effectiveness of its operations. Initiatives to achieve this goal, reinforced through ADB’s reform agenda of 2004, introduced greater strategic clarity, innovative and flexible products, more results-oriented and transparent business processes, as well as better organizational arrangements and staff skills and incentives. Since 2008, ADB has launched further actions to remove weaknesses identified through the *Development Effectiveness Review* process, including measures to (i) improve the quality of country strategies and programs; (ii) strengthen project performance; (iii) improve gender mainstreaming in operations; and (iv) reinforce organizational effectiveness through greater decentralization, improved gender balance within ADB, and expanded budget adequacy and efficiency measures. ADB will complete the reviews of the Accountability Mechanism and the Public Communications Policy in 2011 and implement their recommendations. To further improve its management for results, ADB will review the results framework in 2012 and adopt a revised framework that will be used to measure the performance of ADB and ADF starting in 2013. ADB will report on the status of internal reforms and discuss proposed next steps in greater detail during the second ADF XI meeting in December 2011.

V. ISSUES FOR DONORS’ GUIDANCE

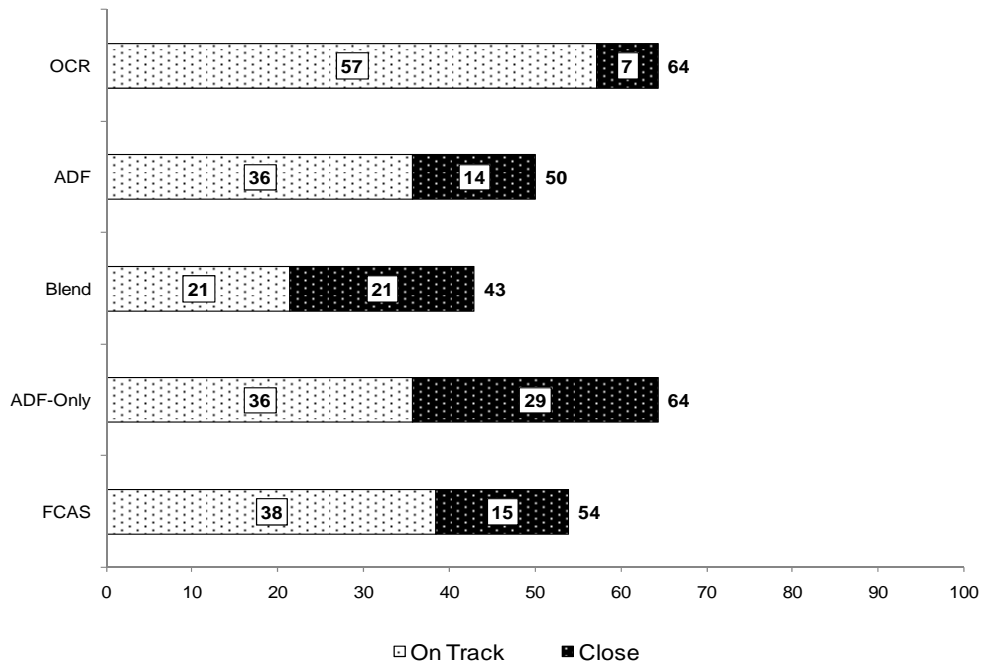
46. Donors’ guidance is requested on the analysis presented in the paper and the proposed directions for ADF XI.

⁴³ ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.

⁴⁴ For more details, see also ADB. 2011. *ADF Operations and Food Security*. Paper prepared for the first ADF XI Replenishment Meeting, Manila, 8–9 September.

PROGRESS TOWARDS NON-INCOME MILLENNIUM DEVELOPMENT GOALS

Figure A1.1: Selected Millennium Development Goal Indicators Achieved and Close to Target in 2015—By Country Group (%)

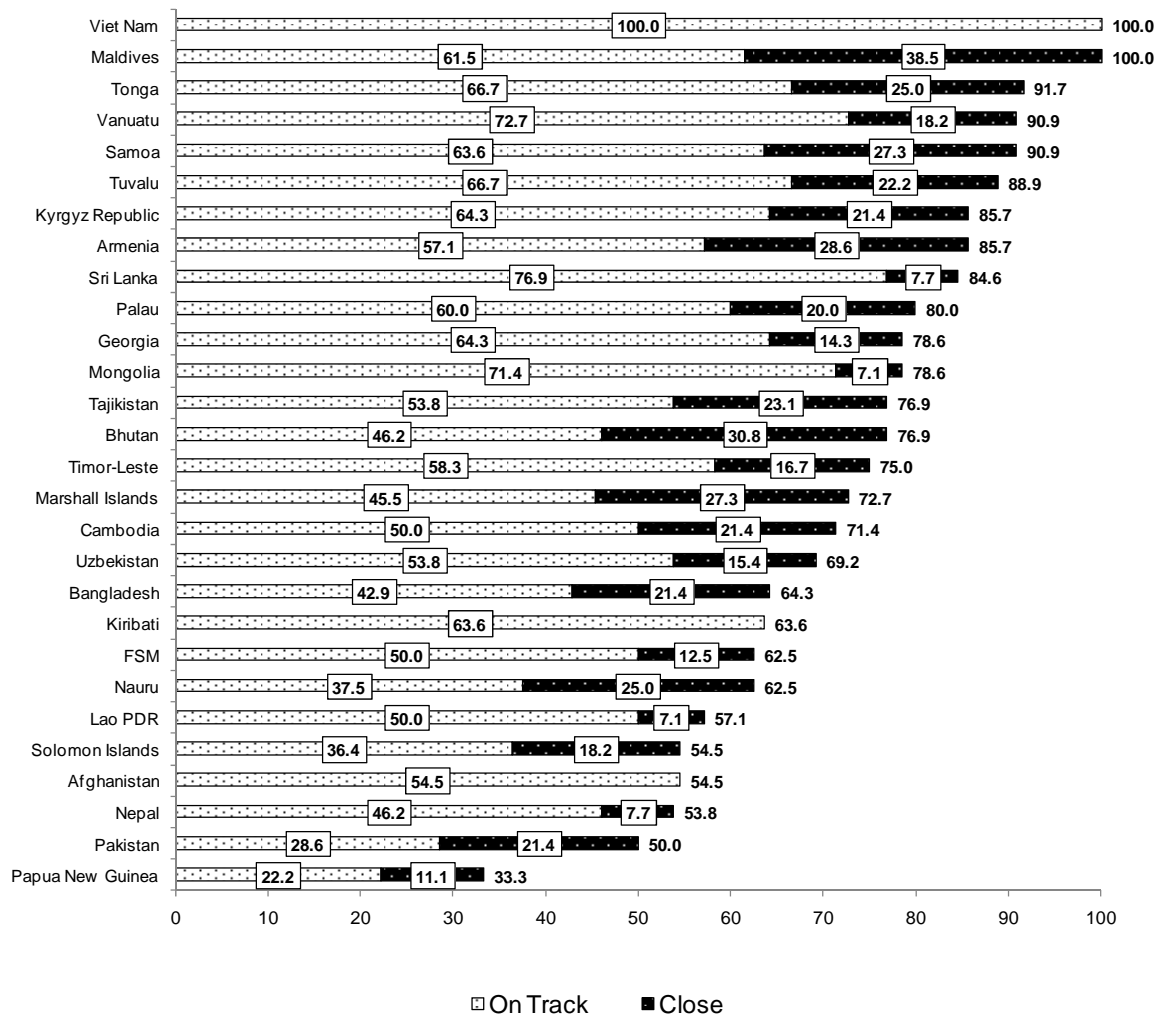


ADF = Asian Development Fund, FCAS = fragile and conflict-affected situations, OCR = ordinary capital resources.

Note: The country is “on track” if it has already achieved or will meet the target in 2015. The country is “close” if it will not meet and is less than 10% away from target by 2015.

Source: Strategy and Policy Department staff estimate using data from the United Nations Economic and Social Commission for Asia and the Pacific, Statistics Division.

Figure A1.2: Selected Millennium Development Goal Indicators Achieved and Close to Target in 2015—By Country (%)

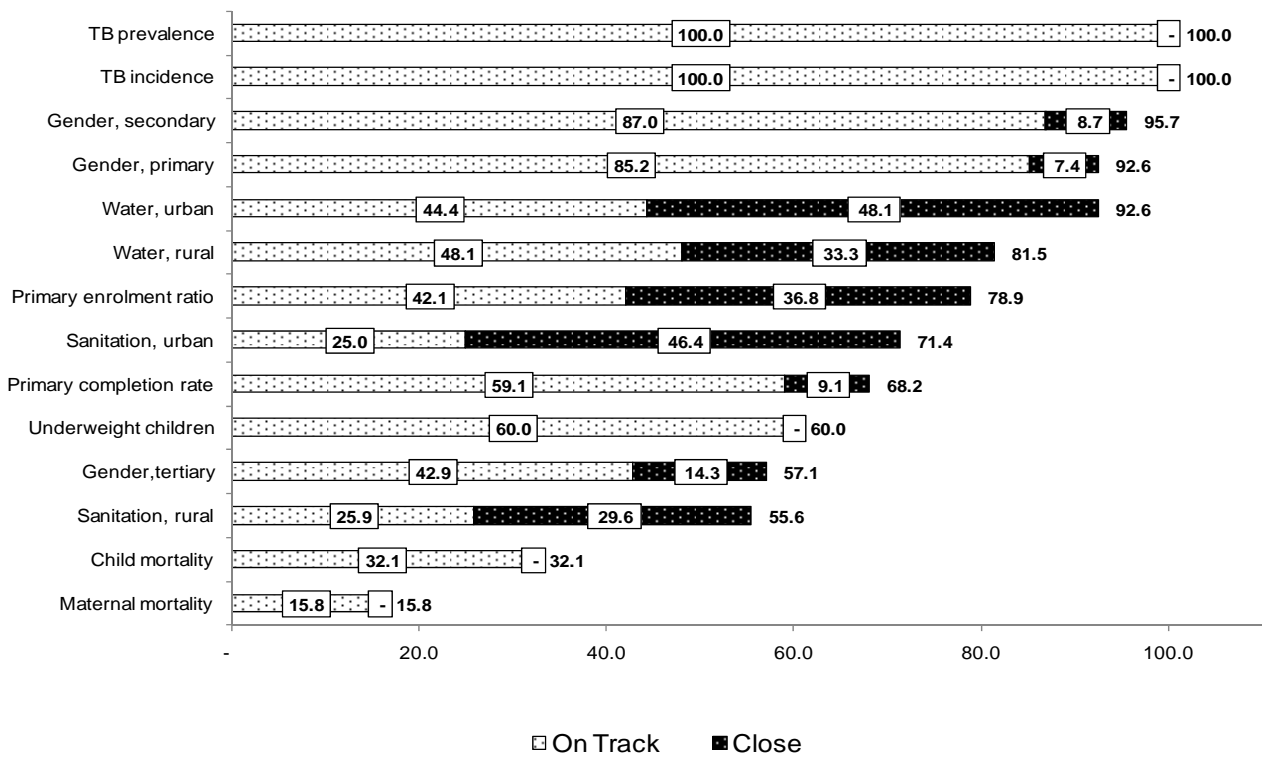


FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.

Note: The country is "on track" if it has already achieved or will meet the target in 2015. The country is "close" if it will not meet and is less than 10% away from target by 2015.

Source: Strategy and Policy Department staff estimate using data from the United Nations Economic and Social Commission for Asia and the Pacific, Statistics Division.

Figure A1.3: ADF Countries on Track and Close to 2015 Millennium Development Goal Target —By Indicator (%)



ADF = Asian Development Fund, TB = tuberculosis.

Note: The country is “on track” if it has already achieved or will meet the target in 2015. The country is “close” if it is unlikely to meet but is less than 10% away from the target by 2015.

Source: Strategy and Policy Department staff estimate using data from the United Nations Economic and Social Commission for Asia and the Pacific, Statistics Division.

Table A1.1: Progress of ADF Countries on Selected Millennium Development Goals

Goal	Education					Health					Sanitation			
	Primary enrolment	Primary completion	Gender primary	Gender secondary	Gender tertiary	Underweight children	Under-5 mortality	Maternal mortality	TB incidence	TB prevalence	Water, rural	Water, urban	Sanitation, rural	Sanitation, urban
ADF Countries														
1 Afghanistan			■	■		●	■	■	●	●	●	●	■	●
2 Bhutan	▶	●	●	●	■		■	●	●	●	▶	▶	■	▶
3 Cambodia	▶	●	●	●	▶	■	■	■	●	●	▶	●	■	●
4 Kiribati	●	●	●	●			■		●	●	●	■	■	■
5 Kyrgyz Republic	▶	●	●	●	●	●	■	■	●	●	●	●	▶	▶
6 Lao PDR	■	■	●	▶	●	■	●	■	●	●	■	■	●	●
7 Maldives	▶	●	▶	●		●	●	●	●	●	▶	▶	●	▶
8 Mongolia	●	●	●	●	●	●	●	■	●	●	▶	●	■	■
9 Nauru		■	▶	●			■		●	●		▶		■
10 Nepal		■	●	●	■	■	●	■	●	●	●	▶	■	■
11 Samoa	●	●	●	●			■		●	●	▶	▶	●	▶
12 Solomon Islands	■		●	●			■	■	●	●	■	▶	■	▶
13 Tajikistan	●	●	●	▶	■		■	■	●	●	▶	●	●	▶
14 Timor-Leste	▶		●		■	■	●	■	●	●	●	●	▶	●
15 Tonga	●	●	●	●	●		■		●	●	▶	●	▶	▶
16 Tuvalu		●	●				■		●	●	●	●	▶	▶
17 Vanuatu	●	■	●	●			●		●	●	●	●	▶	▶
18 Armenia	▶	●	●	●	●	■	●	■	●	●	●	▶	▶	▶
19 Bangladesh	▶	■	●	●	■	●	●	■	●	●	■	▶	▶	■
20 Georgia	●	■	●	●	●	●	■	■	●	●	●	●	▶	▶
21 Marshall Islands	■	▶	●	●			■		●	●	●	▶	■	▶
22 FSM		●					■		●	●	●	▶	■	■
23 Pakistan	■	■	●	●	▶	■	■	■	●	●	▶	▶	■	■
24 Palau		●	●	●			■		●	●	▶	▶	■	●
25 Papua New Guinea			■				■	■	●	●	■	▶	■	■
26 Sri Lanka	●	●	●	●		●	■	■	●	●	●	●	●	▶
27 Uzbekistan		▶	●	●	■	●	■	■	●	●	■	▶	●	●
28 Viet Nam						●	●	●	●	●	●	●	●	●

● On Track

▶ Close

■ Lagging

ADF = Asian Development Fund, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, TB = tuberculosis.

Note: The country is "on track" if it has already achieved or will meet the target in 2015. The country is "close" if it will not meet and is less than 10% away from target by 2015.

Source: Strategy and Policy Department staff estimate using data from the United Nations Economic and Social Commission for Asia and the Pacific, Statistics Division.

Table A1.2: Summary of Progress towards Millennium Development Goals

	Indicator	OCR				ADF				ADF-Only				FCAS			
		Earliest ^a	Latest ^b	On track?	Close?	Earliest ^a	Latest ^b	On track?	Close?	Earliest ^a	Latest ^b	On track?	Close?	Earliest ^a	Latest ^b	On track?	Close?
1	Primary enrolment (%)	60.13	96.95	Y		71.81	79.20	N	N	79.73	89.30	N	Y	35.65	73.86	N	N
2	Primary completion (%)	66.11	96.17	Y		69.62	65.91	N	N	71.85	87.24	N	Y	98.30	93.93	N	Y
3	Gender parity, primary (ratio)	0.86	1.02	Y		0.75	0.93	Y		0.71	0.85	Y		0.63	0.65	N	N
4	Gender parity, secondary (ratio)	0.71	1.01	Y		0.75	0.93	Y		0.57	0.80	N	Y	0.51	0.39	N	N
5	Gender parity, tertiary (ratio)	0.55	0.96	Y		0.59	0.70	N	N	0.47	0.60	N	N	-	-	-	-
6	Underweight children (%)	34.55	28.05	N	N	49.48	35.92	N	N	46.45	36.89	N	N	53.18	35.53	N	Y
7	Under-5 mortality (per 1,000 live births)	81.38	44.37	N	N	123.14	74.39	N	N	161.12	118.15	N	N	217.04	175.34	N	N
8	Maternal mortality (per 100,000 live births)	354.59	152.81	N	N	591.78	347.69	N	N	960.05	774.56	N	N	1,408.61	1,202.34	N	N
9	TB incidence (per 100,000 population)	151	140	Y		208.33	210.06	Y		238	224	Y		219	209	Y	
10	TB prevalence (per 100,000 population)	321	133	Y		502.73	292.48	Y		492	268	Y		362	177	Y	
11	Water, rural (%)	61.70	83.20	Y		66.97	80.17	Y		43.45	63.49	Y		11.37	39.30	Y	
12	Water, urban (%)	93.99	96.33	N	Y	89.95	92.06	N	Y	68.14	85.82	Y		26.68	79.16	Y	
13	Sanitation, rural (%)	26.65	39.61	N	N	26.70	50.64	N	Y	22.67	37.18	N	N	29.00	32.47	N	N
14	Sanitation, urban (%)	52.76	61.75	N	N	69.53	72.72	N	N	57.99	68.98	N	Y	39.02	64.44	Y	

ADF = Asian Development Fund, FCAS = fragile and conflict-affected situations, N = no, OCR = ordinary capital resources, TB = tuberculosis, Y = yes.

^a Earliest data available within 1990–1991.

^b Latest data available within 2007–2009.

Note: The country is “on track” if it has already achieved or will meet the target in 2015. The country is “close” if it will not meet and is less than 10% away from target by 2015.

Source: Strategy and Policy Department staff estimate using data from the United Nations Economic and Social Commission for Asia and the Pacific, Statistics Division.

ANNUAL GROWTH RATE OF GROSS DOMESTIC PRODUCT (%)

Country Group	2007	2008	2009	2010	2011	2012
ADF-Only Countries^a	8.7	6.6	6.4	5.7	6.5	6.6
Afghanistan	14.2	3.4	20.4	8.2	8.0	8.5
Bhutan	12.6	10.8	5.7	7.0	7.5	8.0
Cambodia	10.2	6.7	0.1	6.3	6.5	6.8
Kiribati	0.4	(1.1)	(0.7)	0.5	2.0	2.0
Kyrgyz Republic	8.5	8.4	2.9	(1.4)	5.0	5.0
Lao PDR	7.9	7.2	7.3	7.5	7.7	7.8
Maldives	7.2	6.2	(2.3)	4.8	5.0	5.0
Mongolia	10.2	8.9	(1.3)	6.1	10.0	8.0
Nauru	(27.3)	1.0	0.0	0.0	4.0	4.0
Nepal	2.8	5.8	3.8	4.0	3.8	4.0
Samoa	6.6	(3.2)	(1.7)	0.0	2.1	3.0
Solomon Islands	10.3	7.3	(1.2)	4.0	7.5	4.0
Tajikistan	7.8	7.9	3.4	6.5	6.8	7.0
Timor-Leste	9.1	12.2	12.7	9.5	10.0	10.0
Tonga	(1.4)	2.0	(0.4)	(1.2)	0.5	1.8
Tuvalu	4.9	1.3	(1.7)	0.0	0.0	0.5
Vanuatu	6.8	6.3	4.0	3.0	4.2	4.0
Blend Countries	7.5	5.3	3.2	5.6	5.1	5.7
Armenia	13.7	6.9	(14.2)	2.6	4.0	4.5
Bangladesh	6.4	6.2	5.7	5.8	6.3	6.7
Georgia	12.3	2.3	(3.8)	6.4	5.5	5.0
Marshall Islands	3.5	(1.6)	(2.1)	0.5	1.0	1.2
FSM	(2.0)	(2.3)	0.5	0.5	1.0	0.8
Pakistan	6.8	3.7	1.2	4.1	2.5	3.7
Palau	(0.5)	(4.9)	(2.1)	2.0	2.0	1.5
Papua New Guinea	7.2	6.6	5.5	7.1	8.5	6.5
Sri Lanka	6.8	6.0	3.5	7.6	8.0	8.0
Uzbekistan	9.5	9.0	8.1	8.5	8.5	8.4
Viet Nam	8.5	6.3	5.3	6.8	6.1	6.7
Developing Asia	10.1	6.7	5.9	9.0	7.8	7.7

() = negative, ADF = Asian Development Fund, FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic.

^a Nauru is excluded from the computation of group averages because gross national income data was unavailable.

Source: ADB. 2011. *Asian Development Outlook 2011: South-South Economic Links*. Manila.

SOCIAL AND ECONOMIC INFRASTRUCTURE IN ASIA AND THE PACIFIC

	Population without Electricity (% of population)	Road Density (Km. of Road per 100 Sq. Km. of Land Area)	Telephone Lines (Per 100 People)	Internet Users (Per 100 People)	Hospital Beds (Per 1,000 People)	Physicians (Per 1,000 People)	Adult Literacy Rate (% of People Ages 15 and Above)	Pupil-Teacher Ratio, Primary	Mean Years of Schooling
OCR	17.2	41.1	13.8	17.5	2.4	1.0	82.5	26.9	6.20
ADF	45.0	40.3	7.8	10.1	1.6	0.8	68.8	35.2	5.36
Blend	40.5	56.2	8.9	11.0	1.4	0.8	68.1	34.9	5.50
ADF-Only	68.3	26.3	2.3	5.5	2.6	0.5	73.9	36.7	4.68
FCAS	-	28.2	0.6	3.0	1.1	0.2	-	40.8	3.51

ADF = Asian Development Fund, FCAS = fragile and conflict-affected situations, Km. = kilometer, OCR = ordinary capital resources, Sq. = square.

Sources: World Bank. World Development Indicators (WDI) and Global Development Finance (GDF).

<http://databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=2> (accessed 21 June 2011); and United Nations Development Programme. 2010. *Human Development Report 2010*. New York.

EXTERNAL ASSESSMENTS OF ADB'S DEVELOPMENT EFFECTIVENESS SUMMARY FINDINGS

Document	Findings Relevant to ADB
<i>Independent Review of Aid Effectiveness of the Australian Aid Program (2011)</i>	<p>The review made a strong case to increase Australia's support and funding to multilateral organizations. It recommended selective engagement with the best organizations whereby funding is invested in agencies that are effective and aligned with the objectives of Australia's aid program.</p> <p>Drawing on recent reviews on effectiveness and relevance of multilateral agencies, mainly from MOPAN and DFID, ADB was considered the largest and the most respected donor in Asia, and ADB has generated impressive results through the ADF (particularly in infrastructure and regional integration). The report assessed ADB to be a strong candidate for a significant increase in core funding.</p> <p>The review panel recommended that Australia use the forthcoming replenishment to significantly increase its contributions to the ADF. From an effectiveness standpoint, a doubling or tripling of funding to the ADF was considered a sound investment.</p>
<i>Multilateral Organization Performance Assessment Network (MOPAN) Common Approach Report on ADB (2011)</i>	<p>Strategic Management: ADB ranked adequate or higher in all key indicators (such as ADB's direction for results, corporate and country focus on results, focus on thematic priorities).</p> <p>Operational Management: ADB's score showed mixed results; with adequate to strong scores in aid allocation decisions, financial accountability, performance-oriented programming, and delegating decision making. Flags were noted on (i) linking aid management to performance, and (ii) managing human resources.</p> <p>Relationship Management: ADB scored adequate or higher in all key indicators (supporting national plans, adjusting procedures, using country systems, contributing to policy dialogue, and harmonizing procedures).</p> <p>Knowledge Management: This is a clear area of strength for ADB (monitoring external results, presenting performance information, and disseminating lessons learned).</p>
<i>UK Multilateral Aid Review Assessment (2011)</i>	<p>Overall, the review assessed ADB to be very good value for money. In addition, ADB's contribution to UK development objectives and organizational strength were considered strong.</p>
<i>CIDA Strategy for Engagement with ADB (February 2011)</i>	<p>Relevance: ADB was considered a relevant partner for CIDA (supports Canada's development objectives; major role in fragile countries and emerging economies); closely aligned with CIDA priorities on sustainable economic growth, food security, infrastructure, education, energy, environment (including climate change), and water (irrigation, water supply and sanitation).</p>

Document	Findings Relevant to ADB
	Institutional Effectiveness: Overall, ADB's institutional and development effectiveness was considered strong. ADB has sustained progress, especially on development effectiveness (particularly noting corporate results management system), harmonization with other development partners, and promoting institutional learning.
N. Birdsall, H. Kharas, and A. Mahgoub (2010). <i>Quality of Official Development Assistance Assessment</i> . Brookings—Center for Global Development.	<p>Maximizing Efficiency: ADB ranked third of 31. The Global Fund to Fight AIDS, Tuberculosis and Malaria ranked first, followed by IDA.</p> <p>Fostering Institutions: ADB ranked third of 31. Other top-ranking donors (in order) were Ireland, IDA, Denmark, and the Netherlands.</p> <p>Reducing Burden: ADB ranked tenth of 31. Higher-ranked (in order) were IDA, IFAD, Ireland, AfDF, United Kingdom, and Finland.</p> <p>Transparency and Learning: ADB ranked 29 of 31, just ahead of Republic of Korea and IDB Special. Top-ranked were Australia, EC, Ireland, Denmark, and IDA. ADB performance was particularly weak in the sub-indicators on recording project titles and descriptions, reporting of project disbursements, and completeness of project-level data.</p>
S. Knack, H. Roger, and N. Eubank (2010). <i>Aid Quality and Donor Rankings</i> . <i>Policy Research Working Paper 5290</i> , World Bank.	Of 38 donors covered by the study, ADB first, followed by the World Bank, Denmark, Ireland, and the Global Alliance for Vaccines and Immunization. The ranking was based on four dimensions on aid selectivity, alignment, harmonization, and specialization.
What does an effective multilateral donor look like? (ODI, 2010)	The agencies considered most effective were AfDB and the World Bank, followed by the UNDP and ADB.
<i>Aid Transparency Assessment: Publish What You Fund</i> (2010)	ADB's overall score on transparency was above donor average. Other MDBs in the above-average category included World Bank, AfDB, IDB, Netherlands, and UK.
W. Easterly, and T. Pfütze (2008). <i>Where Does the Money Go? Best and Worst Practices in Foreign Aid</i> . <i>Journal of Economic Perspectives</i> 22 2: 29–52.	ADB ranked fourth of 37, using four dimensions of best aid practice as indicators (specialization, selectivity, ineffective aid channels, and overhead costs).

ADB = Asian Development Bank, ADF = Asian Development Fund, AfDB = African Development Bank, AfDF = African Development Fund, CIDA = Canadian International Development Agency, CODA = Connection Oriented Data Acknowledge, DFID = Department for International Development, EC = European Commission, IDA = International Development Association, IDB = Inter-American Development Bank, IFAD = International Fund for Agricultural Development, MDB = multilateral development bank, MOPAN = Multilateral Organization Performance Assessment Network, ODI = Overseas Development Institute, UK = United Kingdom, UN = United Nations, UNDP = United Nations Development Programme, USA = United States of America.

ADF XI INDICATIVE LENDING AND GRANT OPERATIONS PIPELINES, 2013–2014

Table A5.1: Sectoral breakdown

Sectors	2013–2014 Average	
	\$ Million	%
TOTAL	2,993	
Core Sectors	2,222	84.5
Infrastructure	1,735	66.0
Energy	310	11.8
Transportation	567	21.6
Water	784	29.8
General	75	2.8
Finance Sector	92	3.5
Education	394	15.0
Other Sectors	406	15.5
Agriculture	135	5.1
Health	40	1.5
Others ^a	231	8.8
Subtotal^b	2,628	100.0
Unallocated	365	

^a Others include public sector management, industry and trade, and disaster and emergency assistance.

^b Excludes unallocated Asian Development Fund resources.

Source: Asian Development Bank. Forthcoming. *Work Program and Budget Framework, 2012–2014*. Manila.

Table A5.2: Thematic Breakdown

Themes	2013–2014 Average (%) ^a
Economic Growth	76.1
Social Development	70.7
Environmental Sustainability	55.6
Regional Cooperation and Integration	14.9
Gender Equity	19.3
Private Sector Development	25.3
Governance	10.4
Capacity Development	39.0

^a As percentage of total ADF planned approvals excluding supplementary financing and unallocated Asian Development Fund resources.

Source: Asian Development Bank. Forthcoming. *Work Program and Budget Framework, 2012–2014*. Manila.

Table A5.3: Breakdown according to ADF XI Special Considerations

Special Considerations	2013–2014 Average	
	\$ Million	%
TOTAL	2,993	
FCAS	284	10.8
Afghanistan	195	7.4
Pacific FCAS	89	3.4
Food Security	700	26.6
Disaster and Risk Management	463	17.6
Subtotal^a	2,628	100.0

FCAS = fragile and conflict-affected situations.

^a Excludes unallocated Asian Development Fund resources.

Source: Asian Development Bank. Forthcoming. *Work Program and Budget Framework, 2012–2014*. Manila.