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# ADB THROUGH THE DECADES

ADB'S FIFTH DECADE (2007–2016)



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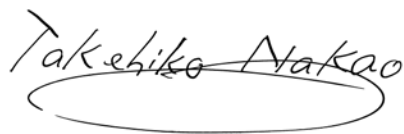
# FOREWORD

The year 2016 marks the 50th anniversary of the Asian Development Bank (ADB). To commemorate this event, ADB has produced *ADB Through the Decades*, a series of volumes to provide a corporate chronicle over the past 5 decades of how ADB has evolved to engage its shareholders and other development partners in delivering financial and advisory services to its developing member countries in the Asia and Pacific region. Organized around key themes and topics for each decade, the series documents ADB's past work in such areas as strategic, operational, financial, and institutional developments.

The series synthesizes materials from many different sources, building from ADB's annual reports. The five volumes serve as decadal background notes for ADB's corporate history book, *Banking on the Future of Asia and the Pacific: 50 Years of the Asian Development Bank*, to be launched in 2017. Together, the history book and these volumes provide the first comprehensive corporate narrative on ADB's history since the previous ADB history book, *A Bank for Half the World*, was published in 1987.

Looking over the past 50 years, ADB has demonstrated a strong corporate continuity of being a multilateral development bank with an Asian character and global outreach. More significantly, the leadership of ADB has undertaken profound changes for the institution to stay relevant and responsive in serving the changing needs and expectations of its developing member countries. This spirit of change and innovation shall continue to drive ADB in the years ahead.

Reflecting on our history will give us a better insight for our work in the future. I hope that this *ADB Through the Decades* series becomes a key reference for ADB staff as well as other stakeholders from member countries, academic institutions, development partners, and civil society organizations.

A handwritten signature in black ink that reads "Takehiko Nakao". The signature is written in a cursive, flowing style. Below the signature, there is a faint, light blue circular stamp or watermark.

**TAKEHIKO NAKAO**

December 2016

# ACKNOWLEDGMENTS

This series, *ADB Through the Decades*, began as background research for the history book project chronicling the first 50 years of the Asian Development Bank (ADB). In the last 50 years, ADB has continuously evolved in response to dynamic changes across the Asia and Pacific region. The story of ADB's transformation became evident as the team tasked to support the ADB corporate history book project sifted through ADB's annual reports, past and present President's speeches, official and personal correspondences, loan documents, policy and strategy papers, evaluation reports, transcripts of interviews, historical records, and other archival materials. Drawing from the rich but fragmented sources of information, the team prepared background notes for each decade as an effort to capture and synthesize the significant developments and key turning points in ADB's history.

President Takehiko Nakao encouraged the team to publish the series as a stand-alone reference to a wider audience, including ADB staff. This work was done in parallel with the drafting of the ADB history book and took more than 2 years to complete. What were intended as internal supporting documents for the history book project in the end became five volumes that comprise the *ADB Through the Decades* series. This series provides the first comprehensive institutional record of the different facets of ADB's work—strategic, operational, financial, and organizational—spanning 50 years of ADB's history.

The first four volumes of the series were led by Valerie Hill, Director of the Strategy, Policy and Business Process Division (SPBP), Strategy, Policy and Review Department (SPD) with Edeena Pike, Strategy and Policy Specialist, Office of the Director General, SPD. The fifth volume was led by Ananya Basu, Principal Economist at the Pacific Department (PARD). Jade Tolentino, Research Consultant, provided substantive analytical support on all the volumes. Xianbin Yao, Director General, PARD, provided overall guidance and shared his insights on ADB's history to further enrich the notes. Peter McCawley, main author of the ADB history book, gave useful comments throughout the process.

This series benefited from comments and suggestions received from various departments and offices, as well as thematic and sector groups across ADB, during the interdepartmental review process. The volumes received written contributions from an interdepartmental focal group composed of Kinzang Wangdi (Budget, Personnel, and Management Systems Department [BPMSD]); Shanny Campbell and Noriko Sato (Central and West Asia Department); David Kruger (Department of External Relations [DER]); David Sobel (East Asia Department); Jesus Felipe and Juzhong Zhuang (Economic Research and Regional Cooperation Department [ERCD]); Medardo Abad, Jr. (Office of Administrative Services [OAS]); Nariman Mannapbekov (formerly of the Office of the Secretary [OSEC]); Emma Veve (Pacific Department [PARD]); Kiyoshi Taniguchi (Private Sector Operations Department [PSOD]) and Elsie Araneta (formerly of PSOD); Hiranya Mukhopadhyay (South Asia Department); Jason Rush (Southeast Asia Department); K. E. Seetharam (Sustainable Development and Climate Change Department [SDCC]) and Roshan Shahay (formerly of SDCC); and Mina Oh (Treasury Department [TD]).

Access to important historical records and data was vital in completing the *ADB Through the Decades* series. Technical inputs were provided by SPD (Vanessa Dimaano, Marvin de Asis, Socorro Regalado, and Grace Sevilla); Controller's Department (Setijo Boentaran and Lani Gomez); TD (Feen Asprer); BPMSD (Melanie dela Cruz and Kinzang Wangdi); and ERCD (Kaushal Joshi, Rana Hasan, Arturo Martinez, Pilipinas Quising, and Editha Lavina) in vetting the data used. The discussions on financial matters were largely drawn from the specialized report commissioned by TD on *A History of Financial Management at the Asian Development Bank*. Excellent support was extended by the OAS Records and Archives Unit (Medardo Abad, Jr., Richard Dimalanta, and Heidi Dizon) and Library Services (Marilyn Rosete and Voltere Serraon), who were always quick and resourceful in sourcing and screening historical photos and institutional documents; and OSEC (Nathaniel Casuncad, Genedyn Ebreo), who were ready to assist in Board document retrieval.

Overall production was supervised by Edeena Pike. DER (Robert Hugh Davis and Cynthia Hidalgo) helped in managing the volumes' production, particularly at the initial stages. Cherry Lynn Zafaralla was the copyeditor of the five volumes as well as publication coordinator. Joe Mark Ganaban provided the layout, graphics design, and typesetting, and Anthony Victoria of DER conceptualized the covers and box packaging design. Rowena Agripa, Lorena Catap, Esmeralda Fulgentes, Ma. Carolina Faustino-Chan, and Sharlene Guinto provided administrative assistance at various stages. Finally, the Logistics Management Unit of OAS (Razel Gonzaga and Wyn Lauzon) provided indispensable assistance in the printing of the volumes.



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# ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ASEAN	–	Association of Southeast Asian Nations
BOD	–	Board of Directors
BOG	–	Board of Governors
BPMSD	–	Budget, Personnel, and Management Systems Department
BRT	–	bus rapid transit
CAREC	–	Central Asia Regional Economic Cooperation
CGD	–	Center for Global Development
CGIF	–	Credit Guarantee and Investment Facility
CIF	–	Climate Investment Funds
CoP	–	community of practice
CPS	–	country partnership strategy
CSF	–	Countercyclical Support Facility
DEFr	–	development effectiveness review reports
DLI	–	disbursement-linked indicators
DMC	–	developing member country
DRF	–	Disaster Response Facility
DRM	–	disaster risk management
DVA	–	direct value-added
ELR	–	equity-to-loan ratio
FCAS	–	fragile and conflict-affected situation
GAP	–	Gender Action Program
GACAP	–	Governance and Anticorruption Action Plan
GCI	–	general capital increase
GMS	–	Greater Mekong Subregion
HIPC	–	highly indebted poor country
IAE	–	internal administrative expenses
ICT	–	information and communication technology
IDRM	–	integrated disaster risk management
IED	–	Independent Evaluation Department
KMAP	–	Knowledge Management Action Plan
LBL	–	London interbank offered rate-based lending
LTSF	–	Long-Term Strategic Framework

MARS	–	management action record system
MDB	–	multilateral development bank
MDG	–	Millennium Development Goal
MfDR	–	managing for development results
MFF	–	multitranche financing facility
NSO	–	nonsovereign operation
NSP	–	Nonsovereign Public Sector Financing Facility
OAG	–	Office of the Auditor General
OAI	–	Office of Anticorruption and Integrity
OCR	–	ordinary capital resources
OED	–	Operations Evaluation Department
OPPP	–	Office of Public-Private Partnership
OPS	–	Our People Strategy
OSFMD	–	Operations Services and Financial Management Department
PBL	–	policy-based lending
PCS	–	Project Classification System
PCP	–	Public Communications Policy
PDA	–	project design advance
PDF	–	project design facility
PML	–	prudential minimum liquidity
PPP	–	public–private partnership
PRC	–	People’s Republic of China
PSD	–	private sector development
PSO	–	private sector operations
PSOD	–	Private Sector Operations Department
RBC	–	risk-based capital
RBL	–	results-based lending
RCI	–	regional cooperation and integration
RCIS	–	Regional Cooperation and Integration Strategy
RETA	–	regional technical assistance
RSDD	–	Regional and Sustainable Development Department
SDR	–	special drawing rights
SMEs	–	small and medium-sized enterprises
SPS	–	Safeguard Policy Statement
STI	–	Sustainable Transport Initiative
TA	–	technical assistance
TFP	–	Trade Finance Program

# DATA NOTES

Lending approvals data used in the five volumes in this series, *ADB Through the Decades*, refer to loan, grant, equity investment, and guarantee approvals of the Asian Development Bank (ADB). They include sovereign and nonsovereign operations of ADB from 1967 to 2016. Approvals include ADB-funded lending operations from ordinary capital resources (OCR) and the Asian Development Fund. Cofinancing resources are discussed separately in the section “Financial Policies and Mobilization Efforts.”

For both lending and technical assistance (TA) operations, regional breakdown is based on current member economy groupings of ADB. Central and West Asia includes Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. East Asia is composed of the People’s Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China. South Asia covers Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka. Southeast Asia includes Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. Finally, the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu comprise the Pacific developing member countries.

Lending data were sourced from two ADB databases, which use slightly different methodologies in recording project information. The operational approvals from 1967 to 1996 (volumes 1–3) were culled from the ADB loan, technical assistance, grant, and equity approvals database, which excludes terminated instruments (loans, grants, equity investments, and guarantees that were approved but terminated before their signing date). This database uses ADB’s old sector classification system. Meanwhile, the operational approvals from 1997 to 2016 (volumes 4 and 5) were downloaded from ADB’s Suite of Strategy 2020 Report of eOperations database which records gross approvals and follows a new project sector classification. All data are as of 31 December 2016.

Technical assistance operations data refer to TA approvals funded by the Technical Assistance Special Fund and Japan Special Fund only. For the first four volumes, the sources for the data are the loan, technical assistance, grant, and equity approvals database (as of 31 December 2016.); and for the fifth volume, ADB's Operations Planning and Coordination Division, Strategy, Policy and Review Department.

Staff information include management, international, and national and administrative staff. They include director's advisors and assistants, staff on special leave without pay, and on secondment status. Staff data are sourced from ADB's Budget, Personnel, and Management Systems Department, and may not tally with the numbers from ADB's annual reports, which used different classifications of staff data.







# I. REGIONAL BACKGROUND

- The fifth decade was ushered in by the 2008–2009 global financial crisis but countries in Asia and the Pacific proved more resilient than other emerging economies.
- New development challenges emerged, and sustaining rapid growth became more difficult in the fragile postcrisis global economy.
- The more ambitious global development agenda as well as new sources of development finance required ADB to be competitive and innovative in providing assistance.

The early part of the Asian Development Bank's (ADB) fifth decade (2007–2016) was marked by the 2008–2009 global financial crisis and subsequent recovery in the world economy. As Asia continued to strengthen its prominence in global affairs, 2007 witnessed the highest growth rate recorded in the region in almost 2 decades. Subsequently, the global financial crisis impacted growth in developing Asia, although the effects were not as virulent as those in many advanced economies. Macroeconomic and financial policies in Asia had improved since the 1997 Asian financial crisis, bolstering the region's ability to cope with emergencies and enabling it to maintain respectable growth rates despite lower export demand from advanced economies, reduced capital inflows, and a withdrawal of credit lines from abroad. Aided by expansionary policies in many countries, and a greater reliance on

domestic and regional sources of demand, growth in developing Asia rebounded in 2010.

The postcrisis years saw easing of growth in developing Asia from the precrisis levels, due to global and regional events. Slow recovery in advanced economies and tapering of quantitative easing in the United States in 2013–2014 destabilized emerging economy financial markets, including in some Asian economies. Deceleration in growth (compared to the precrisis years) is evident in the People's Republic of China (PRC), as efforts to forge a more balanced and sustainable growth path than the earlier path led by exports and investment are leading to moderation of growth. While growth in developing Asia is projected to remain strong, it is unlikely to reach the levels of the precrisis years. At the same time, Asia is still expected to remain the engine of global growth, as economic prospects in developed economies continue to be uncertain.

Against this backdrop, new development challenges have emerged in the region, while others have intensified. Many Asian economies have already reached middle-income status, and need to maintain growth to avoid the middle-income trap. However, sustaining rapid and robust growth has become difficult in the more risky and fragile world economic environment. The global financial crisis has increased the risk of financial contagion and recession. Developing Asia now has to rely on domestic and regional sources of growth to minimize destabilizing effects of policies in advanced economies. Furthermore, while absolute poverty has declined across developing Asia, it still affects 330 million people living on less than \$1.90 a day. Vulnerability and food insecurity are growing concerns. Disparities

in well-being within and across countries remain wide, and may rise further unless addressed. Indeed, the key drivers of Asia's past rapid growth—technological progress, globalization, and market-oriented reform—have had adverse distributional consequences in several countries including the PRC and India. Environmental pressures including natural disasters resulting from rapid growth have intensified, and threaten sustainability of development. Further, cross-border threats of terrorism, new pandemic diseases, and cyberattacks are spreading more rapidly in today's globalized world (see Table 1 for the economic performance of developing Asia against other developing regions, and Appendix Tables A1.1 and A1.2 and on selected economic and social indicators in the region).

**Table 1: Population and Gross Domestic Product, Selected Regional Groupings, 1966–2015**

Regions	1966	1976	1986	1996	2006	2015
<b>Developing Asia</b>						
GDP (\$ billion)	163	426	1,014	2,937	6,412	18,063
Population (million)	1,718	2,173	2,626	3,124	3,555	3,903
GDP per capita (\$)	95	196	386	940	1,804	4,628
Share of world GDP (%)	8	7	7	9	13	25
Share of world population (%)	51	52	53	54	54	53
Asia's share of world GDP (constant, 2010 \$) (%)	14	16	19	24	25	31
<b>Latin America and Caribbean (excluding high-income economies)</b>						
GDP (\$ billion)	117	411	706	1,894	3,030	4,855
Population (million)	244	314	392	471	544	605
GDP per capita (\$)	481	1,306	1,800	4,024	5,569	8,020
Share of world GDP (%)	6	6	5	6	6	7
Share of world population (%)	7	8	9	11	13	15
<b>Sub-Saharan Africa (excluding high-income economies)</b>						
GDP (\$ billion)	42	142	235	348	798	1,571
Population (million)	264	342	454	600	783	1,001
GDP per capita (\$)	158	416	518	581	1,019	1,570
Share of world GDP (%)	2	2	2	1	2	2
Share of world population (%)	8	8	9	10	12	14

GDP = gross domestic product.

Notes: Gross domestic product is expressed in current \$ billion. Developing Asia includes developing member economies of ADB. Asia includes ADB's regional developing and developed members (Australia, Japan, and New Zealand).

Source: The World Bank. World Development Indicators. <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed 7 December 2016).

In this decade, the challenge for ADB to provide assistance competitively and innovatively intensified further. The global development agenda is evolving: Millennium Development Goals (MDGs) have given way to the more ambitious Sustainable Development Goals (SDGs); the United Nations Climate Change Conference has led to some common agreements on addressing climate changes; and universal development objectives are being articulated through successive international conferences on financing for development. In parallel, developing

member countries (DMCs)—particularly middle-income clients—are expanding their access to varied sources of finance and knowledge. New development finance institutions have emerged, while funds from the private sector (including growing remittances) pose alternatives to traditional models of development financing. This provides new opportunities for ADB—to catalyze more resources for development, to strengthen its role as a convener in regional activities, and to become a better provider of knowledge and policy advice.

## II. CORPORATE STRATEGY AND POLICY OVERVIEW



- A new long-term strategic framework, Strategy 2020, was launched in 2008 under President Haruhiko Kuroda, reaffirming ADB's vision of a region free of poverty.
- A midterm review of Strategy 2020 was released in 2014, to pursue President Takehiko Nakao's vision of a "stronger, better, faster" ADB.

ADB's corporate strategy during its fifth decade needed to respond to the new realities in the region and its evolving challenges. At the 40th Annual Meeting of the Board of Governors (BOG) in Kyoto in 2007, ADB's eighth President, Haruhiko Kuroda, recognized that "a dramatically transformed Asia will also require an equally transformed development partner in ADB." His successor, President Takehiko Nakao, would go on to focus on making ADB "stronger, better, and faster," to serve the region's many demands.

ADB was already cognizant of the importance of designing strategies to respond to rapid changes in the region on one hand, and evolution in international development thinking on the other. ADB's fourth decade had witnessed major upheaval in the form of the 1997 Asian financial

crisis, and a widening global development agenda (with particular emphasis on aid effectiveness, importance of the MDGs, and greater emphasis on global environmental policies and climate change). Several important ADB policies and strategies were adopted in the fourth decade to respond to these changes, including ADB's first ever Long-term Strategic Framework (LTSF) for 2001–2015.<sup>1</sup> The LTSF focused ADB's interventions in three core areas: sustainable economic growth, inclusive social development, and governance for effective policies and institutions. To broaden and deepen the impact of the core areas, three cross-cutting themes were identified under LTSF, 2001–2015: (i) promoting the role of the private sector in development, (ii) supporting regional cooperation and integration (RCI), and (iii) addressing environmental sustainability.

<sup>1</sup> ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.



ADB's fifth decade saw further pressure to transform, and ADB's corporate priorities and strategies aimed to strengthen the ongoing transformation. The evolution of ADB's corporate strategy during its fifth decade represented both continuity with and change from the LTSF, 2001–2015. While retaining some of the focus areas of the LTSF, ADB's priorities would undergo refinements and shifts. Among them would be the move from a direct pro-poor growth approach to an inclusive growth approach; stronger emphasis on addressing climate change; relative de-emphasis on sectors like health and agriculture; expansion in support for RCI; enhancement of ADB's knowledge agenda; a move from specific governance projects to a more cross-cutting view of governance and capacity development; renewed momentum to mainstream gender into operations; greater emphasis on sustainable infrastructure and food security; and scale-up of support to the private sector. Several sectoral and thematic operational plans would be developed or revised to support the overall strategy.

ADB had embarked on internal reforms during its fourth decade to strengthen overall effectiveness of operations, and become more relevant, responsive, and results-oriented. In its fifth decade, ADB's reform program and operational directions would consolidate and build on the earlier reforms, in order to operationalize its corporate strategy. As ADB sought to remain competitive and client-oriented, ADB's reforms would aim to further enhance the efficiency and effectiveness of operations, and promote innovations in mobilizing finance, in processes and products, and in human resources.

## A. Long-Term Strategic Framework: Strategy 2020

### 1. Eminent Persons Group's Report

ADB formally began a comprehensive review of its existing LTSF in 2006, when it convened the Eminent Persons Group, a panel of six experts to provide insights into the future of the region and the role of ADB. The group was chaired by Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development.<sup>2</sup> The group met four times between August 2006 and March 2007, and reviewed five background papers specially commissioned at its request.<sup>3</sup> The group also had the opportunity to exchange views with ADB's Board of Directors (BOD) in November 2006.

The Eminent Persons Group's report was submitted to President Kuroda in March 2007 and was subsequently made public the same year.<sup>4</sup> The report envisioned a transformed Asia by 2020, one in which most countries would have conquered widespread absolute poverty, but would be facing formidable development challenges stemming partly from unprecedented growth and economic successes. The report recognized ADB to be "the institution of choice" to continue delivering development assistance to Asia. At the same time, it urged ADB to change radically, and adopt a new paradigm for development banking to play this desired role by 2020. It emphasized the need for greater focus. For ADB to become better prepared to help members meet these

challenges, the report recommended that ADB adopt three mutually complementary strategic directions, moving from (i) fighting extensive poverty to supporting faster and more inclusive growth, (ii) economic growth to environmentally sustainable growth, and (iii) a primarily national focus to a regional and ultimately global focus. It further recommended that ADB's work should cover six core activities: infrastructure, financial development, energy and environment, regional integration, technological development, and knowledge management.

To become more responsive and to enhance institutional effectiveness, the report also urged ADB to be more selective in operations and to streamline its business processes. Accordingly, it proposed a number of operational modifications related to improvements in project appraisal and implementation techniques, expansion and reorientation of technical assistance (TA) to support new priorities, review of Asian Development Fund (ADF) resources eligibility, more active donor coordination, expansion of cofinancing activities, increased use of financial innovations, and greater regional cooperation. The report noted that the implementation of these recommendations would entail internal reorganization and strengthening of staff resources.

## 2. Key Elements of Strategy 2020

The Eminent Persons Group's report was tabled at ADB's 2007 Annual Meeting in Kyoto, marking the launch of an extensive consultation on ADB's new long-term strategic framework, Strategy 2020.<sup>5</sup> In preparing Strategy 2020, broad consultations were conducted with the BOD, management and staff, stakeholders, and DMCs, as well as with the private sector and civil society. The recommendations in Strategy 2020 benefited from a wide array of studies, analyses, evaluations, and research, which suggested that ADB could serve the region better and have greater impact only through progressive change. It was based on a thorough examination of the

region's challenges and a comprehensive review of ADB's operations.

In 2008, ADB adopted Strategy 2020, covering 2008–2020. In his opening address at the 41st Annual Meeting of the BOG in Madrid, President Kuroda introduced the strategy with the following words: "We at ADB have set the stage for powerful change in the way we serve our developing member countries. Our new long-term strategic framework—Strategy 2020—clearly defines a vision: a vision of an Asia and Pacific free of poverty; a region where the vast majority have joined hands on the path to prosperity." This new framework built on the experience with the earlier framework for 2001–2015, and went on to serve as the primary basis for ADB's internal reforms during its fifth decade.

Strategy 2020 reaffirmed ADB's vision of an Asia and Pacific region free of poverty, and ADB's mission to help DMCs reduce poverty and improve living conditions and quality of life. It laid out directions for planning ADB's operations, and revising its organization and business processes to 2020, in order to reshape ADB into a more effective and innovative development institution. President Kuroda requested ADB members for "... strong support... [to].. help Asia realize its potential as a fully developed part of the world, a partner in global prosperity, and a beacon of hope for the advancement of societies everywhere." To help achieve Asia's ambitious development goals, President Kuroda committed that ADB would respond with "... more change, strong commitment and greater focus." Accordingly, the reform program adopted under Strategy 2020 would go on to consolidate and strengthen ADB's existing reforms, as well as adopt new ones when required to respond to changing circumstances.

**Strategic Agendas.** To achieve its mission, ADB focused on three complementary strategic agendas under Strategy 2020, which were broadly in line with the recommendations of the Eminent Persons Group's report.

<sup>5</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

- (i) **Foster inclusive growth.** The promotion of inclusive growth was based on two mutually reinforcing concepts: that high and sustainable growth creates and expands economic opportunities; and that broad access to these opportunities ensures that all people, in particular the disadvantaged, can participate in and benefit from growth.
- (ii) **Promote environmentally sustainable growth.** Strategy 2020 acknowledged that Asia's economic growth could result in the depletion of natural resources, environmental degradation, and climate change. To encourage environmentally sustainable growth, ADB would support the use of environmentally friendly technologies, adoption of environmental safeguards, and establishment of institutional capacities to strengthen their enforcement.
- (iii) **Encourage regional cooperation and integration.** Strategy 2020 recognized the region's vast potential to further accelerate economic growth, increase productivity and employment, and reduce economic disparities through RCI. To unlock this potential, ADB would emphasize closer policy coordination and collaborate to promote regional and global public goods.
- (ii) **Good governance and capacity development.** ADB would encourage DMCs to incorporate the four elements of good governance into its activities: accountability, participation, predictability, and transparency. ADB would also help DMCs better formulate and implement policies, reforms, and investments for poverty reduction.
- (iii) **Gender equity.** ADB would continue to pay careful attention to gender issues across all its operations. ADB would further promote gender equity, particularly through projects that improve access for girls and women, to education and health services, clean water, better sanitation, and basic infrastructure.
- (iv) **Knowledge solutions.** Transfer of innovative solutions and good practices supported development in the region. ADB would continue to identify development trends in the region, collect and share best practices in development fields, and strategically use the knowledge base provided by its multidisciplinary staff. It would also catalyze knowledge exchange among DMCs.
- (v) **Partnerships.** Effective partnership was integral to planning, financing, and implementing all ADB operations. ADB would continue to maintain many productive relationships with its member governments, and other multilateral and bilateral agencies. Partnerships would include the private sector and civil society organizations.

**Drivers of Change.** To better mobilize resources and build on ADB's unique regional experience and comparative strengths, Strategy 2020 identified five drivers of change.

- (i) **Private sector development and operations.** Support to this area would enable ADB to leverage private resources for development. It would also help speed up infrastructure development to create jobs and sustain economic growth. Reforms for better policy and regulatory frameworks for the private sector remained important.

**Core Areas of Operation.** To maximize results, efficiency, and impact, ADB would focus its financial and institutional resources in five core areas that best supported its agenda, reflected DMC needs and ADB's strengths, and complemented efforts of development partners.



- (i) **Infrastructure development.** ADB would support investments in infrastructure to ensure sustainable economic progress, connect the poor to markets, and increase access of the poor to basic productive assets. Focus areas included expanding transport and communication connectivity in the region, promoting sustainable energy supply, and investing in both rural and urban infrastructure.
- (ii) **Environment, including climate change.** ADB would continue to help DMCs move their economies on to low-carbon growth paths by improving energy efficiency, expanding the use of clean energy sources, reducing greenhouse gas emissions, modernizing public transport systems, and arresting deforestation.
- (iii) **Regional cooperation and integration.** ADB would strive to foster RCI initiatives in the region with investments in cross-border projects to accelerate growth and economic partnerships, as well as to address shared risks and challenges.
- (iv) **Finance sector development.** ADB would support the finance sector at the regional and national levels by helping to develop financial infrastructure, institutions, and products and services.
- (v) **Education.** ADB would assist expanded, higher-quality, more accessible basic and secondary education, particularly in smaller and poorer DMCs. It would increasingly direct its attention to raising quality of technical and vocational education and training, and of selected fields in tertiary education.

**Strategy 2020 Goals and Targets.** Strategy 2020 incorporated various goals and targets, which would go on to guide implementation.

- (i) **Operational goals.** Under Strategy 2020, ADB set several operational targets, particularly to (a) have 80% of its operations in its core operational areas by 2012; (b) scale up private sector development (PSD) and private sector operations (PSOs) in all operational areas, reaching 50% of annual operations by 2020; (c) significantly increase support for environmentally sustainable development, including projects to reduce carbon dioxide emissions and to address climate change; and (d) increase assistance for RCI to at least 30% of total assistance by 2020.<sup>6</sup> As a target for advancing partnerships, Strategy 2020 called for having total annual direct cofinancing exceed the value of ADB's stand-alone project financing by 2020. Following commitments under Strategy 2020, ADB developed a corporate-wide results framework to monitor the progress in Strategy 2020 implementation (section VII.A).
- (ii) **Institutional goals.** It was also recognized that implementation of Strategy 2020 required continued institutional change. First, to improve coherence with the overall corporate strategy, ADB reviewed its existing strategies and policies in 2008, starting with those with substantive implications for achieving Strategy 2020's operational goals. Based on this, ADB would continue to prepare, update, and/or revise several operational plans, strategies, and policies during its fifth decade, clarifying how ADB would implement corporate directions and targets. Second, to enhance human resources and skills mix, ADB would seek to hire and retain diverse talent with strong potential to achieve its vision for the region. Third, ADB would adapt its organizational structure to new and expanded products and services, particularly in PSOs, financial

<sup>6</sup> Selectivity and focus were reflected in the targeted 80% of ADB's operational focus on the five core operational areas. Support for other areas of operation, such as health, agriculture, and disaster and emergency assistance, was to be selectively provided.

services, knowledge management, and environmental operations. Fourth, to improve corporate responsiveness, ADB would pursue lower transaction costs for its clients and greater decentralization to resident missions.

## B. Midterm Review of Strategy 2020

### 1. Key Elements of Strategy 2020 Midterm Review

When ADB's ninth President, Takehiko Nakao, assumed office in April 2013, his first priority was to strengthen ADB further to respond to

the region's many demands. At the 46th Annual Meeting of the BOG in May 2013 in Delhi, President Nakao outlined his vision of a "more innovative, more inclusive, and more integrated" Asia, whose contribution to global development was commensurate with the region's growing economic power. While recognizing that ADB was a vital institution with clear direction, he stressed that ADB should add greater value and highlighted how ADB could help achieve this vision (Box 1).

Accordingly, a midterm review of Strategy 2020 was formally announced at the 46th Annual Meeting in 2013. It was recognized that Strategy 2020 had served ADB well as the guiding blueprint for ADB's operations. At the same time, given the

#### Box 1: Excerpts from President Takehiko Nakao's Opening Address at the 46th Annual Meeting of the Board of Governors of ADB, May 2013, Delhi

At the 46th Annual Meeting, President Takehiko Nakao outlined five areas in which the Asian Development Bank (ADB) could strengthen itself to respond to the emerging and ongoing challenges in the region:

"First, finance. Operations in 2012 totaled nearly \$22 billion, including about \$8 billion in cofinancing. While impressive in itself, this figure still falls far short compared with the needs of the region. We must therefore step up efforts to leverage external sources of finance, including bilateral official sources—particularly from new and emerging donors—and private sector finance. Public–private partnerships will be critical in this regard. I will pursue this area more vigorously.

"Second, knowledge. ADB and the ADB Institute serve as a vast store of development knowledge and expertise in many of the areas I have mentioned today. Our operations will draw on our own knowledge and experience, as well as those of other partners. This knowledge is essential to modernize policy and institutional development, and imbed new technology.

"Together, these represent a "Finance++" model—finance plus leverage plus knowledge. As President, I will combine these elements more closely together.

"Third, strategy. Strategy 2020 is the guiding blueprint for ADB's operations and has served us well. We will initiate this year a midterm review of Strategy 2020 based on the progress of its implementation, and also on developments in Asia since its adoption in 2008. We will also consider a long-term strategic vision for the Asian Development Fund, reflecting the changing needs of our developing member countries.

"Fourth, resources. With the tripling of ADB's capital base in 2009 and successful ADF replenishments, ADB has taken important steps to reinforce its financial resources. It will, however, be critical to continue examining how we can secure the resource base needed in order to pursue our objectives well.

"Of course, resource is not just about capital. Regarding human resources, ADB is fortunate to have a diverse staff of talented, professional, and determined women and men. I intend to promote the potential of all our staff through a proactive talent management process.

"Fifth—and perhaps what matters most—is ADB's performance and the results it achieves. In this context, the recent Development Effectiveness Review shows that we need to make a more concerted effort to improve the quality of project design, ensure timely implementation, and achieve desired outcomes. When shareholders and ADB face more stringent constraints over budgets and resources, we should pay increasing attention to outcomes."

Source: ADB. 2013. Opening Address. Speech by President Takehiko Nakao delivered at the 46th Annual Meeting of the ADB Board of Governors. Delhi. May 2013.

profound developmental changes taking place in the region, it was considered timely for ADB to revisit its priorities, in order to remain relevant and responsive to the evolving needs of DMCs.

The midterm review was undertaken over a year and was completed in April 2014.<sup>7</sup> It went through a highly consultative process involving internal and external stakeholders. It involved several rounds of discussions with BOD, as well as regional workshops to get feedback from government officials, private sector representatives, and civil society members from DMCs. An internal steering committee consisting of several department heads provided overall guidance. ADB staff also provided inputs and suggestions. A panel of external peer reviewers shared its insights. The Independent Evaluation Department (IED) contributed a special evaluation report, and participated in discussions with the Board and others.<sup>8</sup> The midterm review was based on the implementation progress of Strategy 2020, and on emerging developments and evolving challenges in the region since its adoption in 2008.

On implementation progress, the review found that ADB had closely aligned its operations with Strategy 2020's three strategic agendas of inclusive economic growth, environmentally sustainable growth, and regional integration.<sup>9</sup> During 2008–2012, more than 80% of ADB operations were in Strategy 2020's five core areas. Overall, Strategy 2020 was found to have improved ADB's capability and positioning to respond to the region's development challenges. Combined with ADB's support for knowledge and leveraging of additional resources, ADB's assistance under Strategy 2020 had supported faster growth in DMCs, helped fill their infrastructure gaps, and contributed to their progress on poverty reduction and the MDGs. On developments in the region, the review concluded that Strategy 2020 remained valid

and relevant in its broad strategic directions to address the development challenges of a transforming Asia and Pacific.<sup>10</sup> The review also identified changes taking place in the development landscape of the region.

## 2. Strategic Priorities

The midterm review noted that ADB's institutional effectiveness needed further strengthening, including staff skills and business processes, to respond to the changes taking place across the region. Accordingly, it emphasized 10 strategic priorities to increase ADB capacity and effectiveness, strengthen responsiveness to the changing business environment, and sharpen and rebalance ADB operations. While these did not involve radical changes from the Strategy 2020 priorities of 2008, there were some shifts in focus.

- (i) **Poverty reduction and inclusive economic growth.** ADB would pursue its vision of a region free of poverty—eradicating extreme poverty and reducing vulnerability and inequality—by expanding its support for achieving rapid and inclusive economic growth.
- (ii) **Environment and climate change.** With the region facing serious environmental challenges, ADB would scale up its support for climate change adaptation, while maintaining its assistance for mitigation through clean energy and energy efficiency projects and sustainable transport.
- (iii) **Regional cooperation and integration.** ADB would expand regional connectivity and extend value chains by supporting cross-border infrastructure investments and connecting economic hubs to increase trade and commercial opportunities.

<sup>7</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>8</sup> ADB. 2013. *Inclusion, Resilience, Change: Strategy 2020 at Mid-Term*. Manila.

<sup>9</sup> ADB. 2014. *Strategy 2020 Implementation Progress, 2008–2012*. Manila.

<sup>10</sup> ADB. 2014. *Changing Scenario in Asia and Pacific since Strategy 2020*. Manila.

- (iv) **Infrastructure development.** Infrastructure would remain the main focus of ADB operations. ADB planned to strengthen outcomes of infrastructure projects by improving sector engagement, technical designs, and implementation.
- (v) **Middle-income countries.** As a large majority of its DMCs attain middle-income country status by 2020, ADB would sharpen its strategic approach to stay relevant and responsive to their development needs.
- (vi) **Private sector development and operations.** ADB would strengthen the business environments in DMCs to promote private investment. In addition to being a project financier, ADB would become a more active project developer.
- (vii) **Knowledge solutions.** A “one ADB” approach would be adopted for all ADB departments to work together to provide knowledge solutions. Resident missions would seek knowledge partnerships and dialogue opportunities with DMCs and coordinate ADB support.
- (viii) **Financial resources and partnerships.** Given the need for large-scale development financing, it was recognized that ADB needed a certain scale of operations backed by adequate financial resources. ADB would enhance its lending capacity, including through combining ADF lending operations with the ordinary capital resources (OCR) balance sheet.
- (ix) **Delivering value for money in ADB.** ADB would seek to increase its efficiency, effectiveness, and institutional economy. To support better project implementation, business processes—particularly ADB’s procurement system—would be reformed.
- (x) **Organizing to meet new challenges.** ADB would comprehensively strengthen its staff skills, incentives, and institutional arrangements to become a more dynamic, agile, and innovative institution.

President Nakao presented the key strategic priorities of the Strategy 2020 midterm review in his opening address at the 47th Annual Meeting in May 2014 in Astana. He recognized that the “three I’s”—innovation, inclusiveness and integration—remained critical to the region’s future. He emphasized that they were equally important to ADB. He committed to strengthening reforms in ADB, with particular “focus on innovation in three areas: (i) innovation in mobilizing finance, (ii) innovation in processes and products, and (ii) promoting innovative thinking and skills in staff.” This vision would provide the impetus for ADB’s reforms during President Nakao’s tenure.

### 3. Strategy 2020 Midterm Review Action Plan

In April 2014, a high-level Steering Group was constituted to oversee the preparation of an action plan to implement the key recommendations of the Strategy 2020 midterm review.<sup>11</sup> The Steering Group established the following working groups to lead the preparation of action plans in the following priority areas: (i) strengthening knowledge-related issues, (ii) improving project implementation, including procurement, (iii) increasing efficiency through a more effective use of information and communication technology (ICT), (iv) strengthening resident missions, and (v) promoting innovations in ADB processes and operations. The action plan consolidated the recommendations and inputs of the five working groups.

In July 2014, ADB adopted the midterm review action plan. The ultimate objective of the action plan was to make ADB stronger, better, and faster.

<sup>11</sup> ADB. 2014. *Midterm Review of Strategy 2020 Action Plan*. Manila.

It set out a detailed operational and organizational agenda, with responsibilities and timelines, to translate the midterm review's outcomes into specific actions. It aimed to improve ADB operations on the ground, build skills, and provide better service to clients. The action plan consists of 192 actions across various reform areas, to be implemented broadly within the 2014–2017 timeframe.

Reforms in the action plan focused on enhancing six key areas. First, the action plan mandated changes and improvements to existing operational plans and staff guidelines, or development of selected new plans to deliver on the strategic priorities. Second, to enhance ADB's development effectiveness and deliver value for money, business processes would be further streamlined to reduce delays in project implementation and minimize transaction costs for client DMCs. Third, in order for ADB to become

a more dynamic, agile, and innovative institution, ADB's institutional settings would continue to be strengthened. Fourth, staff skills and capacities would be further enhanced in order for ADB to remain relevant and responsive to the changing development needs of its client DMCs. Fifth, to ensure necessary resources to implement the midterm review priorities, ADB's lending capacity and ability to leverage external resources would be strengthened. Sixth, significant emphasis was placed on monitoring results and reporting of progress on implementing the strategic priorities.

ADB's Office of the Managing Director General is responsible for the overall coordination and monitoring of the action plan, communication to staff, and progress reporting to the Board. The implementation of the action plan is an ongoing and evolving process. ADB periodically updates it in line with changing business needs and implementation experience.



## III. INSTITUTIONAL OVERVIEW

- To implement Strategy 2020, various organizational changes were introduced with a view to mobilizing more development resources and improving knowledge management.
- Resident missions were strengthened to enhance responsiveness to clients.
- ADB emphasized the importance of better human resource management in improving institutional effectiveness.

At the institutional level, several changes during ADB's fifth decade were largely guided by the implementation of the corporate strategy—building on earlier reforms and introducing new ones. Throughout this decade, ADB increasingly emphasized the importance of better human resource management in improving institutional effectiveness. ADB undertook significant efforts to carry out workforce planning, enhance staff skills, and expand staff strength with a view to ensuring adequate resources to implement the agenda of Strategy 2020 and its midterm review, and deliver on greater lending capacity. Several organizational changes, strengthening of resident missions, and greater technology support were anchored in ADB's strategic priorities.

### A. Membership

Membership of the Bank remained largely stable during the fifth decade of its operation. Georgia joined the Bank in 2007. By the end of 2016, ADB had 67 members (48 regional and 19 nonregional).

### B. Leadership

#### 1. Presidents

The current President, Takehiko Nakao, was Japan's former Vice Minister of Finance for International Affairs, and became the ninth President of ADB following his unanimous



election by the BOG. President Nakao assumed office on 28 April 2013 (Box 2) following President Haruhiko Kuroda's resignation effective 19 March after more than 8 years in office, upon his nomination by Japan's Prime Minister Shinzo Abe as governor of the Bank of Japan.

President Nakao's initial appointment was to serve the three and a half years remaining in the term of his predecessor. On 5 August 2016, the BOG unanimously reelected President Nakao as President of ADB for a further 5 years beginning 24 November 2016.

### **Box 2: Ninth ADB President Takehiko Nakao** (28 April 2013–Present)

Takehiko Nakao was 57 when he became the ninth President of the Asian Development Bank (ADB) in 2013. He holds a Bachelor's degree in Economics from the University of Tokyo and a Master of Business Administration from the University of California, Berkeley. Prior to joining ADB, he was the Vice Minister of Finance for International Affairs at the Ministry of Finance of Japan.



In a career spanning more than 3 decades, President Nakao gained extensive experience in international finance and development. He joined the Ministry of Finance in Japan in 1978, and held several senior positions, including as Director General of the International Bureau, where he fostered close ties with leading figures in the Asia and Pacific region, and G20 nations. He was assigned as Minister at the Embassy of Japan in Washington, DC between 2005 and 2007, and from 1994 to 1997, he served as economist and advisor at the International Monetary Fund. He has published books and numerous papers on financial and economic issues, and in 2010 and 2011, was a Visiting Professor at the University of Tokyo.

Upon assuming office, President Nakao traveled to several developing member countries to engage more closely with clients. The feedback he has received from clients has been instrumental in helping to strengthen reforms to address client concerns.

Within less than 3 years of assuming leadership, the President has undertaken some important initiatives to realize his vision of a stronger, better, and faster ADB. The first was the 2014 midterm review of Strategy 2020, and the adoption and implementation of the associated reform action plan to strengthen ADB's operations on the ground. President Nakao was particularly interested in greater delegation to resident missions, and streamlining procedures. The second was the combination of the Asian Development Fund with the balance sheet of the ordinary capital resources approved in 2015, a unique financial innovation to expand ADB's annual financing commitments, and help meet the financing needs of developing member countries. The third was the enhanced focus on a "Finance++" model, which formed the basis of organizational and institutional change to bring together knowledge and operations departments more closely. The fourth was greater attention to climate change and environmental issues, culminating in his pledge, prior to the 21st Conference of the Parties meeting in Paris in 2015, to double ADB's annual climate financing to \$6 billion by 2020, up from the current \$3 billion.

President Nakao is leading the process of transitioning to a new corporate strategy for ADB to respond to the changing international development agenda, adjust to the continuously evolving regional economic landscape, and sustain its growing lending capacity.

The President is known for his hands-on management style, his attention to detail, and his close involvement in the reform process. He personally worked on ADB's corporate strategy and reforms through frequent interactions with staff. He has given particular attention to external relations and ADB's interactions with the media. He often writes opinion pieces on development topics. He also keeps meticulous records of meetings and discussions.

Source: Asian Development Bank.

## 2. Senior Management

As in previous decades, there was considerable movement among the Vice-President (VP) posts over the 2007–2016 decade, arising largely from continuing organizational realignments. For Operations 1, BOD appointed Xiaoyu Zhao as VP in September 2008, following the departure of Jin Liquin. Zhao himself would be succeeded by Wencai Zhang, former Director General of the Department of External Economic Cooperation at the Ministry of Finance of the PRC, in December 2013. For Operations 2, C. Lawrence Greenwood, was succeeded as VP by Stephen Groff, former Deputy Director for Development Cooperation at the Paris-based Organisation for Economic Co-operation and Development. Groff assumed office in October 2011.

For Finance and Administration, BOD approved the appointment of Bindu Lohani as VP in 2007, succeeding Khempheng Pholsena, whose term ended in April 2007. VP Lohani, an alumnus of the Asian Institute of Technology and holder of several leadership positions at ADB, then succeeded Ursula Schaefer-Preuss as VP (Knowledge Management and Sustainable Development) after she left ADB in November 2011, and Thierry de Longuemar was appointed VP (Finance and Administration). Following Lohani's departure from ADB in 2015, Bambang Susantono, former Vice Minister of Indonesia's Ministry of Transportation and Deputy Minister for Infrastructure and Regional Development, succeeded him as VP (Knowledge Management and Sustainable Development) in July 2015.

Two new VP positions were created in this decade:

- (i) As part of ADB's long-term strategy to scale up PSO and cofinancing partnerships, ADB created a new position for VP (Private Sector and Cofinancing Operations) effective June 2010. Lakshmi

Venkatachalam, with over 3 decades' experience in senior management positions with the Government of India, assumed this position. After her retirement, she was succeeded by Diwakar Gupta, former Managing Director and Chief Financial Officer of the State Bank of India, in August 2015.

- (ii) Effective January 2013, the Finance and Administration vice-presidency was reorganized into vice-presidencies for Finance and Risk Management,<sup>12</sup> and Administration and Corporate Management.<sup>13</sup> Bruce Davis, former Australian Ambassador to Ireland and with more than 30 years of experience at the Australian Agency for International Development (including 10 years as director general) assumed office in January 2013 as VP (Administration and Corporate Management). He retired in November 2015, and was succeeded by Deborah Stokes, a senior official in Australia's Department of Foreign Affairs and Trade. Thierry de Longuemar was redesignated Vice-President (Finance and Risk Management) in January 2013. He left ADB in 2016. He was succeeded by Ingrid van Wees, a senior official from the German Investment and Development Corporation.

In the Office of the Managing Director General, Rajat Nag retired in December 2013, after 7 years in office. He was succeeded by Juan Miranda, who assumed office in July 2014. Miranda has earlier held several senior positions in ADB, including as director general for ADB's South Asia Department during 2012–2014, and as director general for ADB's Central and West Asia Department during 2006–2012. Miranda also held senior posts in leading commercial and investment banks, as well as in the European Bank for Reconstruction and Development.

<sup>12</sup> This consisted of the Treasury Department, the Controller's Department, and the Office of Risk Management.

<sup>13</sup> This consisted of Budget, Personnel, and Management Systems Department; Operations Services and Financial Management Department; Office of Administrative Services; Office of the General Counsel; and Office of the Secretary.



## C. Budget, Staffing, and Other Organizational Matters

### 1. Budget

During 2007–2016, the net internal administrative expenses (IAE) budget grew at an annual average rate of about 7.5%—including both volume and price increases.<sup>14</sup> However, during 2010–2012, the IAE budget grew at double-digit rates of 10%–13%, as ADB's staff strength expanded rapidly over this period, in response to a 3-year workforce allocation plan that aimed to address staff constraints to implementing Strategy 2020. The period 2013 onward witnessed progressive tightening of IAE budget growth rates, largely as a result of internal administrative efficiency measures. In 2016, the IAE budget grew at just under 3%, which is the lowest increase since 1999.

### 2. Staffing and Human Resources Policy

Staff strength increased during the decade. At the end of 2016, there were 3,092 ADB staff from 60 member countries, including 7 management, 1,103 international and 1,982 national and administrative staff. This represented a 29% increment compared to the end of the previous decade, largely due to ADB's implementation of the 3-year workforce allocation plan over 2010–2012.<sup>15</sup> The increase in staffing was undertaken in order to enhance ADB's capacity to implement Strategy 2020 and increase in-house skills in the Strategy 2020 core operational areas. By 2012, staffing in Strategy 2020 priority sectors and themes had increased by about 48% compared to 2009.<sup>16</sup>

The implementation of ADB's human resources strategy (2005–2007) had sought to establish a

more merit-based human resource management system. In 2008, a comprehensive review of ADB's human resources strategy was undertaken.<sup>17</sup> The review underscored the importance of linking ADB's human resource management to its business strategy to support and deliver the results of Strategy 2020. Based on the review, ADB initiated the preparation of Our People Strategy (OPS) in March 2009 through an extensive consultation process.<sup>18</sup> It was endorsed by BOD in January 2010. To implement the OPS, ADB developed a Human Resource Function Strategic Framework and Action Plan, with time-bound targets and indicators that were regularly monitored.

Of the OPS, President Kuroda said that it “... is key to implementing Strategy 2020. It frames [ADB's] efforts to attract and retain highly motivated individuals and create an environment that enables them to give their best to the region's development.”<sup>19</sup> The OPS recognized ADB's staff to be its most important asset, and guided human resource management through much of the decade.<sup>20</sup> The OPS identified three goals for ADB: (i) a strong mix of high caliber, motivated, client-responsive staff working in partnership internally and externally; (ii) inspiring leadership with proactive and effective people management; and (iii) a supportive and enabling workplace environment and culture.

Throughout the decade, in order to implement the OPS, ADB continued to adopt measures to refine recruitment processes, improve opportunities for career progression, enhance performance management, and provide better work-life balance. Following the Strategy 2020 midterm review in 2014, ADB reemphasized its commitment to ensuring a strong mix of high-performing and high-potential staff with skills aligned to future

<sup>14</sup> In comparison, the IAE budget grew at an average of 5% during the fourth decade (1997–2006).

<sup>15</sup> At the end of 2006, there were 2,405 staff from 54 member countries (5 management, 856 international and 1,544 national and administrative staff).

<sup>16</sup> ADB. 2013. *Review of the Implementation of the 3-Year Workforce Plan, 2010–2012*. Manila.

<sup>17</sup> ADB. 2008. *Comprehensive Review of the Human Resources Strategy, 2005–2007*. Manila.

<sup>18</sup> ADB. 2009. *Our People Strategy: Skills and Passion to Improve Lives in Asia and Pacific*. Manila.

<sup>19</sup> ADB. 2010. Opening Address. Speech by President Haruhiko Kuroda delivered at the 43rd Annual Meeting of the ADB Board of Governors. Tashkent. 2 May 2010. Manila.

<sup>20</sup> See <http://www.adb.org/publications/our-people-strategy-skills-and-passion-improve-lives-asia-and-pacific>

needs of clients, and introduced and strengthened several strategic reforms in 2014–2015.<sup>21</sup>

ADB introduced regular (usually biennial) staff engagement surveys starting 2008 to identify organizational issues.<sup>22</sup> The 2008 survey noted categories perceived favorably by staff (such as ADB's goals and objectives, work environment, job satisfaction, working relationships) and also identified areas for improvement (such as the reward system, career development, performance management, and communication). This provided a benchmark for further surveys in 2010, 2012, and 2015, although there have been progressive changes in methodology. The surveys are conducted with help from external experts to assess progress in human resource management. Departments assess their results, and implement action plans to address issues identified through the surveys.

Various measures aimed at enhancing gender balance in staffing were adopted. ADB implemented two successive Gender Action Programs (GAP) during 1998–2002 and 2003–2006, to promote gender equality, primarily focusing on recruitment and staffing. Based on implementation reviews, further gender intervention was considered necessary.<sup>23</sup> Accordingly, GAP III was approved in 2007, covering 2008–2010, and was subsequently extended for 2011–2012, to further improve the work environment, proactive career development programs, raise gender awareness and sensitivity, and increase accountability of managers for gender results in their work units.<sup>24</sup> Overall results from the implementation of GAP III were encouraging: between the end of GAP II (December 2007) to

the end of the GAP III extension (December 2012), international women staff as a proportion of total international staff went up from 35.5% to 45.1% at levels 1–4, from 28.9% to 29.0% at levels 5–6, and from 13.6% to 26.5% at levels 7–10. The share of women in total staff also increased from 56.5% to 59.1% during this period. However, some reversals have been noted between 2012 and 2015, particularly in recruitment and attrition of women international staff.

Building on the success of the GAPs, a focused Diversity and Inclusion Program was introduced for 2013–2016, toward achieving the OPS goal of a supportive and enabling work environment and culture.<sup>25</sup> President Nakao expressed the view that a “diverse and inclusive workforce makes ADB a more creative, collegial and productive workplace. This enables [ADB] to create innovative solutions to address complex development challenges.” The Diversity and Inclusion Program continued to focus on the important objective of increasing women international staff representation, but included nongender issues. As per the Staff Engagement Survey results and focus group feedback, some of these related to ageism, seniority and tenure, lack of respect for different staff categories and staff assigned to different locations, managerial competency to manage diversity and inclusion, inclusion issues for people with different physical abilities, sexual orientation, and religion. However, in view of recent evidence of reversal of some gains on gender achieved under the GAPs, ADB's International Women's Committee has expressed the view that a more focused GAP may be needed.

<sup>21</sup> These include (i) renewable fixed-term contracts for senior international staff, including 360-degree feedback; (ii) improved managerial assessment and selection processes; (iii) flexible retirement options to retain scarce and essential expertise; (iv) an annual talent review exercise and use of talent pools for succession planning, development, and appointments; (v) strengthening of performance management processes, particularly of poor-performing staff; (vi) introduction of technical and managerial streams; (vii) improved flexibility in fast-tracking, lateral moves, and downgrading; (viii) empowerment of national staff, including encouragement to apply for international staff vacancies in headquarters and resident missions, and considering their applications on merit and when they meet the relevant criteria (including international experience); and (ix) leadership development training for mid-level, high-performing international staff.

<sup>22</sup> This followed the survey undertaken in 2003.

<sup>23</sup> ADB. 2007. *Review of the Second Gender Action Program (GAP II, 2003–2006) and Proposal for the Third Gender Action Program (GAP III, 2008–2010)*. Manila.

<sup>24</sup> ADB. 2011. *Updating the Third Gender Action Program (GAP III): GAP III Extension, 2011–2012*. Manila.

<sup>25</sup> ADB. 2013. *Diversity and Inclusion Framework, 2013–2016*. Manila.

In order to ensure suitable resources to implement Strategy 2020 and to sustain ADB operations, a workforce allocation planning exercise was undertaken in 2009. This identified gaps in staff headcount, allocation, and skills mix, and indicated a need for 500 additional staff positions by 2012 (a 20% increase from the 2009 level). Staff strength increased steadily over 2010–2012 as additional positions were approved through the budget process to strengthen resident missions, enhance project quality, promote private sector development and operations, and risk management, and upgrade knowledge solutions.

Following the Strategy 2020 midterm review, a workload and workforce analysis was initiated in 2014. This assessed current staff deployment from qualitative and quantitative perspectives, with a view to studying imbalances between staffing and workload within and between operations and support departments. A parallel exercise was undertaken to assess current staff skills against future operational requirements, and provide information on emerging skills gaps. These exercises aim to inform decision-making as ADB responds to evolving organizational priorities, including how best to position staffing to rapidly build up programming pipelines in view of expanded lending capacity from the ADF–OCR combination. Based on this, ADB's 2016 budget was approved by BOD in December 2015, with 52 net new staff positions. While an additional gross staff requirement of 112 positions was identified, 60 of these are expected to be met through redeployments across ADB. ADB also announced an Early Separation Program in 2016 to support staff optimization measures.

Strong emphasis on promoting learning and development continued through the decade. A curriculum approach to learning was further developed along four key tracks: leadership,

managing for development results, operational and business processes, and financial management. Following Strategy 2020, the focus shifted toward team-based leadership development, and sector and thematic learning programs to support implementation of operational programs. Training programs progressively revolved around the project cycle.<sup>26</sup> A technical skills registry was introduced in 2010, to capture the skills and proficiency of staff in technical skills that are relevant to ADB.

ADB continued to regularly review staff benefits and compensation packages and implement reforms in staff compensation and benefits, to address efficiency and competitiveness. Benefits administration underwent several improvements, including through the use of electronic systems for medical files, leave management, and pension statements. A Comprehensive Review of International Staff Salaries and Benefits was undertaken in 2010,<sup>27</sup> and BOD approved the retention of market-based approaches and the adoption of several changes to international staff compensation methodology.<sup>28</sup> A total remuneration study covering headquarters and three large resident missions (the PRC, India, Indonesia) was undertaken in 2011. It assessed the competitiveness of the compensation for national and administrative staff, and was carried out subsequently for other resident missions. Several changes were approved on its basis, in order to unify benefit policies, and align with those of similar organizations where possible. Another Comprehensive Review of Salaries and Benefits, approved in 2015, after the Strategy 2020 midterm review, assesses the competitiveness, sustainability, and cost efficiency of ADB's packages, and introduces changes required to support ADB's business needs and changing workforce demographics. As a continuation of this, a review of staff pension and medical benefits are currently under way, in close consultation with

<sup>26</sup> Training programs addressed various aspects of the projects, including project design and management, financial management and analysis of projects, project cost estimates, procurement, safeguards, mission leadership, and public–private partnerships.

<sup>27</sup> ADB. 2010. *2010 Comprehensive Review of Salaries and Benefits for Professional Staff*. Manila.

<sup>28</sup> Changes includes flexibility in determining overall average increase in salary to achieve full parity with the market by 2015, suspension of bonus schemes, reallocation of the bonus pool to salary increase to reward individual performance with greater differentiation, and introduction of team and spot awards.

staff. This review was expected to be completed in 2016, and further changes on this basis would be introduced effective 2017.

A new staff grading system was introduced in 2010, placing staff into three categories: international staff (levels 1–10), national staff (levels 1–7), and administrative staff (levels 1–7). A level complement and job band system were introduced, to assist career progression. A new job title framework was developed to align titles to core operational and functional areas of Strategy 2020.

### 3. Office Accommodation

Expansion of the ADB headquarters building commenced in 2012, with the construction of a third atrium to add to the present north, south, east, and west cores. A key objective was to house ADB's expanded staff strength. The third atrium officially opened in November 2014, providing 31,000 additional square meters of office space. Construction reflected the architectural character of the main building, but it followed advanced international standards in environmentally efficient design, operation, and maintenance. A 305-vehicle multistorey car park was also constructed.

ADB continued its green initiatives and resource conservation programs to run an environment-friendly headquarters to reduce its carbon footprint. ADB was granted a gold certification in Leadership in Energy and Environmental Design, the first existing building in the Philippines to be given this award by the US Green Building Council.

### 4. Resident Missions

ADB's Resident Mission Policy of 2000 had accelerated the expansion of its resident missions network, and expanded their role beyond project administration to strategic and policy support functions. Further strengthening of its resident missions formed a core component of ADB's

reform program in the fifth decade, particularly under the Strategy 2020 midterm review action plan. Reforms in this area aimed to improve efficiency and effectiveness of ADB operations, and enhance responsiveness to clients.

#### Reviews of Resident Mission Operations.

In 2008, ADB completed a review to identify options for improvement of resident mission operations.<sup>29</sup> The review drew on the findings of a 2007 special evaluation study of the resident mission policy.<sup>30</sup> The review concluded that the 2000 resident mission policy succeeded in reorienting the work of the resident missions from a primary focus on project administration to a wider range of functions involving all aspects of ADB operations.<sup>31</sup> Decentralization was found to have positively impacted on ADB operations, thereby justifying the increase in both staff numbers and budgets of the resident missions.

The review pointed to areas where implementation of the resident mission policy could be strengthened, including identifying arrangements that would enable greater integration of the activities of headquarters and resident missions, further adjusting the number and skills mix of staff in selected resident missions to align with functional requirements, strengthening incentives for resident mission postings for both local and international staff, and further expanding bandwidth and improving connectivity. The major conclusions of the review were that with some strengthening, the resident mission policy was sufficiently robust to support implementation of Strategy 2020. To better position resident missions to implement Strategy 2020 successfully, the review recommended expanding the resident missions' role in knowledge production and dissemination, strengthening resident mission skills in private sector development and nonsovereign operations, and clarifying resident missions' responsibilities.

<sup>29</sup> ADB. 2008. *Review of Resident Missions' Operations*. Manila.

<sup>30</sup> ADB. 2007. *Special Evaluation Study on Resident Mission Policy and Related Operations: Delivering Services to Clients*. Manila.

<sup>31</sup> ADB. 2000. *Resident Mission Policy*. Manila.



A 2013 evaluation study on decentralization found that resident missions were performing all of the functions required in the resident mission policy, as well as several additional functions.<sup>32</sup> Perception surveys showed that resident missions were valued by DMC governments as the first point of contact with ADB on operational matters. However, despite progress in expanding the resident mission network and activities, the bulk of operations activities and authorities remained at headquarters. Among these were about 90% of project processing and 60% of project administration, and most knowledge activities. In addition, authority for major procurements, disbursements, and safeguards were still with headquarters.

**Delegation of Authority.** Under Strategy 2020, ADB continued efforts to strengthen the management structure of resident missions to support project quality and expanded operations through (i) delineating strategy, and programming, country operations, and finance and administration; (ii) establishing and/or formalizing deputy country director positions, particularly for larger resident missions (starting with the PRC, India, Pakistan, and Viet Nam in 2011, and Bangladesh and Indonesia in 2012); and (iii) firming up the resident mission management team concept. Benefits for staff assigned to field offices were progressively upgraded under compensation and benefits reviews.

Since the Strategy 2020 midterm review, ADB has undertaken stronger measures to delegate authority to the field, starting with the large resident missions. President Nakao emphasized the importance of resident missions, when at the 47th Annual Meeting of the BOG in Astana in 2014, he recognized “.. that [ADB’s] resident missions have to play a greater role. Country operations have become more complex, and [ADB’s] clients expect a quick and effective response

from [ADB]. [He would] empower resident missions by providing them greater capacity and mandate.”

While the pace of delegation varies based on staff strength and capacity, most field offices play a larger role in managing knowledge operations, and have more authority to make decisions on procurement, disbursements, and project management, after the Strategy 2020 midterm review. The six largest resident missions—India, the PRC, Indonesia, Viet Nam, Bangladesh, and Pakistan—have strong project administration unit structures in place. Several smaller resident missions have also been delegated a significant part of the portfolio; others are starting more slowly because of capacity limitations. The resident missions in Afghanistan, Cambodia, the Lao People’s Democratic Republic, Mongolia, Sri Lanka, and Uzbekistan are already administering significant parts of the country portfolio. In the Pacific, country and regional directors are jointly responsible for portfolio administration. These measures have been backed by ongoing efforts to empower national staff, provide greater capacity building measures for field staff, outpost more staff to the field, and improve information technology facilities in the resident missions. Some regional departments are exploring the concept of hubs and subhubs to facilitate delegation of authority.<sup>33</sup> As a result of these measures, the volume of the portfolio and number of projects administered by resident missions reached a record high in mid-2016. The number of outposted staff has also risen steadily.

ADB’s field presence increased further during this decade. While 19.7% of ADB’s total staff was located in the field at the end of 2006, the share increased to 24.4% by December 2016. Over the same years, absolute numbers in the field rose from 100 to 154 for international staff and 374 to 599 for national and administrative staff. Several new

<sup>32</sup> ADB. 2013. *Asian Development Bank Decentralization. Progress and Operational Performance*. Manila.

<sup>33</sup> In the Pacific, the Pacific Liaison and Coordination Office in Sydney and the Pacific Subregional Office in Suva already operate as hubs, with headquarters providing services for the Marshall Islands, the Federated States of Micronesia, and Palau. In South Asia, outposted staff in the Bangladesh, India, and Nepal resident missions perform regional functions.

resident missions commenced operations, starting with Armenia, Georgia, and Turkmenistan in 2008. The special office in Timor-Leste was upgraded to a resident mission in 2013. New resident missions were also established in Bhutan and Myanmar in 2013 and 2014, respectively.<sup>34</sup> An extended mission was set up in Tacloban, Philippines, in 2014, to work in areas affected by Typhoon Yolanda, which caused widespread damage in the area. In order to further enhance field presence in the Pacific island countries, extended missions were expected to be established in Samoa, Solomon Islands, Tonga, and Vanuatu by 2016. At the end of 2016, ADB had 31 operational field offices worldwide: 26 resident missions,<sup>35</sup> two regional missions,<sup>36</sup> and three representative offices.

## 5. Computerization

ADB, through its Office of Information Systems and Technology, made significant progress in upgrading systems, improving processes and governance. As part of implementing the Information Systems and Technology Strategy II (2004–2014), several projects were undertaken, including upgrades of e-mail systems, payment gateway, data storage system, web content management, and mainframe operating system. Several obsolete systems were replaced with standard Oracle resource planning platforms. The operations dashboard was launched in 2009 to draw information from existing databases to simplify management reporting, and provide operations departments with a one-stop shop for online reports. Enhancing connectivity between headquarters and field offices was a priority.

Subsequently, the Information Systems and Technology Strategy III (2013–2018), approved in April 2013, prioritized projects to support implementation of Strategy 2020 midterm review reforms.<sup>37</sup> It covers information technology improvements at resident missions including

upgrading fixed assets and network architecture. The strategy aims to (i) codify and automate business and internal administrative processes; (ii) facilitate partnerships between ADB and external stakeholders; (iii) develop tools for ADB staff to create, organize, search, and analyze information; and (iv) help ADB to be more inclusive and transparent with information and knowledge sharing.

Following the implementation of Strategy 2020 midterm review reforms, almost all resident missions have higher internet bandwidth (by 100% to 1,000%) compared to early 2014, with work on intranet links under way. For smaller resident missions, basic IT equipment, such as videoconferencing systems and projectors that were insufficient or outdated in some cases, is gradually being enhanced. IT support standards for resident missions have been defined. Wireless connectivity facilities were implemented in the resident missions, allowing staff to work away from their desks. IT support is being provided for knowledge management). Other major reforms under way include developing a client portal to facilitate disbursements, and rolling out a procurement review system to monitor and streamline procurement processes.

In 2010, ADB launched e-Operations—an online system for processing and implementing sovereign operations—enabling the systematic capture and recording of ADB's outputs and outcomes in the core sectors defined in Strategy 2020. Over time, the system became complex, with the addition of redundant fields, leading to issues with data accuracy and integration with other applications that rely on project information. Based on consultations with user departments, in-house simplification of the system was undertaken in 2016 under the Strategy 2020 midterm review action plan, to deliver a system that is easier to use.

<sup>34</sup> The extended mission in Myanmar was established in 2012, and it subsequently became a resident mission.

<sup>35</sup> This includes the Philippines Country Office located in Manila, established in November 2000.

<sup>36</sup> These are the Pacific Liaison Coordination Office in Sydney, and the Pacific Subregional Office in Suva.

<sup>37</sup> ADB. 2013. *Information Systems and Technology Strategy III and Capital Expenditure Requirements: Enabling Partnerships and Results-Based Management*. Manila.

## 6. Important Organizational Changes

During this decade, several departments and offices were realigned to better deliver on their functions and enhance operational efficiency and effectiveness. A significant change was the restructuring and realignment of ADB's knowledge departments (see section V particularly Knowledge Management). In 2009, the Operations Evaluation Department (OED) was renamed Independent Evaluation Department (IED) to reflect its strengthened independence under a revised policy approved by BOD in 2008 (section VII.C). Also, the Risk Management Unit was upgraded to the Office of Risk Management to enhance the institutional safeguard mechanism against imprudent banking and excessive risk-taking.<sup>38</sup> Furthermore, in 2009, the Integrity Division was separated from the Office of the Auditor General, and subsequently, upgraded to the Office of Anticorruption and Integrity (OAI). This was meant to allow it to conduct investigations more effectively, to ensure that ADB projects and staff members adhere to the highest standards of integrity. In 2011, commercial-related operations were consolidated by transferring commercial cofinancing from the Office of Cofinancing Operations to the Private Sector Operations Department (PSOD). In 2013, the Central Operations Service Office was upgraded to the Operations Services and Financial Management Department (OSFMD), with the position of principal director upgraded to director general. Public–Private partnerships gradually became

an institutional priority in the fifth decade to mobilize development resources for DMCs. The Strategy 2020 midterm review found that staff with PPP skills were scattered across various ADB departments, and recommended centralizing PPP transaction advisory services, which require specialized skills and capacities. Accordingly, a new Office of Public–Private Partnership (OPPP) was set up under the President. The OPPP, with its initial team members, was launched in September 2014; full operations commenced in 2015. The OPPP provides transaction advisory services to the DMCs, as well as coordination and support for ADB's PPP operations.<sup>39</sup>

Several organizational changes directly aimed at improving human resource management. In 2009, the Human Resources Committee of the Board was established to provide guidance on human resource matters within ADB. Its main responsibility was to review, monitor, and make recommendations on ADB's human resources policies and strategies.<sup>40</sup> This brought the number of Board Committees to six.<sup>41</sup> In 2009, a Unit for Institutional Coordination was created in the front office of the Budget, Personnel, and Management Systems Department (BPMSD), to provide advice and assistance to departments and offices on institutional matters such as organizational realignments, workforce planning, and position management, among others. In 2012, the Office of the Ombudsperson started operations to support the formal dispute mechanism, by providing staff with confidential, impartial, informal, and independent assistance to resolve workplace conflicts and issues.

<sup>38</sup> The new Office of Risk Management (ORM) had two divisions, each headed by a director. These were the Credit Risk Assessment Division and the Portfolio Monitoring Division. The two divisions were under the supervision of the head, ORM.

<sup>39</sup> Transaction advisory services are fee-based advisory services provided by ADB over the entire range of activities associated with the preparation, structuring, and procurement of PPP transactions.

<sup>40</sup> ADB. Terms of Reference of the Human Resources Committee. <http://www.adb.org/sites/default/files/institutional-document/32129/hrcommittee-tor.pdf>

<sup>41</sup> The other Board Committees are Audit Committee, Budget Review Committee, Board Compliance Review Committee, Development Effectiveness Committee, and Ethics Committee.



## IV. OPERATIONAL OVERVIEW

- Lending reached record levels in 2016, outstripping the earlier spike in 2009 when ADB had responded to the needs of countries affected by the global economic crisis.
- ADB shifted from a pro-poor growth to an inclusive growth approach under Strategy 2020.
- Infrastructure remained the most significant sector for lending, and the focus on sustainable infrastructure improved.
- Climate change, food security, regional cooperation, capacity development, gender, private sector, and disaster management considerations gained momentum in lending.
- A number of sectoral and thematic operational and/or action plans helped to implement the overall corporate strategy.

### A. Lending Overview

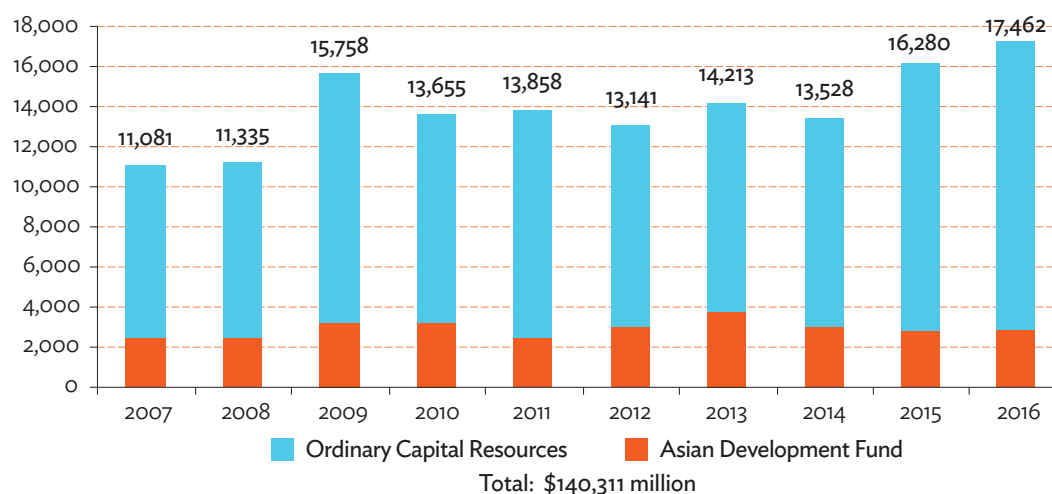
Lending operations expanded significantly in the fifth decade, aggregating around \$140 billion during 2007–2016, with ADF accounting for 21% of total lending (see Appendix Tables A2.1 and A2.2 for more detailed data on lending and technical assistance approvals by country). This represented an increase of more than 100% over the total lending approved during ADB's fourth decade. Public sector and government guaranteed loans accounted for about 86% of total lending, with the rest being direct private sector loans

and equity. Annual lending approvals grew at an average of almost 6% a year during 2007–2016, and increased by almost 58% between 2007 and 2016 (Figure 1).

Two years stand out in the fifth decade. First, in 2009, lending approvals expanded by 39% over 2008, as ADB responded to the global economic crisis that affected many DMCs (Box 3). Subsequently, annual lending approvals fell from this 2009 high as crisis-response needs declined, but stayed at above \$13 billion. OCR lending consistently exceeded \$10 billion from 2009



**Figure 1: Lending Operations by Fund Type, 2007–2016**  
 (\$ million)



Notes: Lending approvals include loan, grant, equity approvals, and guarantee approvals. Data are as of 20 January 2017.  
 Sources: ADB Operations Dashboard; ADB Strategy, Policy and Review Department.

### Box 3: ADB's Lending Response to the Global Economic Crisis

#### Mobilizing Additional Resources

The timely completion of the fifth general capital increase (GCI V) in April 2009 and successful ninth replenishment of the Asian Development Fund (ADF X) in May 2008 helped ADB to respond quickly to the needs of developing member countries (DMCs) affected by the global economic crisis. By December 2009, the Asian Development Bank (ADB) had allocated \$8.8 billion in total crisis support for 43 projects, of which \$7.0 billion (80%) was delivered in 2009. Crisis assistance concentrated primarily on quick disbursing budget support and supporting public and private projects that generate employment and increase business confidence.

#### Countercyclical Support Facility

In June 2009, ADB established the \$3 billion Countercyclical Support Facility (CSF). The new, time-restricted budget support instrument was to support DMCs eligible for borrowing OCR and help middle-income countries sustain critical expenditures. Designed as a short-term lending instrument, the CSF complements conventional program loans that support longer-term structural reforms. By December 2009, ADB had approved \$2.5 billion in assistance to five countries (Bangladesh, Indonesia, Kazakhstan, the Philippines, and Viet Nam), of which \$2 billion was fully disbursed.

#### Additional Asian Development Fund Commitment Authority

In June 2009, ADB approved an additional \$400 million ADF commitment authority to help the most fiscally stretched ADF-only countries, which have difficulty accessing nonconcessional resources. Funds were allocated according to the performance-based allocation formula, increasing the total ADF allocation for 2009–2010 to \$5.76 billion. In addition, ADF-eligible borrowers were allowed to front-load up to 100% of their biennial allocation. Armenia, Georgia, Mongolia, and Papua New Guinea sought and received approval for front-loading beyond their maximum allowable annual utilization.

**Supporting Private Sector Recovery.** ADB's crisis-related assistance to the private sector aimed to rebuild business confidence by providing incentives for private investment and facilitating trade financing. The crisis reduced the amount of financing available to companies for trade. Access to trade finance is vital in cushioning the shock of the global crisis on international trade. In March 2009, ADB expanded its Trade Finance Program (TFP), increasing its overall exposure limit to \$1 billion from an initial \$150 million. By the end of 2009, total TFP exposure reached over \$700 million, exceeding the \$500 million target. This TFP exposure supported \$1.9 billion in trade, most of which occurred within the region.

Source: ADB. 2010. *Annual Report 2009*. Manila.

onward. Second, in 2016, Bank lending reached a record of \$17.5 billion as ADB successfully scaled up its operations in response to the approved combination of ADF and OCR which took effect in 2017 (see subsection on combination of ADF and OCR in section VI). Lending approvals also reached a record high in 2015, as a result of the quick response to natural disasters, especially the Nepal earthquake in April and the Vanuatu cyclone in March; and support for necessary fiscal measures in countries suffering from lower commodity prices and volatility in financial markets, such as Kazakhstan and Mongolia.

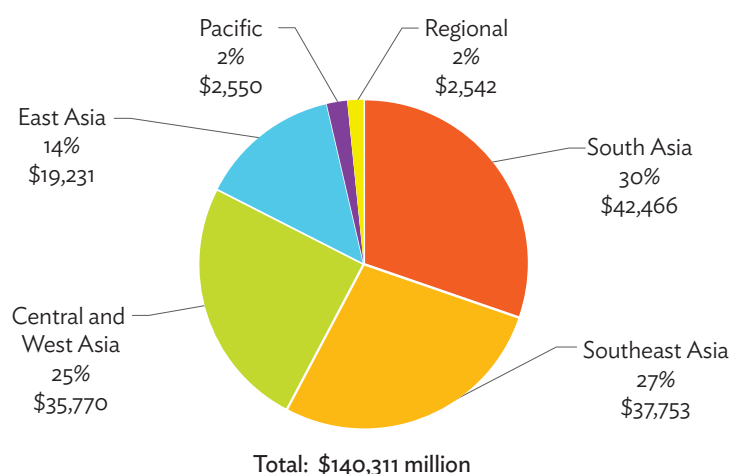
## B. Geographic Distribution

Compared to the fourth decade, there were some shifts in the geographic distribution of ADB lending. The share going to Central and West Asia increased to 25% in 2007–2016 from 17% during the previous decade, as the ADB's relatively newer members (Georgia, Kazakhstan, the Kyrgyz Republic, and Uzbekistan) became regular borrowers (Figure 2). The share of total

lending going to South Asia and Southeast Asia remained relatively stable, at 30% and 27% during 2007–2016, compared with 27% and 28% in the previous decade. East Asia's share declined from 25% during 1997–2006 to 14% during 2007–2016. The Pacific region continued to account for the smallest share of total lending, at about 2% during 2007–2016.

At the country level, lending to India increased significantly, from an annual average of just over \$1.0 billion during the fourth decade to more than \$2.5 billion during 2007–2016, helping lending to South Asia cross an aggregate of about \$4.0 billion since 2010. Lending to the PRC also went up, albeit much more modestly, from an annual average of \$1.2 billion during the fourth decade to \$1.8 billion during 2007–2016. The complete cessation of lending to the Republic of Korea in the fifth decade contributed to lowering the share of East Asia. At the same time, Kazakhstan and Uzbekistan emerged as significant borrowers. The top five borrowers during 2007–2016 were India (18%), the PRC (13%), Pakistan (9%), Viet Nam (9%), and Indonesia (8%).

**Figure 2: Lending Operations by Region, 2007–2016**  
(\$ million)



Notes: Lending operations include loan, grant, equity investment, and guarantee approvals. Regional breakdown is based on current country groupings of ADB.  
Sources: ADB Operations Dashboard; ADB Strategy, Policy and Review Department.

An important development, in early 2012, was ADB's reengagement with Myanmar. Processing of ADB loan and TA projects in Myanmar had been suspended in 1988. The reopening of Myanmar in 2012 presented an encouraging opportunity for further pan-Asian integration. ADB reengaged through a series of initial economic and sector analyses, the conduct of comprehensive sector assessments, capacity development and institutional support, support

for project preparation, preparation of an interim country partnership strategy (CPS), and, finally, resumption of lending operations in 2013 (Box 4). Following the clearance of Myanmar's arrears to the multilateral development banks, ADB provided a \$512 million ADF policy-based lending (PBL) operation, which was disbursed in a single tranche on 27 January 2013. This contributed to a record level of ADF approvals in 2013.

#### Box 4: ADB's Reengagement with Myanmar

Myanmar joined the Asian Development Bank (ADB) in 1973. From 1973 to 1986, ADB provided 32 loans totaling \$531 million for 29 projects. Processing of ADB loan and technical assistance (TA) projects in Myanmar was suspended in 1988. However, ADB staff visits to Myanmar were fielded periodically to keep abreast of the country situation and to join the annual International Monetary Fund Article IV consultations. Government representatives continued to participate as observers in ADB's Greater Mekong Subregion (GMS) regional cooperation programs, which allowed for ongoing dialogue on regional cooperation plans and strategies.

##### Framework for Reengagement Activities

Following the reopening of Myanmar in early 2012, ADB began reengagement activities. The interim country partnership strategy, 2012–2014 was approved in October 2012 to provide the framework for reengagement activities. The strategy embodies the strategic thrusts of (i) building human resources and capacity (capacity building in ministries in core areas of ADB involvement, and education); (ii) promoting an enabling economic environment (macroeconomic and fiscal management, trade, investment, and finance sector reform); and (iii) creating access and connectivity (rural livelihoods and infrastructure development, especially energy and transport).

##### Clearance of Arrears

Generous development partner support was critical to enabling ADB's reengagement in Myanmar, culminating in resumption of lending in 2013. ADB coordinated closely with the Japan Bank for International Cooperation (JBIC) and the World Bank to clear Myanmar's arrears to multilateral development banks by way of debt rescheduling. This was a required condition for clearance of bilateral arrears under the Paris Club. JBIC provided bridging loans to the government in January 2013 to clear its arrears to ADB and the World Bank, which allowed disbursement of policy-based loans from ADB, and the World Bank to immediately clear the bridging loans. ADB's \$512 million Asian Development Fund policy-based loan in 2013, *Support for Myanmar's Reforms for Inclusive Growth*, aimed to provide the foundation for improved policy frameworks that support inclusive growth, such as macroeconomic policy, public finance, trade, investment and finance sector development, agriculture, and education. A postprogram partnership framework was put in place to support and track reforms in each of these areas.

##### ADF Special Allocation

ADF donors recognized the importance of Myanmar's reengagement and responded with the special resources required for ADB to reengage with the country. In view of its low per capita income, Myanmar is classified as a group A (ADF-only) country. Following clearance of the arrears in January 2013, demand for ADF-financed investments was assessed based on the interim country partnership strategy, government priorities, ADB economic and sector work, and consultation with other development partners, which was the basis for proposing a second special ADF allocation approved by the Board in August 2013. ADF donors provided a special allocation of ADF resources, indicatively amounting to \$1.024 billion for 2013–2016, and including the policy-based loan for \$512 million approved in January 2013.

##### Field Office

The Extended Mission in Myanmar was established and initially located with the World Bank Group in Yangon from 1 August 2012. The ADB Board of Directors, in October 2013, approved the establishment of a full resident mission in Myanmar with two offices: one in the capital Nay Pyi Taw, and one in Yangon, the commercial center and base of most development partners. The Host Country Agreement was signed shortly thereafter.

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

## C. Sectoral Developments

Developments in ADB operations largely reflected the corporate directions of the decade. Strategy 2020 emphasized infrastructure (covering transport and ICT, energy, water supply, and urban services) as a core area of operation. ADB investment in infrastructure was considered fundamental to achieving poverty reduction and inclusive growth, and for contributing to environmentally sustainable growth and regional integration. Under the Strategy 2020 midterm review, infrastructure remained the main focus of ADB operations. Other core areas of operation were RCI, environment, finance, and education.<sup>42</sup> Under the corporate strategy, ADB was expected to operate selectively in other areas, namely, agriculture, health, and disaster emergency assistance.

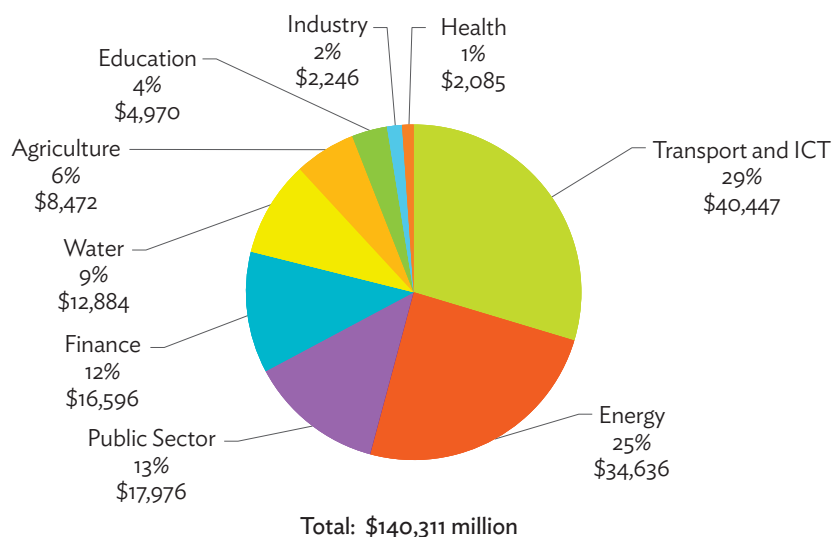
Reflecting the importance of infrastructure, transport and ICT (29%) and energy (25%) remained the two most important sectors for lending during 2007–2016, followed by public

sector management (13%), finance (12%), water (9%), and agriculture (6%), while health, education and industry accounted for at most 4% each (Figure 3).<sup>43</sup> Over the decade, ADB adjusted its approach in a number of key sectors, in response to changing circumstances, as well as to the readjustments in its corporate strategy.

### 1. Transport and ICT

Under Strategy 2020, transport remained a key operational sector for ADB. A significant development in this decade was increasing commitment to sustainable transport, as environmental issues continued to become more important in the global development thinking. With more than 80% sourced from OCR resources, operations in the transport and ICT sector crossed \$40 billion during 2007–2016 (a more than twofold increase compared to the previous decade).<sup>44</sup> The sectors' share of total lending rose from 27% during the fourth decade to 29% during 2007–2016, as it overtook energy as the largest

**Figure 3: Lending Operations by Sector, 2007–2016**  
(\$ million)



ICT = information and communication technology.

Notes: Lending operations include loan, grant, equity investment, and guarantee approvals. Data are as of 20 January 2017.

Sources: ADB Operations Dashboard; ADB Strategy, Policy and Review Department.

<sup>42</sup> While finance and education are categorized as “sectors” for operations under ADB’s revised project classification system, RCI and environment are considered thematic areas.

<sup>43</sup> This includes “other municipal infrastructure and services” before 2014, and “other urban infrastructure and services after 2014,” reflecting ADB’s project classification system.

<sup>44</sup> In the 2014 revision of ADB’s project classification system, ICT was decoupled from the former transport and ICT sector and made a separate sector.

sector for ADB lending. Within the sector, ADB's operations remained predominantly focused on roads (67%), followed by urban transport (13%), rail transport (9%), transport policies (3%), water transport (2%), air transport (2%), ICT (2%), and multimodal logistics (1%). The five top borrowers were India (19%), the PRC (19%), Viet Nam (11%), Pakistan (7%), and Bangladesh (7%) which together accounted for almost two-thirds of the lending to the sector.

The Sustainable Transport Initiative (STI) Operational Plan, adopted in 2010, provided details of how ADB would update its operations in the transport sector in line with Strategy 2020 commitments to make transport operations more sustainable.<sup>45</sup> The STI defines a sustainable transport system as one that is accessible, safe, environment-friendly, and affordable. It also outlined a sustainable approach to maintenance, based on an objective approach to selection of maintenance works, effective execution of works, and adequate financing. It sought to build upon the strengths of ADB's existing transport operations, while introducing effective models of support for new and emerging fields of sustainable transport. The operational plan was results-based with measurable, monitorable targets, and included details of required human and financial resources and institutional coordination arrangements. Looking beyond ADB, it provided a basis for further strengthening partnerships in transport. Four priorities were recognized in the STI Operational Plan: (i) scale up urban transport, (ii) address climate change in transport, (iii) enhance cross-border transport and logistics, and (iv) improve road safety and social sustainability.

Guided by the STI Operational Plan, transport initiatives have addressed the three strategic agendas of Strategy 2020. Projects have increasingly included social dimensions and tackled environmental concerns. Transport sector operations contribute to inclusive growth by improving access to social services, markets,

and economic opportunities. Infrastructure is the main operational emphasis of ADB's support for RCI, with significant lending going to regional road and rail transport connectivity projects and, to a lesser extent, for regional energy and power trade projects.

Lending by subsector is also changing as targeted. The STI Operational Plan sets 2020 targets for roads lending to reduce to 42%, with urban transport and railways lending to rise to 30% and 25%. Based on 2009–2011 and 2012–2014 actuals, and 2015–2017 pipeline data, the trend in lending composition is broadly on track to meet the targets, although sustained efforts are needed. Sustainability of transport lending is improving. Based on ratings for approved projects, the trend is toward increasing sustainability, particularly in urban transport and railways.

A feature reflected in lending to transport in the fifth decade is the growing importance of urban transport, which is a Strategy 2020 focus. Increasing urbanization is placing an enormous strain on transport and mobility in urban areas. To provide sustainable urban transport solutions, the region needs to address rapid motorization, which is a major cause of congestion and pollution. Accordingly, ADB has pilot-tested various approaches to urban transport operations, including public mass transit systems (Box 5). While the scope of ADB urban transport operations will depend on DMC needs, the following elements are considered important: (i) public transport systems, (ii) nonmotorized transport, (iii) integrated urban transport planning, (iv) demand management to reduce the attractiveness of private vehicle use in busy urban areas, and (v) traffic management.

ADB continues to play a lead role among multilateral development banks (MDBs) on road safety. To guide its work on mainstreaming road safety, ADB developed the Road Safety Action Plan in 2012.<sup>46</sup> It provides the basis for ADB to play

<sup>45</sup> ADB. 2010. *Sustainable Transport Initiative (STI) Operational Plan*. Manila.

<sup>46</sup> ADB. 2012. *Implementation of Sustainable Transport Initiative: Mainstreaming Road Safety in ADB Operations Action Plan*. Manila.



### Box 5: Faster, Greener Bus System in Lanzhou, People's Republic of China

Lanzhou, the capital of Gansu Province, serves as a transportation hub between the eastern and western regions of the People's Republic of China (PRC). It is a highly industrialized city, experiencing effects of rapid urbanization, including traffic congestion and pollution. The Lanzhou Sustainable Urban Transport Project, approved in 2009, is the first bus rapid transit (BRT) project of the Asian Development Bank (ADB) in the PRC. It is also the first ADB transport project to support preparation of an application for certification under the Clean Development Mechanism of the Kyoto Protocol, which would provide revenue to help offset some of the costs of running the BRT system.

The BRT is a bus-based mass transit system with some features similar to a light rail or metro system, but costing significantly less and being quicker to construct. It offers faster and more reliable services than regular buses. BRT buses travel on a corridor, typically aligned to the center of the road with dedicated lanes or busways. The BRT plays an important role in the global effort to reduce emissions of the transport sector by encouraging commuters to use public transportation instead of their motor vehicles. Along with establishing 13 kilometers of dedicated bus-only lanes and 22 stations, the ADB project aimed to build or rehabilitate over 33 kilometers of roads, install advanced traffic control and pollution monitoring systems, develop bicycle lanes and bicycle parking facilities to support nonmotorized transport, and support a study for traffic demand management.

The Lanzhou BRT has quickly demonstrated its worth. Officially opened in December 2012, it is one of the three high-capacity BRT systems in Asia, and is the first BRT in the world with split stations, enabling buses running in the same direction to stop on both sides of the platform, easing congestion. In January 2013, it carried 110,000 passengers a day. This had risen to 290,000 by September 2013. The BRT has contributed to a more vibrant economy in the city. The municipal government saw the increasing number of commuters, bikers, and pedestrians as an opportunity to stimulate business. Underground passageways and shopping malls have developed along the BRT corridor. In addition, the BRT spurred greater local development, as new buildings are being built along the route.

The sustainable transport system has helped reduce emissions. Within 9 months of opening, the BRT was able to reduce carbon dioxide emissions by an estimated 11,804 tons. The municipal government has worked on adding an air pollution monitoring system along the bus routes, which will further improve air quality monitoring in the city.

Sources: ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Lanzhou Sustainable Urban Transport Project*. Manila; ADB. 2014. *Lanzhou's Bus Rapid Transit System Brings Quick Relief to Busy City*. ADB Knowledge Showcase. Issue 55. Manila.

a more proactive role to support DMCs in their efforts to achieve sustainable, effective, and cost-effective improvements in road safety. The plan outlines measures for (i) strengthening road safety management capacity; (ii) implementing safety approaches in the planning, design, construction, operation, and maintenance of road infrastructure projects; (iii) improving safety performance measures; and (iv) mobilizing more and new resources for road safety.

Climate change issues were considered important in transport operations. Asia's motorized transport emissions have become a significant contributor to the global problem of greenhouse gas emissions that leads to climate change. In view of the priority accorded internationally to the issue of climate change, ADB gives importance to mitigation measures, which focus on shifting to

more energy-efficient routes or modes, and using more efficient technology. ADB is also working to mainstream climate adaptation measures into its transport operations, in keeping with the overall corporate focus on climate change. These include making climate adaptation adjustments to engineering specifications, alignments, and master planning; incorporating associated environmental measures; and adjusting maintenance and contract scheduling.

In the ICT sector, ADB continued to finance interventions to build telecommunications infrastructure, and integrate ICT applications into projects to improve public services and government administration, education and health services, and introduce disaster warning systems. Using PPPs, ADB financed broadband connections and internet access for the poor.

Overall, however, telecommunications remained a very small share of ADB's lending portfolio during the fifth decade.<sup>47</sup> Between 2000 and 2013, ICT-led projects whose outputs are mainly telecom and ICT-related infrastructure, policy and strategy, and knowledge sharing activities, amounted to less than \$750 million.

## 2. Energy

ADB's fifth decade saw a significant expansion in energy sector lending, and greater emphasis on clean and renewable energy, and energy efficiency and conservation, in line with Strategy 2020 commitments. Total lending to the energy sector crossed \$34 billion during 2007–2016 (almost a fourfold increase compared to the previous decade). Of total energy loans, 38% went to electricity transmission, and distribution, 15% to conventional energy, 8% to large hydropower, 6% to energy sector development, 5% to oil and gas transmission and distribution, and 4% to energy utilities. Notably, the share of aggregate energy sector assistance for renewable energy generation rose to almost 14%, up from about 4% during the previous decade, and that for energy efficiency and conservation rose to 9% from 5% over the same period. Around 87% of energy loans were financed from OCR. Top borrowers were India (24%), Pakistan (15%), the PRC (9%), Viet Nam (7%), and Bangladesh (6%).

In 2009, BOD approved a new Energy Policy.<sup>48</sup> This was prepared in light of the findings of the second review of ADB's 1995 Energy Policy, regional and global economic developments, and alignment of ADB's energy operations with Strategy 2020. The policy aimed to help ADB's DMCs provide reliable, adequate, and affordable energy for inclusive growth in a manner that encourages social, economic, and environmental sustainability. Implementation centered on three key pillars: (i) promoting energy efficiency and renewable energy; (ii) maximizing access to energy for all; (iii) and promoting energy sector reform, capacity building, and governance.

ADB's thrust toward its clean energy agenda began in the early 1990s when it provided fundamental preparatory support to help DMCs mitigate greenhouse gas emissions, based on ADB's policy initiatives for the energy sector that aimed to integrate energy and environment for sustainable development. Then in 2005, ADB launched its Energy Efficiency Initiative to expand ADB's Clean Energy Program and increase its investment in clean energy projects (with a \$1 billion target in clean energy investment starting from 2008). As clean energy investments reached \$1.75 billion in 2008 and \$1.3 billion in 2009, ADB continued its efforts to mitigate climate change by expanding its clean energy portfolio.

The new Energy Policy, approved in 2009, affirmed ADB's clean energy agenda by officially scaling up ADB's annual clean energy investment target to \$2 billion from 2013 onwards. This target was met ahead of time, when ADB assistance for clean energy totaled \$2.1 billion in 2011. It has been consistently met on an annual basis since then. ADB has actively promoted off-grid renewable energy technologies, as well as cleaner, more efficient cooking and heating applications.

From fundamental preparatory support to DMCs, to mainstreaming clean energy development in its operations, the Clean Energy Program has evolved to become a more cohesive program that seeks to guide ADB's investments, initiatives, and plan of action for greener, low-carbon growth (Box 6). It works as a multipronged, umbrella program that helps developing Asian countries meet their energy security needs, facilitate a transition to a low-carbon economy, bring about universal access to energy, and achieve ADB's vision of a region free of poverty. To support deployment of clean energy technology, ADB has created innovative financing mechanisms such as the Clean Energy Financing Partnership Facility, the Asia Pacific Carbon Fund, and the Future Carbon Fund (see subsection on additional resource mobilization efforts in section VI).

<sup>47</sup> ADB. 2014. *ICT-Related Projects by Year per Sector (2000–2013)*. Manila.

<sup>48</sup> ADB. 2009. *Energy Policy*. Manila.

### Box 6: Major Milestones in the Evolution of ADB's Clean Energy Program in the Fifth Decade

#### 2009

- ADB unveils its Energy Policy 2009, specifically listing “support for clean energy in as many ways and sectors as possible” as a critical policy pillar.
- ADB's Clean Energy Program evolves out of an existing energy efficiency initiative and is tasked to aid in the implementation of the Energy Policy 2009 in support of ADB's long-term strategic framework, Strategy 2020. The Clean Energy Program seeks to expand ADB's clean energy investments in smaller developing member countries; increase the program's assistance to demand-side clean energy components in projects in water supply and sanitation, transport, urban, agriculture, and other sectors; and track the pipeline of clean energy projects and monitor achievements against the indicators of the Energy Policy 2009 and ADB's overarching development goals.

#### 2010

- To accelerate the adoption of low-carbon technologies in the region, the Asia Solar Energy Initiative is launched to identify, develop, and implement solar electricity generation.

#### 2011

- ADB's clean energy investment reaches \$2.1 billion, surpassing its annual target of \$2 billion by 2013—2 years ahead of schedule. ADB states that it will continue to reach a minimum level of \$2 billion in annual clean energy investments annually, going forward.
- ADB's Quantum Leap in Wind was launched to support development of 1 gigawatt of wind energy in priority countries.

#### 2012

- ADB unveils its solar rooftop installation at its headquarters in Manila, the first urban solar installation in the Philippines.

#### 2013

- ADB publishes its updated reports “Energy Statistics in Asia and the Pacific” and “Energy Outlook for Asia and the Pacific.” Trends show that the region's energy demand is expected to grow at very high rates, with trillions of investments in energy infrastructure required. Investing in clean energy will be needed in order to counter an equivalent rise in greenhouse gas emissions.
- ADB records \$2.36 billion in clean energy investments, meeting and exceeding the target.

#### 2014

- ADB headquarters in Manila switches over to 100% renewable energy as it begins sourcing its power from geothermal plants south of Manila.
- ADB, alongside UNDP and UNESCAP, are named as lead organizations for the Sustainable Energy for All (SE4ALL) Initiative's efforts in Asia and the Pacific. SE4ALL is a global initiative that seeks transformative change in the energy sector, and has set three goals to be reached by 2030: attaining universal energy access, doubling the amount of renewable energy in the global power mix, and doubling the rate of growth in energy efficiency.

Source: ADB. 2015. *Clean Energy Program. Accelerating Low-Carbon Development in Asia and the Pacific Region*. Manila.

Scaling up connectivity to modern energy is an important aspect of the Strategy 2020 agenda to support inclusive growth. An ADB-led Energy for All Partnership was launched in 2008. This is a regional platform for cooperation, information and technical exchange that brings together the private sector, financial institutions, governments, bilateral, multilateral and nongovernmental development partners. The partnership aims to provide access to safe, clean, affordable modern energy to an additional 100 million people in the region by 2015. ADB has also launched the Lighting for All program to provide 50 million people with modern lighting.

## 3. Finance

Under Strategy 2020, development of the finance sector was considered a core area of operation. ADB committed to strengthen its support to the finance sector at the regional and national levels by helping to develop financial infrastructure, institutions, and products and services. To promote inclusive growth, ADB would seek to create an enabling environment for microfinance, rural finance institutions, and small and medium-sized enterprises (SMEs), and would explore the use of technologies to expand the reach of the formal financial system to rural areas. However,



although support for SME finance went up in this decade, commitment of resources for the overall finance sector did not increase significantly.

ADB support to the finance sector was about \$16.6 billion over 2007–2016, accounting for 12% of total ADB lending. Within the sector, the share of the sector assistance that supported development of the finance sector fell to 9%, from 50% during the fourth decade (which was mostly in response to the Asian financial crisis). The major subsectors were infrastructure finance and investment funds (19%), money and capital markets (17%), SME finance (17%), finance sector development (9%), inclusive finance (8%), housing finance (8%), trade finance (6%), banking systems (6%), and insurance (3%). Eighty-seven percent of financial sector lending was financed from OCR. Top borrowers were India (25%), Indonesia (11%), Bangladesh (9%), and Pakistan (7%). Regional projects accounted for 13% of lending to the sector.

ADB's Financial Sector Operational Plan, adopted in 2011, aimed to articulate the finance sector agendas of Strategy 2020 and guide its implementation.<sup>49</sup> First, in low-income and conflict-affected economies that need to strengthen public confidence in their financial systems, ADB would develop public debt markets, strengthen central banking, and establish basic infrastructure as foundations for building public confidence in the financial system. Second, in order for the region's financial sector to support greater domestic demand for more balanced economic growth, ADB would promote enhanced financial access for the traditionally underserved, including households and small businesses. Third, ADB would continue to be actively involved in supporting the development of capital markets, including debt markets and the enhancement of the access to long-term financing for infrastructure. Fourth, as the financial sector takes on new risks, ADB would fund efforts to improve the regulation and supervision of financial institutions and markets and promote their accountability and

transparency. Fifth, ADB would support the integration of the region's financial sector to facilitate the channeling of savings from net saving countries to net borrowing ones.

The commitment of new resources for the sector has not been commensurate with these priorities, and ADB's aggregate support for financial sector operations has remained largely unchanged following Strategy 2020. However, SME finance lending—important from the standpoint of access to finance for inclusive growth—has increased during the fifth decade, including financial intermediation loans to private banks to expand access to finance for SMEs. Lending for the sector during this decade supported general finance sector and capital market development, and finance infrastructure development for SMEs, infrastructure, and housing. ADB also provided TA to increase access to financial services, improve financial infrastructure, and facilitate trade among neighboring countries. A new operational plan for the sector is under preparation, under the Strategy 2020 midterm review action plan, to address some of the shortcomings identified and strengthen other aspects.

A review of ADB's 2000 microfinance development strategy was undertaken in 2012, assessing microfinance operations approved during 2000–2010.<sup>50</sup> The review found that that ADB's microfinance support had been relevant and responsive to the sector development needs of DMCs. Overall, ADB support was found to have performed reasonably well in improving the policy, legal, regulatory, and supervisory frameworks. However, it was less than effective in market and institutional development, sustainability of microfinance operations, and outreach to the poor. ADB's support was concentrated largely on addressing supply-side constraints and less on demand-side issues. Among its recommendations, the review called for better targeting of poor and low-income households, and closer monitoring of beneficiaries' poverty levels and the empowerment of women. It also

<sup>49</sup> ADB. 2011. *Financial Sector Operational Plan*. Manila.

<sup>50</sup> ADB. 2012. *Special Evaluation Study: Microfinance Development Strategy 2000: Sector Performance and Client Welfare*. Manila.

advocated greater demand-side orientation, focusing on client needs and demand to make microfinance more beneficial for the borrowers, and achieving improved sector effectiveness and results. It is expected that the new operational plan will address several of these issues.

## 4. Water Supply and Urban Services

Under Strategy 2020, providing safe and reliable drinking water and appropriate sanitation facilities remained an important aspect of ADB's strategy to reduce poverty. Strategy 2020 also called for ADB to focus on water supply, sanitation, waste management, and transport in urban areas. Moreover, cities became a key focus area in the fifth decade—specifically, promoting livable cities that are competitive, socially inclusive, and environmentally attractive, and have a sound fiscal base.

Total ADB lending to sector reached around \$12.9 billion during 2007–2016, compared to \$5.3 billion in the fourth decade. The sector's share in total lending increased slightly from 8% to 9%. The key subsectors were urban water supply (43%), urban sewerage (23%), urban policy (8%), urban flood protection (8%), urban solid waste management (5%), and other urban services (5%). The top borrowers were the PRC (24%), India (19%), Viet Nam (9%), Bangladesh (9%), and Sri Lanka (6%).

In 2011, ADB adopted a Water Operational Plan, providing guidance to its regional departments on supporting the water sector through investments, knowledge, capacities, and technologies needed by DMCs.<sup>51</sup> Priorities under the plan are (i) increased efficiencies in water use across the range of users; (ii) expanded wastewater management and reuse, including sanitation; (iii) embedded integrated water resources management, including improved risk management to mitigate floods, droughts, and other water-related disasters; (iv) expanded knowledge and capacity development that uses technology and innovation more directly; and

(v) enhanced partnerships with the private sector. The plan has three core elements: (i) deepening and expanding analytical work to improve the informational basis for sound and timely decision-making, (ii) advancing inclusive policy reforms that facilitate greater efficiency in water use, expanded sanitation coverage and wastewater treatment and reuse, and tightened link of water to food and energy; and (iii) strengthening support to priority programs and projects in the sector, and sustaining annual public investment levels at \$2.0 billion to \$2.5 billion annually during the period 2011–2020.

A self-evaluation in 2014 found that ADB was on track for many of the targets outlined in the results framework of the plan. Target annual lending to the sector from the public and private sector, while not yet consistently in the range defined by the plan, is expected to expand further. Disaster risk management (DRM) is being addressed in integrated water resources management projects. Urban water supply projects increasingly demonstrate that utilities adhere to corporate governance principles and practices. Technological advancements are being adopted in new projects particularly for wastewater management and reuse. Relevant investment projects and TA incorporate capacity development for sustained capacity development program for DMC water agencies. Efficiency of water supply and irrigation projects show improvement.

However, some areas need further attention. The plan has also set a target of no less than 80% of water projects designed and implemented from 2012 onward rated successful. ADB is still off-track—for reporting years 2012–2014, successful and sustainable completed sovereign operations in the sector are 60% for ADB and 53% for ADF. A major issue impacting success of water projects is their sustainability, which is typically linked to factors such as tariff adequacy, financial viability, and institutional arrangements. Addressing corporate governance of water utilities and pushing tariff reforms are among the strategic thrusts of the plan.

<sup>51</sup> ADB. 2012. *Water Operational Plan, 2011–2020*. Manila.

In 2012, ADB adopted an Urban Operational Plan, setting out the direction and approach for ADB's urban sector operations to proactively respond to current and anticipated future needs by effectively addressing the investment opportunities and programmatic issues hindering the efficient, sustainable, and equitable development of cities.<sup>52</sup> The plan focuses on innovative approaches to guide such development while seeking to “get ahead of the curve” in terms of supporting the adoption of cutting-edge planning, technology, and financial products.

Under the operational plan, integrated urban plans are to provide a sustainable basis for urban projects. Several national urban assessments have been undertaken or are ongoing, to provide a framework for developing strategic policy options and targeted investments in the urban sector. Likewise, the preparation of integrated urban plans has been initiated in selected DMCs. Toward improved leveraging, about 20% of ADB cofinancing during 2010–2014 has come from urban sector projects. All urban projects are peer reviewed against sustainability criteria, with a view to improving sustainability. DMCs are gradually adopting inclusive cities, green cities, and competitive cities concepts in designing urban projects. In 2007 the ADB and the Government of Germany established the Cities Development Initiative for Asia program. The program provides assistance to medium-sized cities to bridge the gap between their development plans and the implementation of their priority infrastructure investments.

## 5. Agriculture

As in the fourth decade, ADB lending support to agriculture continued to decline as a share of total lending in the fifth decade, as the focus gradually shifted toward a more multisectoral approach to food security, encompassing sectors beyond agriculture. However, the absolute amount of lending to agriculture has risen from \$5.6 billion in the fourth decade, to almost \$8.5 billion during 2007–2016. Agriculture loans were concentrated

in irrigation (31%), water-based natural resource management (19%), agriculture policy, institutional and capacity development (8%), and agricultural production (7%). Sixty-three percent of ADB support for agriculture was financed from OCR. The top borrowers for the sector were the PRC (38%), Pakistan (13%), Bangladesh (7%), Viet Nam (7%), and India (6%).

Although it was not a core area of operation under Strategy 2020, agriculture and rural development was identified as an operational area to be supported, mainly through infrastructure for rural transport, irrigation and water systems, microfinance, natural resources management, and regional cooperation and integration. A 2010 evaluation also underscored the importance of agriculture in supporting inclusive growth, noting that ADB's investments in this area had generated jobs, raised rural incomes, and reduced poverty (Box 7).

During its fifth decade, ADB shifted its strategic focus from agriculture to a comprehensive multisector food security engagement with the goal of curbing food insecurity, particularly among the poor and vulnerable.<sup>53</sup> ADB recognized risks to the region's long-term food security arising from high vulnerability in the global and regional food supply and market systems, projected increases in food demand, sustainability concerns from land and water constraints, and unfolding climate change impacts. Under its long-term strategic framework, ADB saw sustainable food security as a crucial element in freeing Asia from poverty. Apart from traditional productivity enhancement focus, the portfolio has developed strong focus on agricultural value chain development approach with investments in the segments beyond farm gate, and building climate change resilience. Nonagricultural food security investments remain the majority of ADB's food security engagement, and have diversified beyond infrastructure investments to include more rural financing, policy reform for sustainable use of natural resources and climate change adaptation interventions.

<sup>52</sup> ADB. 2012. *Urban Operational Plan, 2012–2020*. Manila.

<sup>53</sup> Operations to address food security go beyond operations in agriculture, and relate to other sectors including education, health, water, infrastructure, environment, disaster and emergency assistance, and regional cooperation and integration.

### Box 7: Performance Evaluation of Agriculture and Natural Resources Sector Operations

A synthesis report was prepared in 2010 to present key findings and lessons, and highlight major issues regarding operations of the Asian Development Bank (ADB) in the agriculture and natural resources sector. This study was based mainly on the performance evaluation of 25 loans (14 projects and 11 programs) completed by the Independent Evaluation Department from 2000 to 2009. The seven subsectors covered in the study were agricultural production and markets, agriculture and rural sector development, fisheries, forestry, livestock, land-based natural resources management, and water-based natural resources management.

- The review indicated that productivity growth was achieved by 51% of these loans, 62% were successful in generating employment, and only 30% were considered economically viable.
- Sixty percent of the loans indicated improving the functioning of the market as an objective. Most of these loans comprised programs directed toward correcting inefficiencies in the agricultural markets and/or reforming policies. About half of these loans (53%) reported important achievements in improving market conditions.
- Most ADB operations and knowledge services were relevant in meeting the needs of DMCs for sector development. Major sector policies and institutional reforms and direct development activities were successfully undertaken. Most of the loans were accompanied by additional funds, that is, advisory technical assistance, which was provided mainly to generate knowledge and to develop capacity for enhancing the sustainability of outputs and outcomes.
- Most of the agriculture and natural resources operations were executed with additional support from, and in close coordination with, other development agencies. This included cofinancing, implementation of advisory technical assistance, follow-on activities, and general information sharing among development agencies. These efforts were, in most cases, mutually beneficial to the partners involved.
- Environmental concerns were firmly embedded in all aspects of the operations. Every loan was assessed on its potential environmental impact at appraisal and actual impact at postevaluation. Almost half of the loans reported having positive environmental impacts, and three indicated negative impacts on the environment (which were unanticipated impacts and resulted from inadequate mitigation responses).

Sources: ADB. 2010. *Performance of ADB Assistance to Agriculture and Natural Resources—Evidence from Post-Completion Evaluations*. Manila.

Accordingly, in 2009, ADB adopted a food security operational plan to help the region achieve sustainable food security.<sup>54</sup> The goal of the plan was to improve the availability of, and access to, adequate and safe food in a sustainable manner, especially for the large number of poor, women, and other vulnerable groups in the region. The plan addressed the three critical constraints that contributed to the vulnerability of the food systems, namely (i) stagnating food productivity and production; (ii) lack of access to rural finance, infrastructure, technology, markets, and nonfarm income opportunities; and (iii) threat of climate change and volatility of food prices. In addressing these constraints, the operational plan focused on three areas of influence—productivity, connectivity, and resilience.

During 2010–2014, ADB sustained its food security-related investments at about \$2 billion per year.<sup>55</sup> About 50% of these investments by volume and 60%–70% by number of projects were in ADF countries. The investments were mainly for upgrading and constructing irrigation and rural infrastructures, with specific focus on improving the productivity and connectivity of farming communities as well as building resilience against extreme weather events and climate change. Among the food security-related operations in ADF countries, most of these focus specifically on smallholder farmers, as they dominate Asian agriculture, and improving their productivity and engagement into more efficient and resilient food value chains that will serve both household and regional food security. Moreover, food security-

<sup>54</sup> ADB. 2009. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila.

<sup>55</sup> ADB. 2014. Overview of ADF XI at Midterm. Paper prepared for ADF XI Midterm Review Meeting. 12–13 November 2014. Manila.

related investments have supported a unique set of initiatives that will help build inclusive and sustainable food value chains.

As highlighted in the midterm review of Strategy 2020, food security challenges in the region are expected to intensify, given the region's growing population, urbanization, volatile food prices, scarce resources, and climate change issues. Accordingly, the midterm review action plan includes as an operational target investing \$2 billion annually for agriculture and food security. ADB is expected to continue to achieve this target.

Based on a review of the 2009 operational plan, ADB has adopted a new operational plan for agriculture and natural resources to further refine ADB's operations in this area and to maximize effectiveness of agriculture and natural resources investments in addressing food security concerns of DMCs.<sup>56</sup> The plan focuses ADB agriculture and natural resources sector operations in four priority areas: (i) increasing the productivity and reducing preharvest and postharvest losses of food harvests; (ii) improving market connectivity and value chain linkages; (iii) enhancing food safety, quality, and nutrition; and (iv) enhancing management and climate resilience of natural resources. The outcome is expected to be improved focus and quality of ADB's agriculture and natural resources operations in meeting DMC needs toward safe, nutritious, and affordable food for all. To achieve better outcomes from agriculture and natural resources investments, four dimensions of efforts are emphasized: (i) fostering PPP, (ii) drawing on cross-sector synergies and complementarities, (iii) strengthening coordination within and among institutions, (iv) and improving environmental sustainability.

## 6. Social Sectors

Under Strategy 2020, ADB recognized the importance of promoting greater access to opportunities by expanding human capacities, especially for the disadvantaged, through investments in education, health, and social

protection. Operational support to social sectors did not expand commensurately. The midterm review of Strategy 2020 recognized that assistance in this area needed stronger focus. Emphasis on these sectors or areas was renewed accordingly, including through higher and more specific targets, and preparation of operational plans.

**Education.** Education was a core area of operation under Strategy 2020. In the fifth decade, there was a continued shift in focus toward tertiary, and technical and vocational education to help DMCs increase productivity, employability, and innovation. During 2007–2016, ADB's education sector lending reached almost \$5 billion (or 3.5% of total ADB lending), a 73% increase over the previous decade. Within the sector, the share of primary and preprimary education declined to 17% (from 25% in the fourth decade, as did secondary education, which fell to 24% (as against 30%). Meanwhile, the shares of other subsectors increased: technical and vocational trainings or TVET (27% as against 16%); education sector development (24% as against 23%); and tertiary and higher education (8% as against 5%). The share of nonformal education remained at 1%. About 60% of education sector lending was financed from ADF. The top borrowers were Bangladesh (21%), the Philippines (17%), Viet Nam (15%), Nepal (8%), and Sri Lanka (8%).

An education operational plan, adopted in 2010, identified key educational challenges expected to confront developing countries in the region.<sup>57</sup> Under the plan, ADB support to education sector priorities contribute to meeting the development challenges of innovation, inclusiveness, and integration in the region, and strengthen the human capital base in DMCs. To achieve the objectives, ADB would (i) increase and continue to align its support in the education sector to meet the changing needs and priorities of DMCs; (ii) emphasize strengthening quality, inclusiveness, and relevant skills at all levels of education; (iii) adjust subsector priorities while recognizing major differences in education needs

<sup>56</sup> ADB. 2015. *The Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

<sup>57</sup> ADB. 2010. *Education by 2020. A Sector Operations Plan*. Manila.



across countries; (iv) utilize new and innovative models of service delivery and financing; and (v) promote regional cooperation and cross-border collaboration for the harmonization of education and skills qualifications. Support for TVET and postsecondary education is particularly important under the operational plan, and is reflected in the growing shares of these subsectors in total assistance to education during the fifth decade.

After the adoption of Strategy 2020, lending to education actually declined initially from 4% of the aggregate in 2003–2007, to 3% in 2008–2012, even though education was a core area of operation.<sup>58</sup> Under the Strategy 2020 midterm review, ADB committed to expanding education operations to 6%–10% by 2020. ADB reiterated its focus on postbasic education, TVET, and higher education. The objective will be to promote human capital development and the acquisition of the skills demanded by the market to improve the employment prospects of the DMC labor forces and their resilience to economic shocks. Design aspects of ADB's education projects have become more comprehensive, pursuing robust policy reforms and integrating a variety of operational approaches, including new financing approaches customized to contexts of DMCs. The sector has taken the lead in adopting the results-based lending (RBL) modality: already four such education loans have been approved, with more in the pipeline.

**Health.** Strategy 2020 noted that the international community had launched about 70 global health partnerships in the past 10 years, which had increased external financing available to DMCs' health sectors and expanded access to international-quality health products and services. In this environment, ADB proposed to contribute to improvements in health mainly through infrastructure projects such as water management

and sanitation, and through governance work that focuses on public expenditure management for cost-effective delivery of health programs and services to all population groups. Accordingly, health was among the other areas of operation under Strategy 2020.

ADB's support to health as a share of lending declined following Strategy 2020. During 2007–2016, the sector accounted for just about 1.5% of total lending, compared to 2.8% during the fourth decade. Absolute lending to the sector declined slightly as well, while ADB's support for health-related regional public goods did not expand.<sup>59</sup> The moderation of ADB's assistance coincided with the end of an upward trend in global health financing that had been driven largely by support for the control and treatment of HIV/AIDS, which had plateaued by 2010. As a result, the external development assistance that Strategy 2020 expected would displace ADB's health sector support in the region did not materialize. ADB also had difficulty leveraging effective partnerships in the health sector because of its lack of visibility and its diminishing policy engagement and small operational portfolio.

The midterm review of Strategy 2020 revived emphasis on the sector. By 2020, ADB has committed to expanding its health operations to 3%–5% of its annual lending approvals, from less than 2% during 2008–2012. Overall, 32% of health sector lending during 2007–2016 went to health system development, 28% to health sector development and reform, 17% to mother and child health, and 13% to health care finance. Health insurance accounted for about 5% of lending during the period. About half of health sector lending was financed from ADF. The top borrowers were the Philippines (22%), India (17%), Viet Nam (15%), Pakistan (12%), and Indonesia (8%).

<sup>58</sup> Footnote 9.

<sup>59</sup> Footnote 9.



Following an operational plan in 2008,<sup>60</sup> an updated health operational plan was adopted in 2015 to provide a focused approach to addressing the health needs of DMCs by leveraging loans and grants to achieve universal health coverage through strategic investments in health infrastructure, health sector governance, and health financing.<sup>61</sup> It offers sustainable solutions built on ADB experience and focusing on ADB strengths in these areas. Taking a new direction, the plan supports DMC efforts to mobilize additional resources and technical expertise toward universal health care, often within a broader social protection agenda. The plan features health care strategies that (i) can steer the region toward outcome-driven practices and away from output-based business as usual; (ii) support innovative, evidence-based approaches—underpinned by IT—for building and managing health services; (iii) foster investments in integrated and cost-effective programs that expand the supply of public and private health services and offer financing to create health-services demand; (iv) promote public–private partnerships that lead to larger lending amounts and reduced transaction costs; (v) cultivate cofinancing to develop new business and innovative activities; and (vi) mainstream gender to take advantage of the role women play as a health care driver.

**Social Protection.** Social protection is one of the three pillars for ADB's support to the inclusive economic growth agenda. Operational support for social protection during 2007–2014 remained quite small, and indirect. It was mostly provided as part of broader assistance in the core and other operational areas of Strategy 2020.

A 2012 independent evaluation study on the 2001 Social Protection Strategy concluded that social protection needs to be an integral part of ADB's corporate strategy to reduce poverty and promote inclusive growth, but that ADB's portfolio of social interventions since 2002 has been

small and scattered, with arguably limited critical mass.<sup>62</sup> It noted that ADB's assistance for social protection was only 2.5% of the total portfolio during 2002–2011 and recommended that ADB “scale up its presence and experience in building social protection systems.” The evaluation found that when ADB does engage in social protection programs, enters into partnerships with other agencies, and draws on its strengths in knowledge and TA, it can produce good results. The evaluation recommended that ADB should progressively scale up its support to social protection, especially in noncrisis periods.

A social protection operational plan was adopted in 2013 to provide direction for ADB's social protection-related assistance in financing, knowledge solutions, capacity building, and partnership activities.<sup>63</sup> The plan sought to operationalize the social protection pillar in ADB's Strategy 2020. It took into account findings from the 2012 evaluation. Priorities for action between 2014 and 2020 include (i) continued development of ADB-financed social protection projects; (ii) active identification of opportunities to integrate social protection into projects, particularly in the education, finance, health, and public management sectors; (iii) support to capacity building and policy, and knowledge sharing; (iv) cultivation of partnerships and South–South cooperation; and (v) monitoring and reporting on social protection programs and trends in the region.

ADB is making stronger connections between social protection and the various operational areas of Strategy 2020. This is reflected in social protection projects as a share of total ADB operations by number increasing very gradually—from 5.0% in 2011–2013 to 6.0% in 2013–2015.<sup>64</sup> Social protection projects in ADF countries also increased during the same period, but very marginally, indicating that further effort is needed.

<sup>60</sup> ADB. 2008. *Operational Plan for Health under Strategy 2020*. Manila.

<sup>61</sup> ADB. 2015. *Operational Plan for Health, 2015–2020*. Manila.

<sup>62</sup> ADB. 2012. *Special Evaluation Study: Asian Development Bank: Social Protection Strategy 2001*. Manila.

<sup>63</sup> ADB. 2013. *Social Protection Operational Plan, 2014–2020*. Manila.

<sup>64</sup> ADB. 2015. *Development Effectiveness Review 2014*. Manila.

## D. Cross-Cutting and Thematic Issues

### 1. Inclusive Economic Growth

In 2008, ADB adopted inclusive economic growth as one of its strategic agendas for assistance under Strategy 2020. This marked a shift compared to the earlier corporate strategy, which focused more directly on pro-poor growth (Box 8). This reflected concerns about growing inequality in the region, even as absolute poverty was declining. The midterm review of Strategy 2020 reiterated the importance of pursuing inclusive economic growth for ADB to realize its vision of a region free of poverty.

ADB's approach to inclusive economic growth incorporates three pillars: (i) high sustainable growth to create and expand economic opportunities; (ii) broader access to these opportunities (by expanding human capabilities) to ensure that members of society can participate in and benefit from growth; and (iii) social protection (including safety nets to prevent extreme deprivation). The implementation of this approach, however, has resulted in a stronger focus on the first two pillars, compared to the third pillar related to social protection.<sup>65</sup> At the ADF 12 replenishment meeting in Manila in October 2015, President Nakao recognized the importance of the issue, reflecting that ADB was "... improving [its] framework to better measure ADB's contribution to inclusive growth."

#### Box 8: Shift in ADB's Strategy on Inclusive Growth

Recognizing that both the pace and pattern of growth matter for poverty reduction, the Asian Development Bank (ADB) introduced inclusive economic growth in 2008 as a strategic development agenda under Strategy 2020. While this became an explicit part of the development conversation at ADB from 2008, ADB had already implicitly taken on inclusive growth policies in its operations under its earlier strategies, although they were encompassed under different pillars.

The 1999 Poverty Reduction Strategy identified inclusive social development as one of its pillars. Its modified version, the 2004 Enhanced Poverty Reduction Strategy, included pro-poor, sustainable economic growth as one of its pillars. The Poverty Reduction Strategy focused on human capital development, social capital development, gender and development, and social protection. Human capital refers to education, health, and access to essential services, while social capital development refers to increased opportunity for the poor to take part in decision-making and self-managed community services, including establishing community-based groups in microfinance, health, and natural resources management. Gender and development, meanwhile, necessitates improvement in the status of women through their participation in society, as well as health and welfare schemes. Social protection deals with the vulnerabilities and risks of age, illness, disability, natural disasters, economic crises, and/or civil conflict.

The Long-Term Strategic Framework (LTSF) of 2001 encompassed social development as one of the core strategic areas of interventions, along with sustainable economic growth and governance for effective policies and institutions. In promoting inclusive social development, the LTSF pushed for more equitable access of all to assets and opportunities, particularly the poor, women, and children, minority groups, the extremely poor in rural areas, and those pushed below the poverty line due to natural and human-made catastrophes. It also advocated capacity building to promote the participation of stakeholders in the preparation and implementation of projects to ensure the relevance of interventions, which primarily cover human capital development, basic social services such as education and health targeted at the poor, eradication of gender inequality, and civil society participation in social development programs.

Prior to Strategy 2020, ADB's Poverty Reduction Strategy and the LTSF had espoused a more direct pro-poor growth concept, in which poverty reduction was the main social objective. ADB's earlier strategies focused on large investments in social sectors and social infrastructure, and directed resources to where the impact on poverty was deemed greatest, such as rural development and agriculture interventions, since most of the poor reside in rural communities. Strategy 2020's shift toward the five core areas—infrastructure, education, financial sector development, regional cooperation, and the environment—was linked to ADB's perceived comparative advantage. Other areas such as agriculture and health were relatively deemphasized in Strategy 2020.

Source: ADB. 2013. *Evaluation Approach. Thematic Evaluation Study on ADB's Support for Inclusive Growth*. Manila.

<sup>65</sup> Footnote 9.

At the country level, ADB's support for inclusive economic growth has been operationalized through its CPS process and documentation. Inclusive economic growth is increasingly a cornerstone in the framework of assistance in each CPS agreed with a DMC. ADB's latest quality-at-entry assessment (2014) rates 100% of CPS evaluated as satisfactory on integrating inclusive economic growth issues. However, concerns have been raised about coherence and consistency in presenting inclusive growth in CPS. The quality-at-entry found that all CPS adequately addressed the first two pillars of inclusive growth, i.e., creation of employment opportunities and improving access to these opportunities. However, the third pillar, social protection, was either not addressed or the treatment was tangential to the core program.

Staff guidelines on the CPS have been periodically updated to improve the treatment of inclusive growth objectives in the CPS. New staff guidelines were issued in 2013, clarifying the definition, pillars, and pathways for inclusive economic growth; suggesting improvements to CPS diagnostic work on inclusive growth; and providing inclusive growth indicators to monitor and report progress.<sup>66</sup> ADB further revised and improved the guidelines in 2015.<sup>67</sup> Under the revised guidelines, the CPS is required to identify challenges and priority pathways through which sector and thematic interventions will support inclusive growth at the country level. The completed CPS is evaluated on its contribution toward supporting national inclusive growth objectives.

At the project level, inclusive growth has been addressed mainly through the first two pillars, on creating opportunities and expanding access to them.<sup>68</sup> ADB's infrastructure investments have supported faster growth, poverty reduction,

social development, and progress on the MDGs.<sup>69</sup> They provided access to basic services such as electricity, water supply and sanitation which, in turn, in rural areas, helped decrease work burden for women and provide more study time for children. In addition, infrastructure investments have improved access to schools, medical services, and hospitals. Energy sector operations are increasing energy connectivity. ADB has created greater access to economic opportunities through assistance for social sectors and urban development, the water sector, agriculture and rural development, and finance sector development, including financial inclusion. Emphasis on technical, vocational, and tertiary education has strengthened.

Several measures were undertaken during the fifth decade to improve the incorporation of inclusive growth into ADB operations. ADB updated its policy on incorporating social dimensions into ADB operations, revised the templates for poverty and social impact analysis for ADB-assisted projects, and prepared a new Handbook on Social Analysis. Together with the *Poverty Handbook* published in 2006, these instruments were expected to make ADB-assisted activities in DMCs more effective and inclusive. ADB's revised project classification system (section V.B) requires projects to be classified under three pillars of inclusive economic growth to determine the extent operations contribute to each pillar. In view of evidence that support to the third pillar of inclusive growth is limited, ADB's revised results framework (section VII.A) monitors the proportion of ADB operations supporting the three pillars of inclusive economic growth, starting 2014. For pillar 3 on social protection, the goal is to increase the proportion, year-to-year—which was achieved in 2014 and 2015 (Table 2).

<sup>66</sup> ADB. 2013. *Guidelines on Inclusive Economic Growth in the Country Partnership Strategy*. Manila.

<sup>67</sup> ADB. 2015. *Revised Guidelines on Inclusive Economic Growth in the Country Partnership Strategy*. Manila.

<sup>68</sup> ADB. 2015. *Development Effectiveness Review 2014*. Manila.

<sup>69</sup> During 2009–2012, 49% of ADB's operations by number (62% by volume) supported pillar 1 (creation and expansion of economic opportunities); 45% by number (33% by volume) supported pillar 2 (access to jobs and opportunities); and only 1% by number and volume supported pillar 3 (social protection).

Table 2: Share of ADB Operations Supporting Various Pillars of Inclusive Growth

(%)

Inclusive Growth Pillar	2012–2014		2013–2015	
	Number	Volume	Number	Volume
Pillar 1: Growth and creation of jobs and opportunities	36	45	35	46
Pillar 2: Inclusive access to jobs and opportunities	64	54	64	53
Pillar 3: Social Protection	5.4	4.4	6.0	4.7

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

Source: ADB. 2016. *Development Effectiveness Review 2015*. Manila.

A 2014 independent evaluation on ADB's support for inclusive growth assessed ADB's operations during 2000–2012.<sup>70</sup> The study's key finding was that ADB's financing over the last 13 years was largely geared toward the pillar aimed at promoting economic growth in countries, thereby leaving limited support for the other two pillars of its inclusive growth agenda—especially social protection.<sup>71</sup> This study concluded that ADB has focused its operations on the core areas of Strategy 2020, particularly infrastructure, and this may have led to a larger-than-warranted concentration on operations aimed mainly at sustained growth without paying sufficient attention to inclusiveness. In recommending that ADB provide adequate support for inclusive growth, the study called for efforts to go beyond categorizing projects under the three pillars. Instead, incorporating inclusion objectives in projects and country strategies is imperative to ensure the adequacy of ADB support for inclusive growth.

ADB Management is continuing significant efforts under the Strategy 2020 midterm review action plan to improve the inclusive growth focus of its assistance. ADB is strengthening efforts to base its support on particular country needs and pay special attention to inequality trends. Steps are being taken to ensure that infrastructure projects incorporate inclusive economic growth objective more strongly. ADB will particularly support infrastructure projects that benefit lagging areas and help achieve the MDGs. By 2020, ADB will

expand education operations to 6%–10% and health operations to 3%–5% of its annual approvals of financial assistance, from 3% for education and 2% for health during 2008–2012. It is emphasizing support for social protection, financial inclusion, and inclusive business. ADB is also strengthening governance systems and institutional capacities to support effective, timely, and corruption-free delivery of public services. ADB is making efforts to provide more resources for low-income and fragile and conflict-affected DMCs.

## 2. Environmentally Sustainable Growth

ADB has strengthened assistance for environmental sustainability, particularly climate change, over the years—as the international development agenda has increased focus on the issue. To realize environmentally sustainable growth, which is a Strategy 2020 agenda, ADB supports the use of environmentally friendly technologies, adoption of environmental safeguard measures, and establishment of institutional capacities to facilitate their enforcement. Additionally, the midterm review of Strategy 2020 recognized serious environmental challenges facing the region, and committed ADB to scale up support for climate change adaptation, while maintaining its assistance for mitigation through clean energy and energy efficiency projects, and sustainable transport. Adaptation and climate resilience would be mainstreamed in development planning, as well as in project design and implementation.

<sup>70</sup> ADB. 2014. *Evaluation Approach. Thematic Evaluation Study on ADB's Support for Inclusive Growth*. Manila.

<sup>71</sup> Based on ADB's project classification system, this study estimates that 59% of ADB's total financing in 2000–2012, or more than \$81 billion, are classified under pillar 1 (growth), 30% under pillar 2 (access to opportunities), and 10% under pillar 3 (social protection). Counting stand-alone social protection activities alone, and excluding crisis support to countries, the share of pillar 3 is just 1%.

The midterm review of Strategy 2020 also saw increasing emphasis on integrated disaster risk management (IDRM) approaches, and enhancing DMC access to climate finance.

At the country level, ADB has increasingly mainstreamed environmental sustainability in CPS. All CPS approved from 2009 onward have emphasized climate change as a key development issue and supported climate change interventions for mitigation and adaptation to varying degrees. The quality of background country environmental assessments is generally satisfactory, although their recommendations have been less well integrated in CPS. Operational plans have supported stronger alignment with environmental sustainability. Environmental sustainability is clearly reflected in sector operations plans and in sector thematic policies, particularly those for the energy, transport, urban, and water sectors. Efforts are ongoing to improve natural resource management in key regional landscapes.

At the project level, emphasis on the environment has also increased. The share of operations aligned with the strategic environment and climate change objectives rose to 57% during 2013–2015, from 45% during 2010–2012, and 17% during 2005–2007. Consistent with its energy policy, ADB's financing for clean and renewable energy, and financing for energy efficiency and conservation operations rose in the fifth decade (section IV.A).

The Environment Operational Directions, 2013–2020 prepared in the context of Strategy 2020 and in the follow-up to the United Nations Conference on Sustainable Development (Rio+20), articulates how ADB will help the region transition to environmentally sustainable growth or green growth.<sup>72</sup> The directions, adopted in 2013, identify four mutually supportive directions for operations based on challenges facing the region: (i) promoting a shift to sustainable infrastructure; (ii) investing in natural capital; (iii) strengthening environmental governance and management capacity; and (iv) responding to the climate

change imperative. The priorities are reflected in sector and thematic operational plans, and in the Strategy 2020 MTR priorities. In addition, a Bankwide climate risk management framework for the design and implementation of ADB investment projects is being implemented beginning with an initial risk screening at project inception, a climate risk and vulnerability assessment for medium and high-risk projects, and integration of adaptation options in project design.

ADB's Strategy 2020 addresses natural disasters, noting that ADB should continue to mainstream disaster risk management (DRM), and provide early and medium-term disaster response and support in partnership with specialized aid agencies. The ADF Disaster Response Facility (DRF) established in 2012 augments ADB's capacity to provide recovery and rehabilitation help after disasters in ADF countries (section V.A). ADB is strengthening DRM approaches to reduce vulnerability to natural and environmental hazards. ADB's support for DRM rose 36% to about \$3.3 billion annually during 2012–2014, from \$2.4 billion in 2011–2013. This exceeded the midterm review commitment of \$2 billion a year. Of this, \$3.0 billion went to disaster risk reduction, and the rest to early recovery and reconstruction.

A 2012 independent evaluation study on ADB's response to natural disasters and disaster risks finds that ADB has seen a gradual increase in disaster prevention support to its DMCs, and growth in the number of projects that include a disaster prevention component together with other activities during 1995–2011.<sup>73</sup> ADB's disaster recovery support during the period has achieved its intended physical results to a high degree, and has been responsive. Key infrastructure (e.g., roads, water supply, schools, and dikes) has been rehabilitated and reconstructed. Both disaster recovery and disaster prevention operations of the period have a higher success rate than the ADB average over the same period. However, assistance was found to have been related predominantly to

<sup>72</sup> ADB. 2013. *Environment Operational Directions, 2013–2020*. Manila.

<sup>73</sup> ADB. 2012. *Special Evaluation Study on ADB's Response to Natural Disasters and Disaster Risks*. Manila.



disaster recovery, accounting for two-thirds of approvals, against one-third for disaster prevention. The evaluation recommended that ADB make stronger efforts in disaster prevention and preparedness. It advocated an integrated approach to its disaster recovery operations that goes beyond infrastructure restoration. The primary focus on infrastructure restoration needs to be complemented by activities directed at livelihood restoration and improved resilience of both infrastructure and economic activity. ADB Management broadly provided an institutional commitment to reinforce ADB's support for DRM.

In 2014, ADB adopted an operational plan to strengthen disaster resilience in its DMCs.<sup>74</sup> The operational plan has three key objectives toward this intended outcome: (i) to promote an IDRM approach in ADB's operations; (ii) to strengthen DMCs' IDRM capabilities, knowledge, and resources; and (iii) to mobilize additional public and private partnerships and resources for IDRM. The operational plan recognized the importance of reducing disaster risk in both the immediate and long term, taking the possible effects of climate change into account. It also highlighted the urgent need to enhance the management of residual disaster risk, including through the establishment of adequate disaster risk financing arrangements. It outlined a series of cross-cutting actions to address these needs, focusing on institutionalizing IDRM, strengthening capacity and knowledge, investing in disaster resilience, and engaging stakeholders.

After the Kyoto Protocol was adopted in 1997, ADB stepped up action on climate change financing, policies, and investments. ADB has been taking action on climate change for several decades, establishing and leveraging additional sources of financing, delivering innovative and effective investments, and contributing to a better understanding among its DMCs of the impact of climate change. Reflecting the global situation, action on climate change gathered momentum in the fifth decade.

A climate change operational plan, adopted in 2010, sought to promote a region more resilient to the adverse impacts of climate change, and to contribute to the global reduction of greenhouse gas emissions by helping the region follow a low-carbon path for economic growth and poverty reduction.<sup>75</sup> Under this plan, ADB would devote increased attention and resources to: (i) expanding the use of clean energy; (ii) promoting sustainable transport and urban development; (iii) managing land use and forests for carbon sequestration; (iv) building the climate resilience of the DMCs and the region; and (v) strengthening related policies, governance, and capacities.

Climate change mitigation through investment in clean energy has been a dominant focus of ADB operations in recent years. Investments in renewable energy (solar, wind, small and micro hydro, and biogas) and energy efficiency (efficient buildings, water supplies, and power plants), notably including the pilot application of innovative technologies, such as carbon capture and storage, have taken up the bulk of ADB's investments in clean energy (92% since 2008). Mitigation through sustainable transport and urban development—urban rail and bus rapid transit systems, nonmotorized transport, railways and inland waterways, efficient urban heating, and waste-to-energy projects—has been a feature of ADB's portfolio. ADB has also stepped up efforts on climate change adaptation, including pioneering work in climate-proofing infrastructure, which is now being integrated across all relevant ADB investments. With a view toward adaptation, some regional TA projects aim to boost regional cooperation toward climate change adaptation, strengthening DMC adaptation planning and measures, and integrating adaptation more fully into ADB policies, processes, and programs.

In addition to ADB's own financing, DMCs' access to global and regional funds for environment and climate change is being supported, especially after the Strategy 2020 midterm review. ADB is currently providing DMCs with access to climate

<sup>74</sup> ADB. 2014. *Operational Plan for Integrated Disaster Risk Management, 2014–2020*. Manila.

<sup>75</sup> ADB. 2010. *Addressing Climate Change in Asia and the Pacific: Priorities for Action*. Manila.



funds in excess of \$3 billion annually. This has been achieved by helping DMCs gain access to international climate change financing, particularly from the Global Environment Facility, the Climate Investment Funds (CIF), and bilateral funds. ADB has also set up internal funds to invest in responses to climate change, including the Climate Change Fund, the Clean Energy Partnership Facility, the Asia Pacific Carbon Fund, and the Future Carbon Fund (section VI.D).

A 2014 independent evaluation study on ADB's initiatives to support access to climate finance found that the primary area where ADB has been able to mainstream action is for mitigation in clean energy interventions.<sup>76</sup> However, the study also recommended that this activity could go much further, for instance, with sustainable

transport and resilient land use. Further effort was required to mainstream adaptation and manage the climate risks of projects. In response to the recommendations of the study, ADB proposed to intensify several actions, including the creation of new partnerships with institutions that have expertise and knowledge on climate change and development issues, and further employment of innovative financing approaches to leverage public and private finance, building on measures such as the issuance of clean energy and water bonds that ADB has already undertaken (see section V, subsection on instruments and modalities).

President Nakao has accorded particular importance to climate financing (Box 9). ADB's climate finance is expected to rise to around 30% of overall financing by the end of this decade.

### Box 9: ADB Pledges to Double Climate Financing

In September 2015, Asian Development Bank (ADB) President Takehiko Nakao announced that ADB would double its annual climate financing to \$6 billion by 2020, up from the current \$3 billion. Of the \$6 billion, \$4 billion would be dedicated to mitigation through scaling up support for renewable energy, energy efficiency, sustainable transport, and building smart cities. The remaining \$2 billion will be for adaptation through more resilient infrastructure, climate-smart agriculture, and better preparation for climate-related disasters. ADB's doubling of climate financing reflects its strategic priorities as well as the increase in ADB's overall financing capacity by up to 50% due to a more efficient use of its balance sheet by combining the equities of its ordinary capital resources and Asian Development Fund in 2017.

"Nowhere is tackling climate change more critical than in Asia and the Pacific, where rising sea levels, melting glaciers, and weather extremes like floods and droughts are damaging livelihoods and taking far too many lives," President Nakao said.

In addition to scaling up its own climate financing, ADB will continue to explore new and innovative cofinancing opportunities with public and private partners. For example, ADB will seek to mobilize concessional financing from the Green Climate Fund, which is becoming operational, for ADB's adaptation projects in poorer countries. ADB will tap institutional investment through private equity funds like the ADB-sponsored Asia Climate Partners. ADB will also issue more green bonds as an important source of funding for its climate operations.

President Nakao stressed the importance of technology in tackling climate change, and said that ADB will adjust its procurement systems in order to facilitate the integration of cleaner and more advanced technology into its projects. ADB will also strengthen partnerships with centers of excellence across the world to provide its member countries with cutting-edge knowledge and expertise on climate change.

President Nakao reaffirmed ADB's commitment in a panel discussion with France Minister of Finance and Public Accounts and ADB Governor Michel Sapin, and the heads of the multilateral development banks, on 30 November at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change.

Sources: ADB. 2015. *ADB to Double Annual Climate Financing to \$6 billion for Asia-Pacific by 2020*. News Release. 25 September. Manila.

<sup>76</sup> ADB. 2014. *Real-Time Evaluation of ADB's Initiatives to Support Access to Climate Finance*. Manila.

### 3. Regional Cooperation and Integration

Regional cooperation and integration (RCI) was highlighted in Strategy 2020 both as a strategic agenda, as well as a core area of operation. The strengthened emphasis on RCI in Strategy 2020 supported the implementation of ADB's 2006 Regional Cooperation and Integration Strategy (RCIS) based on its four pillars of (i) cross-border infrastructure and related software; (ii) trade and investment cooperation and integration; (iii) monetary and financial cooperation and integration; and (iv) cooperation in regional public goods, such as prevention of communicable diseases and environmental degradation.<sup>77</sup> In addition, the RCIS envisaged ADB playing four distinct roles in supporting and promoting RCI in Asia and the Pacific: (i) as a financial institution—increasing finance available for RCI projects, programs, and related TA, and/or helping countries mobilize funding and TA; (ii) as a knowledge bank—expanding the creation and dissemination of knowledge and information on RCI to countries; (iii) as a capacity builder—furthering support to countries and regional bodies to build their institutional capacity to manage RCI; and (iv) as an honest broker—strengthening ADB's role as a catalyst and coordinator of RCI for countries.

ADB's Charter gives it a mandate to foster economic cooperation in the region. By its fifth decade, ADB was already promoting closer interaction among economies in support of the RCI agenda. The focus on RCI has improved since Strategy 2020, as the agenda has evolved (Box 10).

At the country level, most CPS approved since 2008 have included RCI as a strategic and operational pillar. Infrastructure was the main operational emphasis of ADB's RCI support, mostly for road and rail transport connectivity projects and, to a lesser extent, for regional energy and power trade projects. To complement this emphasis on hard infrastructure, ADB supported related software for trade facilitation such as

harmonization of regulations, procedures and standards, including support on accession to the World Trade Organization and international conventions related to trade facilitation. ADB has also worked to improve financial cooperation, in addition to infrastructure support (Box 11). These soft initiatives are more complex, have proceeded more slowly, and their results are mixed.

Given the diversity of the region, most RCI activities continue to take place with a subregional focus, covering Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, Central Asia Regional Economic Cooperation (CAREC), Greater Mekong Subregion (GMS), Indonesia–Malaysia–Thailand Growth Triangle, and South Asia Subregional Economic Cooperation. ADB plays a multifaceted role as financier, provider of technical and advisory support, secretariat and coordinator, honest broker supporting subregional dialogue, and catalyst for reaching consensus on common issues. Strategy 2020 also led to the preparation of subregional cooperation strategies, to ensure coherence and strategic prioritization for the five subregions covered by ADB's regional departments. The GMS and CAREC regional strategies were replaced by long-term region wide strategic frameworks launched by the GMS and CAREC secretariats. Currently, the only subregional program to be guided by an ADB Board-approved regional cooperation strategy is the South Asia Subregional Economic Cooperation Program.

At the project level, ADB has moved toward Strategy 2020's goal to have at least 30% of operations supporting RCI by 2020—although significant efforts are still needed. Allocations for RCI have been increased. In 2008, donors agreed to double the amount of concessional financing from ADF to be set aside for regional projects. The set-aside was raised from 5% to 10%. For every dollar drawn from the funds set aside, countries have to match it with \$0.50 from their performance-based allocations. Helped by these measures, ADB operations supporting RCI increased from 7% of the total number of projects approved during 2004–2006

<sup>77</sup> ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

### Box 10: Evolution of the Regional Cooperation and Integration Agenda

The focus of the Asian Development Bank (ADB) on regional cooperation and integration (RCI) has demonstrated a clear strategic progression to address critical regional issues, as ADB's corporate strategy has evolved. In the early years, ADB coordinated studies for a number of subregional projects, and sponsored major regional surveys. By its third decade, ADB's support gained momentum and became more diversified, and lending volumes for RCI operations had increased. Three broad phases can be discerned.

#### 1994–1996

This phase corresponds to the launching of the Regional Cooperation Policy in 1994, ADB's first formal policy supporting regional cooperation. The policy was straightforward and called for a phased approach based on three complementary functions: (i) providing information to countries, (ii) acting as an honest broker among countries, and (iii) leveraging public and private resources toward regional investments. In the first 3 years of the Regional Cooperation Policy, regional cooperation initiatives were limited to just two subregional programs, with only the Greater Mekong Subregion economic program becoming active. This was the start of the RCI agenda, although in its first years it did not yet focus on regional integration.

#### 1997–2005

In subsequent periods, the RCI agenda expanded and became more complex. During the aftermath of the 1997–1998 Asian financial crisis, ADB played an important role helping to build a more resilient environment against external shocks and, in response to a request by the Association of Southeast Asian Nations, it supported several important regional measures. Internally, ADB established the Regional Economic Monitoring Unit (REMU) in 1999 and it added three new programs: the Central Asia Regional Economic Cooperation (CAREC) program, the South Asia Subregional Economic Cooperation Program, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). REMU was upgraded to the Office of Regional Economic Integration (OREI) in 2005, to act as the focal point for RCI knowledge and information and to drive ADB's RCI agenda.

#### 2006–Present

Due to several limitations in ADB's RCI approach, such as fragmented efforts across departments, varied quality of lending and nonlending operations, and limited support for trade and investment, ADB embarked on the formulation of a Regional Cooperation and Integration Strategy (RCIS) in 2005. With the approval of the RCIS in 2006, and the renewed emphasis under Strategy 2020, ADB scaled up its support for RCI. During this period, ADB increased both the volume and the share of RCI in total operations. It then increased its focus on capacity building, economic corridors, expanding ongoing work on global and regional value chains, and more actively anticipating and mitigating (not just reacting to) external shocks. The midterm review of Strategy 2020 particularly called for “second-generation” reforms, such as those related to trade facilitation and harmonization of standards, investment climate improvement, access to finance, and skills development.

In 2014, the Economics and Research Department and OREI were merged into the Economic Research and Regional Cooperation Department. A new division called Regional Cooperation and Integration Division is responsible for most of OREI's previous functions. The Regional Cooperation and Integration Thematic Group was established in 2014, following a realignment of ADB's former communities of practice (including the RCI community of practice established in 2006). An RCI Operational Plan is under preparation.

Source: ADB. 2015. *Asian Development Bank Support for Regional Cooperation and Integration*. Manila.

to 15% during 2008–2010, and then further to 21% in 2010–2012. For 2013–2015, 23% of ADB operations supported RCI. In 2015, ADB approved the establishment of a pilot OCR set-aside for sovereign RCI projects, with an annual allocation of \$500 million for each of the 3-year pilot period (2015–2017). However, utilization of this set-aside has not progressed as planned, at least in 2015.

The midterm review of Strategy 2020 mandates ADB to expand regional connectivity and extend value chains by supporting cross-border infrastructure investments and connecting economic hubs to increase trade and commercial opportunities. The review recognized that while cross-border infrastructure projects improved connectivity, support on regional public goods had been limited. ADB expects to complement infrastructure

### Box 11: ADB Support for Association of Southeast Asian Nations Initiatives

The Asian Development Bank (ADB) has played an important role in helping to increase monetary and financial cooperation in, and mobilize funding for the Association of Southeast Asian Nations (ASEAN) and ASEAN+3 regions.

In the ASEAN+3 region, ADB has supported the creation of ASEAN+3 Macroeconomic Research Office for the implementation of the Chiang Mai Initiative Multilateralization. ADB also supported the development of the local currency bond markets under the Asian Bond Markets Initiative, whose activities include the establishment of (i) the Credit Guarantee and Investment Facility (CGIF) as a trust fund of ADB to provide credit enhancement for firms seeking to issue bonds in their own domestic market or across the region; (ii) the ASEAN+3 Bond Market Forum for the harmonization of regulations and market integration to make it possible for a firm in any part of the region to issue bonds in any ASEAN+3 currency under the ASEAN+3 Multi-currency Bond Issuance Framework; (iii) the Asian Bonds Online website to provide information on the region's bond markets; and (iv) the ASEAN+3 Cross-Border Settlement Infrastructure Forum to improve market infrastructure and to connect national settlement systems in ASEAN+3.

In the ASEAN region, ADB has supported ASEAN central banks in assessing the financial landscape and formulating milestones for financial integration as part of the agenda of ASEAN Economic Community (AEC) 2015. ADB is co-chairing the Steering Committee for Capacity Building under the ASEAN Central Bank Forum to support ASEAN member countries to achieve the set milestones. In addition, ADB has assisted the ASEAN Capital Market Forum to develop an implementation plan for an integrated market to achieve the AEC blueprint for 2015. It has also supported the ASEAN stock exchanges to develop the ASEAN Common Exchange Gateway toward an interlinked ASEAN capital market.

ASEAN together with ADB established the ASEAN Infrastructure Fund (AIF) in 2012 to provide funding for infrastructure development in the region by mobilizing regional savings, including foreign exchange reserves. A Shareholders Agreement for the establishment of the AIF was first signed in September 2011 among eight ASEAN member countries and ADB, outlining the contributions and equity participations of each member. The AIF was incorporated as a limited liability company in Malaysia in 2012, and became fully operational in 2013. Shareholders include Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam, and ADB. Shareholders' total equity contributions are \$485.3 million. All AIF-financed projects are also cofinanced by ADB. The AIF supports ASEAN's Master Plan on Connectivity, which calls for a better-connected ASEAN region that brings people, goods, services and capital closer together. As of December 2015, the AIF had financed seven infrastructure connectivity projects, totaling \$365 million, in Indonesia, the Lao People's Democratic Republic, Myanmar, and Viet Nam.

Sources: ADB. 2014. *Strategy 2020 Implementation Progress 2008–2012*. Manila; ADB. ASEAN Infrastructure Fund. <http://www.adb.org/site/aif/projects>

investments with measures to promote the drivers of second-generation RCI, such as those related to trade facilitation and harmonization of standards, investment climate improvement, access to finance, and skills development. ADB will strengthen financial and monetary cooperation for greater financial, fiscal, and macroeconomic stability in the region. It will also support regional public goods, including effective regional responses to climate change and control of communicable diseases.

ADB's first independent evaluation of support for RCI was completed in 2015.<sup>78</sup> Success rates for projects labelled as RCI have been above the average for all ADB supported projects, even

though RCI projects are typically more complex than non-RCI ones, largely reflecting better project design. The value addition of the RCI work was assessed positively across the four RCIS roles, particularly ADB's role as a financial institution and as an honest broker, although the capacity builder role still needs improvement. The evaluation found that ADB has made progress in mainstreaming the RCI agenda and undertaking RCI work. Various ADB departments have contributed to the RCI agenda, though the effort was not fully integrated nor well coordinated. Key stakeholders in ADB countries' governments and development partners have given ADB good marks for its RCI work.

<sup>78</sup> ADB. 2015. *Thematic Evaluation Study on Asian Development Bank Support for Regional Cooperation and Integration*. Manila.

However, some gaps and areas for improvement were identified, especially in view of the vast potential for engaging in the RCI agenda. The evaluation found good justification for broadening the RCI agenda to work more on issues beyond cross-border infrastructure—especially on matters of trade and investment integration, monetary and financial integration, regional public goods, notably climate change and biodiversity—as well as for deepening the RCI agenda to address the needs of some of the countries that are currently receiving inadequate attention. The evaluation recommended: (i) broadening the RCI agenda beyond cross-border infrastructure (while maintaining the latter), (ii) deepening it with attention to fragile and island countries, (iii) strengthening coordination across and within subregions; (iv) bolstering country ownership for RCI, and (v) developing new RCI project models. These are expected to feed into ADB's RCI operational plan, which is currently being prepared, and to strengthen the value and impact of RCI work going forward.

## 4. Gender Equity

Strategy 2020 recognized gender equity to be a key driver of change for the region, and committed ADB to continue to promote and support this theme by designing gender-inclusive projects and paying careful attention to gender issues across the full range of its operations. This provided renewed momentum for its further mainstreaming in ADB's operations. ADB's 1998 Policy on Gender and Development identifies gender mainstreaming as the key strategy and approach for promoting gender equality and women's empowerment across all sectors. A dual approach is adopted that includes both gender mainstreaming and targeted approaches to reduce glaring gender disparities. Under the midterm review of Strategy 2020, ADB committed to investing more directly in women and girls to narrow gender disparities.

In 2008, ADB started implementing its gender and development plan of action, which would cover operations during 2008–2012.<sup>79</sup> The plan identified approaches and activities that could lead most effectively to promoting gender equality and women's empowerment in the very diverse socioeconomic and cultural backgrounds that characterize the DMCs. It supported accelerating the integration of gender into CPS and projects, improving policy dialogue and capacity support to DMCs, and increasing organizational effectiveness.<sup>80</sup>

The assessment of the implementation of the plan for 2008–2012 found that gender mainstreaming had improved significantly since 2008. Good progress was evident in all three areas highlighted in the 2008–2012 plan: (i) CPS and lending operations; (ii) policy dialogue with DMCs; (iii) and organizational effectiveness. Gender assessments were routinely included in CPS and sector diagnostics and road maps, although the quality of gender strategies and their meaningful integration into country programs and overall results frameworks were sometimes found wanting. In addition, despite the steadily improving quality of project gender action plans, both the implementation of these plans and ADB's capacity to monitor and capture gender equity results remained weak, requiring further strengthening. The need to strengthen project gender action plan implementation and monitoring of results was also highlighted in the 2009 and 2010 independent evaluations of ADB's support for gender and development.<sup>81</sup>

In 2013, ADB adopted a new gender operational plan, taking into account the implementation experience of the earlier plan.<sup>82</sup> It set out the strategic directions and the guiding framework for advancing the gender equality agenda and delivering better gender equality outcomes in the region by 2020. The new plan provided the road map for guiding ADB operations and recognized that more needs

<sup>79</sup> ADB. 2007. *Gender and Development Action Plan (2008–2010)*. Manila.

<sup>80</sup> Footnote 79.

<sup>81</sup> ADB. 2009. *The Asian Development Bank's Support to Gender and Development—Phase I: Relevance, Responsiveness, and Results to Date*. Manila; ADB. 2010. *The Asian Development Bank's Support to Gender and Development—Phase II: Results from Country Case Studies*. Manila.

<sup>82</sup> ADB. 2013. *Gender Equality and Women's Empowerment Operational Plan, 2013–2020. Moving the Agenda Forward in Asia and the Pacific*. Manila.



to be done to reduce gender gaps and disparities across the region. It called for increased emphasis on improving implementation and monitoring for the delivery of better gender equality results. While gender mainstreaming across all operations would remain the priority approach, direct investments in women and girls would be pursued in areas such as: (i) girls' secondary education and completion; (ii) vocational and technical skills training for female youth; (iii) access to productive assets, labor-saving technology, employment, and income-earning opportunities; (iv) business development services for women entrepreneurs; (v) financial services and access to credit; (vi) policy and legal reforms to tackle issues of gender-based violence and anti-trafficking; and (vii) giving women voice in decision-making in formal and informal institutions.

Accordingly, under the midterm review of Strategy 2020, ADB sought to strengthen the implementation of the operational plan, in part by focusing more on monitoring for the delivery of better gender equality results. Given that mainstreaming alone would be insufficient to narrow persistent gender gaps and vulnerabilities, and entrenched gender inequalities, ADB would invest directly in women and girls to narrow gender disparities. Therefore, the midterm review aimed to delivering more projects with gender equity as a theme.<sup>83</sup>

Overall, gender mainstreaming is receiving above-target support in ADB. The share of operations that were classified as either effective gender mainstreaming or gender equity theme stood at 54% for ADB operations overall in 2013–2015. While this was above the 2016 target of 45%, there was a slight decline in annual performance, from 55% in 2014 to 51% in 2015. Gender mainstreaming remained high at 80%–100% in water, education, health, and agriculture. The gender mainstreaming shares in the transport, energy, finance, and public sector management sectors remained below 50%. Overall, while more attention was paid to include baselines for gender targets, the quality of gender

analysis varied across operations. In addition, almost half of the operations supporting gender mainstreaming supported follow-on tranches in multitranche financing facilities. Several gender action plans prepared in 2015 therefore replicated design features from previous projects. The challenge is to explore more innovative projects and more operations with gender equity as a theme.

Despite renewed commitment to explore more gender equity-themed projects in the Strategy 2020 midterm review, its share in overall sovereign operations was at 6% in 2015 compared with 8% in 2014—still limited and lower than 10% as in the past 5 years. The share of completed sovereign operations achieving their overall gender equality results finally reached the 2016 target of 70% in 2015.

## 5. Governance and Capacity Development

Strategy 2020 emphasized good governance and capacity development as a driver of change for the region. ADB committed to bring four elements of good governance (accountability, participation, predictability, and transparency) deeper into the mainstream of its operations and activities. The midterm review of Strategy 2020 reaffirmed that ADB would help strengthen governance systems and institutional capacities to support effective, timely, and corruption-free delivery of public services.

Strategy 2020 marked a divergence from earlier corporate strategies, which placed more direct emphasis on governance and public sector management as an operational priority. Under the LTSF (2001–2015), good governance had been one of three core strategic areas. Combined with the Second Governance and Anticorruption Action Plan (GACAP II) approved in 2006 and its implementation guidelines of 2008, Strategy 2020 shifted ADB's emphasis on governance from specific governance projects to the incorporation of cross-cutting governance and capacity development considerations in CPS and projects.<sup>84</sup>

<sup>83</sup> Under ADB's 2014 project classification system, for the gender component, projects are classified by (i) gender equity, (ii) effective gender mainstreaming, (iii) some gender elements, and (iv) no gender elements.

<sup>84</sup> ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila; and ADB. 2008. *Guidelines for Implementing the Second Governance and Anticorruption Action Plan*. Manila.



The capacity development action plan, adopted in 2007, further accentuated the shift. It sought to guide ADB in engaging client countries to develop capacities critical for sustainable and equitable development.<sup>85</sup> The action plan emphasized (i) country ownership of demand-driven capacity development; (ii) improvement of existing country systems in ADB priority sectors and themes; (iii) capacity-development-support modalities that are flexible, programmatic, and managed by results; (iv) wider use of all available sources for providing capacity development; and (v) continual knowledge refreshment from structured learning and information exchange.

In 2013, ADB internally reviewed its implementation of GACAP II, and noted progress along several dimensions. Good governance and capacity development came to be better embedded in CPS and operations. Since 2006, governance risk assessments and risk management plans have informed ADB operations in most DMCs. Governance risk assessments identify vulnerabilities in country systems and suggest mitigation measures at the country, sector, and project levels. These assessments also assist DMCs in prioritizing reforms and investments that strengthen governance and reduce risks. Risk mitigating initiatives are highlighted in the associated risk assessment management plans (RAMPs). Streamlined business processes require all projects to prepare RAMPs. The review reinforced that ADB should continue to mainstream governance in its operations. However, the review found that implementation of RAMPs needed to be made more effective.

The share of direct public sector management assistance in ADB's portfolio has improved, even though public sector management was not

identified as a core operational area under Strategy 2020. The percentage of ADB lending to public sector management has increased to about 13% in 2007–2016, from around 9% during the fourth decade. The number of operations involving governance and/or capacity development rose from 54% of the Bankwide total in 2011–2013 to 65% in 2013–2015.

An independent evaluation of ADB support for governance was completed in 2014.<sup>86</sup> It recognized ADB's efforts, and stressed the need for continued governance support. It found that GACAP II provided a practical, standardized approach to identifying and mitigating risks in ADB-supported programs and projects, through the use of RAMPs. However, the evaluation found that many project RAMPs covered only minimal analysis of risks or showed a disconnect between risks and suggested mitigating actions. The study recommended that ADB should improve its country- and sector-level governance-related diagnostics, sharpen its corporate-level guidance for cross-cutting public sector management oriented operations, and design and deliver interventions that carefully consider countries' governance contexts, public sector management capacities, and political commitment.

A review of ADB's support for capacity development, and the preparation of a directional document to guide capacity development are under way. Outcomes from ADB's earlier capacity-building strategies are unclear. Capturing specific impacts and outcomes of ADB's expanding support for capacity building continues to be problematic although there are many isolated examples of effective capacity-building interventions. A detailed analysis of experiences to-date and lessons learned is required to develop pragmatic, results-oriented, and focused strategies to ensure concrete results from ADB's capacity-building support to DMCs.

<sup>85</sup> ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium Term Framework and Action Plan*. Manila.

<sup>86</sup> ADB. 2014. *ADB Support for Enhancing Governance in its Public Sector Operations*. Thematic Evaluation Study. Manila.

## 6. Fragile and Conflict-Affected Situations

ADB became formally involved in the international fragile situations agenda in 2004, with discussions at the ADF replenishment meetings to enhance ADB engagement and improve aid effectiveness in countries showing limited development progress. Supporting DMCs affected by fragility and conflict remained a high priority for ADB during its fifth decade, and several steps were taken to improve ADB's approach. Fragile and conflict-affected situations (FCAS) present political, social, economic, and environmental challenges and conditions that often differ from those in other developing nations. This requires development partners such as ADB to adopt a differentiated approach that is tailored to their particular problems and circumstances.

In 2007, ADB endorsed an approach to weakly performing countries. The approach suggested ways to differentiate the development context in each DMC and to prepare an appropriate response for those which were weak performers, currently known as FCAS.<sup>87</sup> The approach was based on two pillars: selectivity and focus, and strategic partnerships, whereby ADB collaborates closely with other development partners.<sup>88</sup> Under the approach, ADB advocated a selective approach: to generally support a limited number of major reforms to extend the benefits of development, and augment capacity so as to strengthen ownership and the ability to absorb and manage assistance for more effective development.

A 2010 independent evaluation of ADB's support to FCAS found the approach articulated in 2007 to be needed, and relevant.<sup>89</sup> The evaluation also acknowledged that ADB provided substantial timely FCAS assistance, selecting and focusing

on key areas needing attention, working with other partners, and providing increased presence on the ground. However, it advocated fine-tuning the approach by being more flexible in identifying FCAS based on the country context, and applying a longer-term framework for capacity development. It also found that other development institutions appeared to have provided more resources to countries they consider to be experiencing fragility and the effects of conflict. Given implementation delays and frequent changes of scope, the study noted the need to provide flexibility in the design of FCAS projects to accommodate implementation adjustments, and build longer term programmatic approaches.

In 2013, ADB adopted an FCAS operational plan, outlining actions that ADB would take to improve the development impact of its support to DMCs experiencing fragility and the effects of conflict on either a national or subnational level.<sup>90</sup> It built on lessons learned by ADB while implementing its 2007 approach, including those cited by the 2010 evaluation study, and incorporated good practices that had developed from ADB's own work and that of other development partners. The plan also aligned ADB's FCAS road map with the evolving international paradigm. Under the plan, ADB committed to (i) continue efforts to make country strategies and plans for all FCAS countries more fragility- and conflict-sensitive; (ii) strengthen human resources for FCAS operations; (iii) seek to augment financial resources for FCAS operations; (iv) adopt differentiated business processes for FCAS operations and develop a more appropriate risk framework; (v) develop an institutional strengthening framework for FCAS DMCs; and (vi) refine its approach to identifying FCAS DMCs.

<sup>87</sup> ADB identifies weakly performing countries based on country performance assessments carried out under the performance-based allocation policy, and taking into account conflict or postconflict situations in the countries. A weakly performing country is either ranked in the fourth or fifth quintile during country performance assessments for 2 of the most recent 3 years, or considered to be in, or recovering from, conflict and thus fragile.

<sup>88</sup> ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila.

<sup>89</sup> ADB. 2010. *Special Evaluation Study on Asian Development Bank's Support to Fragile and Conflict-Affected Situations*. Manila.

<sup>90</sup> ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila.

This approach was reflected in Strategy 2020, as well as its midterm review. Strategy 2020 advocated particular efforts to assist FCAS, through innovative means to strengthen the effectiveness of country-led models of engagement and alignment of development assistance with other funding agencies. The midterm review committed ADB to expand operations in FCAS

DMCs, and increase their TA allocations. To support increasing financial resources to FCAS countries, ADB has introduced a minimum allocation of \$3 million per year for ADF DMCs starting 2015 (section VI.B). Several small Pacific island countries, many of which are FCAS, where allocations were otherwise too small to support meaningful operations, will benefit (Box 12).

### **Box 12: Findings from the Corporate Evaluation of ADB Support to Small Pacific Island Countries**

The ADB's Pacific Approach, 2010–2014, produced in 2009, aimed to improve the effectiveness of development operations of the Asian Development Bank (ADB) in all 14 Pacific developing member countries (DMCs); the PIC-10 (the Cook Islands, the Federated States of Micronesia, Kiribati, the Marshall Islands, Nauru, Palau, Samoa, Tonga, Tuvalu, and Vanuatu); plus Fiji, Papua New Guinea, Solomon Islands, and Timor-Leste. In 2011, the Pacific Approach 2010–2014 also became the country partnership strategy to guide ADB's operations in the PIC-10. A corporate evaluation of ADB support to PIC-10 was completed in 2015. Since seven of the PIC-10 had been classified by ADB as fragile and conflict-affected situations (FCAS) at different times over the evaluation period 2004–2013, the evaluation also provided a good indication of ADB's performance in FCAS countries. Based on the findings of the report, several recommendations were put forward to strengthen ADB's development effectiveness in the PIC-10.

- The new Pacific Approach 2016–2020 should have a sharper focus on how ADB engages in the smaller island countries and those affected by FCAS, to respond to their unique challenges.
- ADB needs to improve the resources to the Pacific Department. Achieving success in fragile states and low capacity settings is human-resource-intensive, requiring hands-on support and extra allowance for monitoring and supervision. The Pacific Approach and the FCAS approach both need higher than usual staffing per operation and amount financed, yet the average number of officers per operation is lower than most other regional departments.
- ADB should support a broader approach to climate change and disaster risk management in small Pacific island countries. ADB has scaled up its support for climate change adaptation and mitigation in the Pacific and has supported country efforts to attract global climate change funds. To broaden the approach, ADB should further scale up its support for adaptation that could include ecosystem-based approaches and tighter integration with disaster risk management. These issues would need to be pursued in collaboration with other development partners and could be financed with Green Climate Funds in addition to ADF and ordinary capital resources.
- To improve project preparation in Pacific island countries, ADB has to expand use of its project design facility. Since projects in Pacific countries were found to have lower than average success rates, ADB needs to intensify efforts to convince Pacific countries that the design facility could improve project readiness, build ownership, reduce project costs, and improve development effectiveness.
- ADB must further strengthen its approach for capacity building in public sector management operations in the PIC-10. These countries are known to suffer from a lack of capacity, and weak infrastructure and service delivery, which impede sustainable development outcomes. Given low capacity, special attention ought to be paid to increasing resources for Pacific technical assistance.

ADB is addressing these recommendations. The new Pacific Approach 2016–2020 will guide ADB's engagement in the Pacific, outline regional cooperation and integration activities, and direct ADB's work in the PIC-10 countries. The four larger Pacific DMCs (Fiji, Papua New Guinea, Solomon Islands, Timor-Leste) will have their own country strategies that guide their country operations. In the 2015 Work Force Audit and Workforce Analysis, ADB is paying special attention to the staffing in the Pacific Department. ADB regularly incorporates climate resiliency elements into its project work in Pacific countries, and works extensively with Pacific DMCs to enhance public sector capacity to mainstream climate change planning and to strengthen public institutions for disaster risk management. In 2014, ADB introduced the concept of a master agreement for project design advances (PDA) to alleviate legislative and regulatory hurdles that some DMCs may face in processing individual PDAs. ADB is already heavily involved in public sector management in Pacific countries. Capacity building in the PIC-10 is a long-term endeavor, and ADB continues to work in this area in close coordination with the governments and other partners.

Source: ADB. 2015. *Corporate Evaluation Study: ADB Support to Small Pacific Island Countries*. Manila.

ADB committed to further improving its coordination with development partners on FCAS issues. Since 2013, under its FCAS operational plan, ADB has adopted the multilateral development banks' (MDB) harmonized scores for determining FCAS countries (i.e., the 2015 list represents the average of the 2015 World Bank country policy and institutional assessment and the 2014 ADB country performance assessment scores). A country is considered FCAS if it has a quantitative cutoff of 3.2 or less, or the presence of a United Nations and/or regional peace-keeping or peace-building mission during the past 3 years. It should be noted that weak performance and fragility are part of a spectrum of country performance, and do not disappear when a country moves marginally above the cut-off point.

To improve risk management in FCAS, in 2014, a customized risk management framework and an institutional strengthening framework were developed through extensive consultation with ADB staff. The customized risk management framework aims to guide staff in managing risks differently in FCAS.<sup>91</sup> It highlights ADB's business processes with existing flexibilities to be customized in each phase of the project cycle to better address or mitigate economic, political, governance, and natural risks. It presents a results-based approach with steps designed to identify, prioritize, and refine an understanding of FCAS institutional and capacity gaps, as well as to fill these gaps. ADB's revised corporate results framework of 2012 introduced indicators to track results in FCAS.

## 7. Private Sector Development and Private Sector Operations

Building on the importance of the private sector in the LTSF (2001–2015), private sector development (PSD) and private sector operations (PSO) were one of the five drivers of change under Strategy 2020. The midterm review of Strategy 2020 reinforced an ambitious agenda for the private sector (see the subsection on Midterm Review of Strategy 2020 in section II). It recognized that, through its support for the private sector, ADB

has a role to play not only in promoting growth, but also in directly broadening access to economic opportunities, especially for the disadvantaged. Private sector support was expected to promote the use of environment-friendly technologies and mitigate adverse development impacts. Strategy 2020 also called for working with DMCs to develop business-friendly environments where there are reliable regulations and policies that do not disadvantage private enterprises.

Good progress has been made on scaling up assistance for the private sector. Operations supporting PSD and PSO reached 45% of total ADB financing in 2012–2014, on track to meet the 50% target by 2020. As a share of OCR approvals, financing for PSOs crossed 18% during the same period, on track to reach 25% by 2020. In 2015, this ratio is above 19%. ADB also targets the share of PSOs approved in ADF countries to be at least 40% of total PSOs approved across all DMCs by 2020. While this share is on the rise (29% in 2012, 15% in 2013, and 32% in 2014), greater effort is needed to reach the target.

During ADB's fifth decade, going beyond financial assistance, ADB sought to help member countries and private companies by creating a conducive investment climate, mitigating risks, facilitating regulatory dialogue, and providing technical expertise. PSOD directly assisted DMCs through nonsovereign loans (loans to private and/or public sector entities, including state-owned enterprises, without sovereign counter-guarantees); equity investments; and credit enhancement products (including guarantees and B-loans, where ADB arranges a complete financing package for a project and thus encourages local and international commercial banks to participate). The focus of ADB's NSOs was on core priority sectors aligned with Strategy 2020, such as energy, urban infrastructure, and finance. Also included in the assistance were strategic interventions through PPPs, focusing on broadening partnerships in energy, energy efficiency, transport, water, wastewater treatment and disposal, and power distribution.

<sup>91</sup> ADB. 2014. *Engagement in Fragile and Conflict-Affected Situations: Customized Risk Management Framework*. Manila.



PSD and PSO have contributed to the Strategy 2020 agenda in a number of ways.

- (i) The private sector makes critical contributions to inclusive growth in the region. Growth creates jobs, directly and indirectly, which can benefit the poor for whom labor is often the only reliable and productive asset. In addition, the private sector has been involved in developing solutions that contribute more directly to inclusiveness such as better education and learning, affordable health care, accessible and flexible financing instruments, safe drinking water, and electricity. Nonsovereign investments in agribusiness and agricultural finance started in 2012 and have significantly increased in 2014 to account for 30% of the total in the sector. Further development of nonsovereign investment in the sector will be supported, as market-based solutions are critical in addressing structural issues in food value chains.
- (ii) Toward environmental sustainability, ADB's Private Sector Operations Department (PSOD) has been involved in clean energy projects. PSOD has set an important target to have at least 25% of annual approvals, by number of projects, in clean energy by 2015. On aggregate, this target has been achieved as 30% of the 76 projects approved in 2010–2013 were in clean energy. ADB financed its first private sector renewable energy power generation project in 2007. In less than 7 years, ADB has built up a portfolio of more than 30 clean energy projects, including four energy efficiency projects, with approved funding of more than \$2 billion. ADB has also set up the Climate Public–Private Partnership Fund,

which will aim to generate investment in environment finance in the region.<sup>92</sup>

- (iii) Private sector support for regional integration focuses on trade cooperation and climate change financing through the Trade Finance Program (section V.A), Supply Chain Finance, and the Climate Public–Private Partnership Fund.<sup>93</sup>

A 2013 independent evaluation study looked at how PSOs, which accounted for 9% of total operations during 2000–2012, contributed to inclusive and environmentally sustainable growth.<sup>94</sup>

- (i) On inclusive growth, the evaluation found that PSOs were focused on infrastructure and finance sector transactions that are primarily expected to support economic growth. Significantly, projects that paid particular attention to inclusion performed as well, if not better, than other projects on investment outcomes. The study noted several positives, including that PSOD has been increasing its engagement in frontier countries, in sectors that can improve access to basic services and economic opportunities for the poor, and to promote clean and renewable energy sources.
- (ii) On environmentally sustainable growth, the evaluation noted, that from 2009 onward, PSOD scaled up its focus on clean energy. Along with increased investments in combined-cycle gas plants—using the clean fossil fuel and one of the most efficient energy sources—PSOD has been financing many renewable energy projects in line with emerging opportunities provided by the establishment of relevant policy and regulatory frameworks in several DMCs.

<sup>92</sup> ADB seeks to catalyze large amounts of financing from institutional investors into a \$1 billion Climate Public–Private Partnership Fund that combines private sector investment with development finance institution expertise to provide equity, debt, and grant facilities to climate-related sectors in DMCs.

<sup>93</sup> The Supply Chain Finance Program provides guarantees and loans through partner financial institutions to support payments to suppliers and distributors of goods in ADB's DMCs. ADB. 2012. *Proposed Supply Chain Finance Program*. Manila.

<sup>94</sup> ADB. 2013. *Special Evaluation Study of ADB Private Sector Operations: Contributions to Inclusive and Environmentally Sustainable Growth*. Manila.

<sup>95</sup> “Frontier” markets are those classified as group A (ADF-only) or group B (blend) under ADB's graduation policy. India, although classified as group B, is not considered a frontier market.

The study, while recognizing staffing and resource constraints, suggested three steps that could help increase the inclusion inherent in PSOs: (i) greater priority for frontier markets and disadvantaged areas in nonfrontier markets; (ii) more engagement in policy dialogue on sector reforms to remove impediments to private investments in social infrastructure and finance; and (iii) need to review SME operation to maximize their development impacts.<sup>95</sup>

Another 2013 evaluation study sought to understand how ADB contributed toward PSD over the last decade, by improving the environment for private sector businesses to identify ways of enhancing such efforts in line with Strategy 2020 objectives.<sup>96</sup> The study found that support for strengthening the enabling environment for private enterprises was smaller (and grew less) than investment support. The study recommended strengthening support for business regulatory, competition, and governance reforms through larger ADB contributions to advocacy efforts, increased levels of advisory and investment support, greater outcome orientation in project design, and adequate support for reform implementation.

During the midterm review of Strategy 2020, some of the key constraints to the expansion of PSOs were recognized. The annual allocations for PSO, averaging \$1.5 billion–\$2.0 billion prior to the review, amounted to only about 15% of the annual OCR envelope. This allocation has remained constrained due to the need for greater capital provision for PSO and the Bankwide equity-to-loan ratio requirements. The 10% hard limit (of ADB's equity base) for equity investment further constrained equity operations. Finally, while interdepartmental collaboration on upstream PSD work had improved after Strategy 2020, there was scope for improvement. Increased working-level collaboration between regional departments and PSOD was found to have improved integration of PSO in CPS. However, such collaboration was not

systematic. Institutional coordination in the design and implementation of PSD-themed interventions remained weak.

Accordingly, reforms were introduced to address these constraints. Replacing annual volume-based targets for PSOD, an economic capital planning model was introduced in 2015 on a 1-year trial basis, providing an explicit equity allocation to PSOD. This will enable PSOD to better analyze the risk and capital implications of its lending decisions, as well as to originate transactions on the basis of multiyear capital availability. Starting in 2015, annual allocations for NSOs are linked with usable equity, taking into account actual closures, droppages, and cancellations during the previous year and the net amount realized under risk transfer arrangements. This allows flexibility in annual targets. Also, to enable PSOD to accommodate increasing NSO risk transfers, in 2014 ADB approved a phased aggregation of the sovereign and nonsovereign risk transfer limits into one combined limit of 10% of ADB's portfolio.<sup>97</sup>

Also, under the reform program, a “one ADB” approach aims to facilitate stronger collaboration and sharing of resources among PSOD and regional departments. In 2014, efforts were made to promote more systematic collaboration, including (i) upstream country programming of interventions to be led by regional departments, but in close collaboration with PSOD, largely through private sector assessments; and (ii) monitoring of collaboration at the corporate level. Major PSOD missions to the DMCs routinely debrief country directors, and often include staff from resident missions. Outposting of PSOD staff to resident missions has supported collaboration.

In parallel, public-private partnerships (PPPs) gained importance, as a mechanism to mobilize additional resources in the DMCs. ADB continues to provide support for capital markets and project financing, including commercial cofinancing, to leverage assistance for PPPs, and NSOs. Upstream

<sup>96</sup> ADB. 2013. *ADB Support for Strengthening the Enabling Environment for Private Sector Development*. Manila.

<sup>97</sup> This is subject to additional risk-return analysis and appropriate diversity of counterparty limits. Earlier, separate risk transfer limits of 10% for sovereign and nonsovereign exposure were in place. The separate cap of 10% for risk transfers on sovereign exposure was largely unused.



activities to promote PPPs are expanding in all regional departments, commensurate with client demand. However, this upstream work is affected by Bankwide constraints on TA resources, which sometimes makes it difficult to develop activities large enough to have the impact desired.

The 2012 PPP operational plan reflects the high priority attached to the PPPs in ADB operations.<sup>98</sup> This was developed to provide a consistent analytical and operational framework for PPPs. ADB bases its PPP operations on four pillars: (i) advocacy and capacity development, whereby regional departments will play a leadership role in advocating for PPPs within their DMCs; (ii) enabling environment, whereby regional departments will strengthen assistance to DMCs to develop the overall enabling environment for PPPs; (iii) project development, whereby regional departments will actively encourage PPP and enhance DMCs' abilities to carry out project identification and meet subsequent development needs; and (iv) project financing, whereby PSOD will enhance its nonsovereign products and their application, and commercial cofinancing to enable it to leverage assistance and catalyze change through greater private investment in DMCs. Regional departments may offer sovereign products to support PPP financing.

The new Office of Public-Private Partnership (OPPP) provides transaction advisory services to the DMCs, as well as coordination and support for ADB's PPP operations (see subsection on budget, staffing, and other organizational matters in section III). Regional departments lead all PPP operations, including capacity development, enabling environment reforms, project development, and project financing. The OPPP provides Bankwide support for the implementation of such PPP operations and acts as a resource center. The first transaction advisory service was signed in 2015 for an advisory mandate for a railway project in the Philippines, which is the largest PPP tendered in the country to date. Corporate

targets have been established. The PPP leveraging achieved by ADB financing increased from 4.2 in 2013 to 6.6 in 2015; greater efforts are needed to achieve the target cumulative PPP leveraging ratio of 8.0 for 2013–2016. Regular meetings to report OPPP activities to ADB Management commenced in 2015.<sup>99</sup>

The OPPP manages the Asia Pacific Project Preparation Facility (AP3F) established in 2015. This is a revolving finance facility to provide legal, technical, and financial expertise to DMCs with projects at early stages of development. The facility will focus on project preparation and aim to recover its costs at the point of successful private bid award. It will also support capacity development and enabling environment activities to complement project preparation. Founding bilateral contributors to the AP3F include Australia, Canada, and Japan, and more contributors are expected.

## E. Technical Assistance

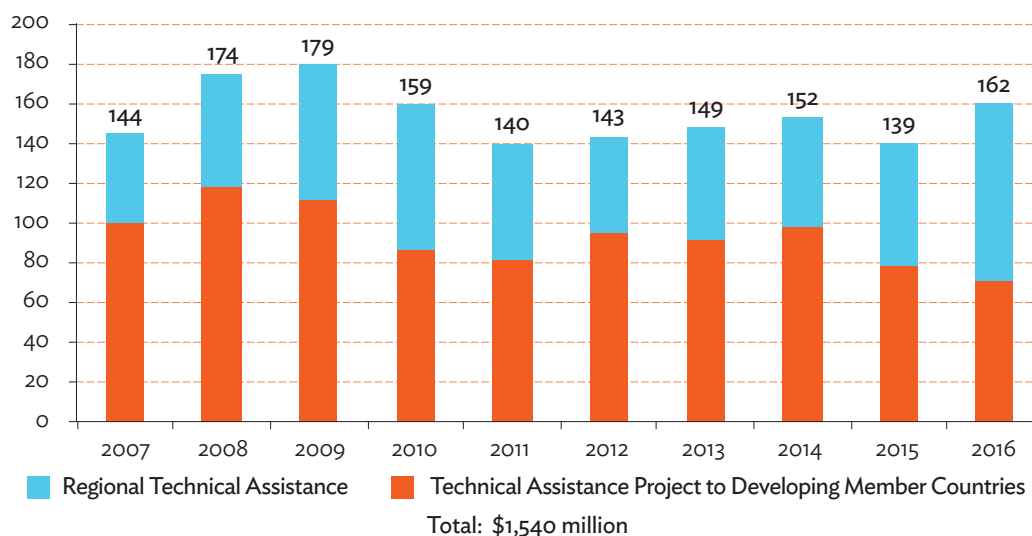
Through its TA operations, ADB continued to help DMCs in identifying, formulating and implementing projects, improving their institutional capacities, formulating development strategies, promoting technology transfers, and fostering regional cooperation. Over the fifth decade, the use of TA remained largely stable, at more than \$150 million a year annually.

Of this amount, 62% were allocated to specific countries, while the remaining funded regional TA (Figure 4). The top five country recipients were the PRC (18%), India (10%), Viet Nam (8%), Bangladesh (6%), and Pakistan (6%). ADB's TA operations covered a multitude of sectors and subsectors. Compared to the previous decade, there was a further shift away from agriculture. The most important sectors for TA were public sector management, transport and ICT, multisector, and energy.

<sup>98</sup> ADB. 2012. *Public-Private Partnership Operational Plan, 2012–2020*. Manila.

<sup>99</sup> This measures leveraging achieved using ADB financial resources. It is the project value created by ADB divided by the sum of ADB project development financing and ADB project financing.

Figure 4: Technical Assistance Approvals, 2007–2016  
(\$ million)



TA = technical assistance.

Notes: TA approvals only cover grants funded by the Technical Assistance Special Fund and the Japan Special Fund.

Regional TA includes TA projects to individual developing member countries classified as regional.

Source: ADB Operations Planning and Cooperation Division, Strategy, Policy and Review Department.

Strategy 2020 sought to strengthen ADB's role as a knowledge institution, to allow delivery of high-quality TA with tangible development impact. In 2008, ADB introduced a TA reform program to increase the development effectiveness of ADB's TA operations.<sup>100</sup> The reforms took into account findings from a 2007 independent evaluation and an assessment by an interdepartmental task force. These studies identified the following weaknesses in ADB's TA program: (i) insufficient synergy between TA and lending operations, (ii) lengthy processing procedures, (iii) overemphasis on processing relative to implementation, and (iv) insufficient ownership by DMCs. To overcome these weaknesses and increase the effectiveness of TA operations, reforms were proposed in four areas: (i) strengthening TA planning, (ii) streamlining processing procedures, (iii) improving the management of TA resources, and (iv) enhancing the management of TA operations.

Under the 2008 reforms, the various types of TA offered by ADB were redefined as capacity development, policy and advisory, project

preparatory, and research and development. As mandated in Strategy 2020, ADB was to engage in research activities that provide knowledge support to its DMCs, best achieved through research and development technical assistance. ADB established five strategic priorities for guiding ADB's research and development technical assistance: (i) promote inclusive growth, (ii) deal with climate change for sustainable development, (iii) facilitate knowledge for regional integration, (iv) support efforts to tackle rising food and commodity prices, and (v) assess and respond to demographic change. These strategic priorities likewise provided a means of establishing knowledge partnerships with external partners such as development institutions, research institutes, and private and civil society organizations.

ADB's internal review in 2013 found that the 2008 reforms improved TA operations.<sup>101</sup> ADB more closely integrated TA planning into country programming, which enhanced the synergy between TA and lending operations. It also helped increase DMC ownership, since country

<sup>100</sup> ADB. 2008. *Increasing the Impact of the Asian Development Bank's Technical Assistance Program*. Manila.

<sup>101</sup> ADB. 2013. *Review of 2008 Technical Assistance Reform Implementation*. Manila.

programming involves extensive consultations with DMC governments. ADB streamlined TA processing procedures and substantially shortened TA processing time. A risk-based review process was introduced to ensure the quality of TA design, while keeping processing efficient. ADB mobilized larger external funds and aligned them closely with Strategy 2020. To strengthen TA implementation, ADB dedicated more staff to TA implementation relative to TA processing. However, the links between regional TA and country programming remained weak, as well as their ownership by DMCs remained weak. The delegation of TA administration from headquarters to resident missions and executing agencies did not increase as expected.

An independent evaluation of TA in 2014 confirmed most of the findings originally made by ADB through the 2013 self-review.<sup>102</sup> While challenges for improving TA management were identified, the CES acknowledged the efforts made by ADB in this area. It called for improving the strategic nature of TA at the corporate level, and efforts to make it more programmatic at

the country level. Improving internal processes remains vital to increase the effectiveness of technical assistance.

The TA process has been further refined under the Strategy 2020 midterm review action plan. A prioritization mechanism to allocate TA resources more effectively has been developed. The regional TA of nonoperations departments are planned with the concurrence, active engagement, and support of regional departments to ensure that they meet DMC priorities. The allocation of TA resources will be aligned with the agreed CPS priorities, and their use and effectiveness will be strengthened. Given the large number of ongoing TA, which exceeded 1,000 in 2013 and 2014, and which take up significant staff resources to administer, ADB is seeking to reduce the number of TA and process larger TA. Allocations for FCAS have also been increased. In 2015, further efficiency enhancements were introduced, including enhancing the efficiency of the TA cluster approach by including any type of TA, and raising the ceiling of the President's TA approval authority.<sup>103</sup>

<sup>102</sup> ADB. 2014. *Corporate Evaluation Study: Role of Technical Assistance in ADB Operations*. Manila.

<sup>103</sup> This supersedes the 1997 Technical Assistance Policy that introduced a cluster approach to TA approvals, but excluded project preparatory TA from the cluster approach.



## V. INTERNAL REFORMS

- Several instruments and modalities were introduced or adapted as part of ADB's efforts to mobilize resources, reinforce client orientation of financial products, align with market conditions, and work with diverse partners.
- ADB made further changes to its internal business processes, to improve procurement and disbursement, strengthen safeguards, reduce loan delivery time, and streamline documentation requirements without compromising quality.
- The midterm review of Strategy 2020 reiterated the importance of knowledge management, as ADB expanded efforts to integrate knowledge work into its operations.

**A**DB's fifth decade was essentially about continuing reforms to reposition itself in a changing region with emerging challenges and opportunities. This section focuses on a variety of internal reforms to adopt diverse and new instruments and modalities, streamline business processes to enhance efficiency, and improve knowledge management to meet the needs of increasingly sophisticated clients.

### A. Instruments and Modalities

ADB's fifth decade saw greater diversification of ADB's instruments (for lending and borrowing),

including the introduction of important new modalities and the adjustment of existing ones. These changes aimed to strengthen ADB's capacity to mobilize development resources, reinforce the flexibility and client orientation of its financial products, align with evolving market practices, and help ADB work better with its development partners and the private sector. This decade witnessed a shift toward more programmatic approaches, improved development results, and better crisis response. Several innovations and pilot concepts were introduced to cater to the changing development finance landscape and client needs.

## 1. Multitranche Financing Facility

In August 2005, the Board approved a new financing instrument, the multitranche financing facility (MFF),<sup>104</sup> on a pilot basis to run through 31 August 2008. MFFs enabled ADB to invest programmatically, thereby reducing over-reliance on stand-alone project approaches that often involve repetitive and cumbersome business processes. The MFF also cut the financial and nonfinancial costs of doing business, and paved the way for more structured cofinancing.

The Board of Directors approved the mainstreaming of MFFs in 2008, in response to rising demand from DMCs.<sup>105</sup> At the time of the approval, 19 MFFs had been approved with total facility amounts of \$10.30 billion, average size of \$542 million, and average availability period of 7–8 years. Given the high demand and portfolio size, mainstreaming the MFF helped reduce uncertainty in country programming and assured clients that ADB could be part of their long-term financing plans in chosen sectors. It was seen to contribute to the long-term strategic agenda, and enable ADB to better respond, and tailor assistance, to the needs of clients.

There has been some decline in total annual MFF approvals and their average value since 2011.<sup>106</sup> Even so, MFF approvals were 32% of ADB sovereign loan and grant approvals in 2014, indicating that demand continues to be high.<sup>107</sup> About 78% of the cumulative value of all approved MFFs from 2005 to 2014 is in the infrastructure sector, comprising transport and ICT, energy, and water and other municipal infrastructure and services. ADB's South Asia Department and Central and West Asia Department continue to account for the main share of MFFs and tranches in terms of cumulative value during 2005–2014.

The five countries accounting for 69% of all MFFs approved since 2005 are Bangladesh, India, Kazakhstan, Pakistan, and Viet Nam.

A special evaluation study of the MFF was completed in December 2012.<sup>108</sup> The evaluation recognized the benefits of MFFs and recommended general improvements to optimize the use of this modality. While not agreeing with some of the detailed recommendations of evaluation, ADB Management nevertheless agreed with the imperative to comply with the letter and spirit of the modality by underscoring the need for quality prerequisite documentation for MFF loans and making better use of the flexibility provided by the modality without compromising its intended benefits. ADB has consistently made efforts to improve implementation arrangements for the MFFs.

## 2. Countercyclical Support Facility

The global financial crisis of 2008–2009 affected the region. Unlike during the Asian financial crisis that began in 1997, many Asian economies had sound banking systems and significant foreign reserves. However, global lack of aggregate demand was transmitted to Asia mainly through trade links at the macroeconomic level, and the tightened international credit conditions. The downturn in the region originated abroad, and was not a home-grown balance of payments crisis. At the summit held in London in April 2009, the Group of 20 (G20) members urged MDBs to step up their countercyclical efforts and to offset capital flight and maintain demand by providing finance for fiscal expansion, support to social safety nets, trade financing, bank recapitalization, and infrastructure investment in emerging markets and low-income countries.

<sup>104</sup> An MFF establishes a partnership between ADB and a client for the purposes of working in a sector or sectors. It has features of a standby letter of credit, and can be used to extend debt finance and advice for (i) large stand-alone projects with interrelated components, (ii) investment programs with interconnected components in a sector or sectors, and (iii) credit lines for small and medium-sized enterprises (SMEs) and local governments.

<sup>105</sup> ADB. 2008. *Mainstreaming the Multitranche Financing Facility*. Manila.

<sup>106</sup> ADB. 2014. *Multitranche Financing Facility Annual Report 2014*. Manila.

<sup>107</sup> In 2011, MFFs as a share of ADB loan and grant approvals were at 55%.

<sup>108</sup> ADB. 2012. *Special Evaluation Study on Real-time Evaluation Study of the Multitranche Financing Facility*. Manila.



In response to G20's call, in 2009, ADB introduced a countercyclical instrument for crisis-affected DMCs—the Countercyclical Support Facility (CSF)—as a new instrument for budget support of up to \$3 billion to form an integral part of ADB's broader crisis response, for 2009–2010.<sup>109</sup> This facility provided fast-disbursing crisis assistance and helped maintain credit flows to OCR-eligible DMCs. The pricing of the facility was driven by three considerations: (i) alleviate the financial burden resulting from the dramatic increase in DMCs' funding costs in international capital markets; (ii) ADB's risk-bearing capacity; and (iii) contain the demand for and rationalize the provision to each DMC out of the limited CSF pool.<sup>110</sup> Clear criteria were laid out for assessing individual CSF loan proposals, based on the adverse impact of the global economic crisis, planned countercyclical development expenditures for poverty reduction, and sound macroeconomic management. Given the unexpected nature of the crisis, CSF loans were not counted toward the Bankwide program lending ceiling (20% of total lending on a 3-year moving average basis at the time).

In 2009, the Board approved five CSF loans—each for the equivalent of \$500 million—to Bangladesh, Indonesia, Kazakhstan, the Philippines, and Viet Nam. ADB committed and fully disbursed a total of \$2.5 billion during 2009–2010. Abbreviated business processes were adopted to enable ADB to respond promptly to demands from DMCs. As Asian economies recovered, the frequency of CSF operations declined, and the funding from the facility was mainstreamed. In 2015, ADB approved a \$1 billion loan from the CSF, to help Kazakhstan continue government programs to strengthen the economy in the face of recent fiscal challenges, arising from a steep decline in world oil prices and the economic slowdown of the neighboring countries.

The establishment of the CSF helped ADB respond to the global economic crisis in an unprecedented manner. The facility was a clear conceptual departure from the traditional balance of payments support aimed at bailing out economies with unsustainable current account deficits (as embodied in the special program lending ADB introduced in 1999). Instead, the CSF was designed to provide a new form of budget support for fiscal stimulus to counter business cycle downturns. These incremental resources helped five borrowing economies maintain enough fiscal space to sustain the stimulus policy in the recovery phase of the crisis. However, until the CSF was established in 2009, ADB was not fully ready to cope with the worst of the crisis in the first quarter of 2009. Trying to create a new facility after the outbreak of the crisis resulted in time lags, which made it difficult for ADB to respond rapidly during the worst of the crisis.<sup>111</sup>

### 3. Supplementary Financing

As part of its efforts to offer clients a wider menu of financing options, ADB undertook a review of supplementary financing in 2010.<sup>112</sup> ADB adopted its supplementary financing policy in 1973 to meet cost overruns and close financing gaps in projects. The policy was earlier revised in 1983, 1988, and 2005, to make supplementary financing more accessible for projects that remain technically feasible, economically viable, and financially sound, and that are government priorities. The 2010 review sought to build on the reforms, and strengthen the role of supplementary financing as an efficient instrument for enhancing development effectiveness.

Under the review, “supplementary financing” was renamed “additional financing.” The reforms covered four broad categories. First, the potential to scale up well-performing projects was

<sup>109</sup> ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis—Establishing the Countercyclical Support Facility*. Manila.

<sup>110</sup> The terms comprised the interest rate with a spread of 200 basis points above the London interbank offered rate, with a provision of surcharge or rebate reflecting ADB's cost of funds; 5-year maturity, including a 3-year grace period; and the commitment charge at 75 basis points. It was priced higher than regular OCR loans.

<sup>111</sup> ADB. 2011. *Countercyclical Support Facility: Macroeconomic and Fiscal Policy Updates, 2010*. Manila.

<sup>112</sup> ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila.



enhanced by the introduction of simpler business processes, and easing of restrictions on the use of additional financing for such projects. Second, a differentiation was made between cost overruns resulting from exogenous reasons and those due to design and implementation problems, and between well-performing projects and others.<sup>113</sup> Third, the additional financing policy was linked to policies on emergency assistance, cofinancing, and changes of scope. Under the revised policy, additional financing could be provided to ongoing nonemergency projects in the wake of an emergency, thus increasing the options available to ADB to respond quickly and effectively in an emergency. ADB administered cofinancing could also be used as a source of additional financing. Fourth, the use of independent financial terms and conditions were introduced. To enable DMCs to benefit from the full grace period, they could choose whether or not to synchronize the repayment schedules of additional financing loans with those of the original loans.

## 4. Trade Finance Program

ADB's fifth decade witnessed significant changes in the Trade Finance Program (TFP), although the original objectives remained broadly as approved in 2003 when the program was first set up.<sup>114</sup> The TFP started operations in 2004, and consists of three products: (i) a credit guarantee facility, under which ADB issues guarantees to participating international and regional banks to guarantee payment obligations issued by approved DMCs and/or local banks in selected DMCs; (ii) a revolving credit facility, under which ADB provides trade related loans to DMC banks in support of DMC companies' export and import activities; and (iii) a risk participation agreement, under which ADB shares risk with international banks

to support and expand trade in challenging and frontier markets. The credit guarantee and risk participation agreement are unfunded products (ADB funds are not extended on initiation of each transaction), while the revolving credit facility is funded.

Two significant changes to the TFP were approved in the fifth decade.

- (i) In response to the global financial crisis, in 2009, ADB approved a major change in scope for TFP program that allowed for (a) an extension of the term of operation to December 2013; (b) an increase in the overall exposure limit for the program from \$150 million to \$1 billion; and (c) an increase in the maximum tenor of loans and guarantees under the program from 2 to 3 years. It was a valuable tool in ADB's countercyclical response to the 2008–2009 global financial crisis.<sup>115</sup> Expansion of TFP activities was designed to help safeguard countries from some of the worst effects of the crisis by providing an instrument to channel support to the private finance sector and the trade sector. A TFP Design and Monitoring Framework was prepared for the first time.
- (ii) In the face of strong demand from borrower countries for ADB's TFP, in 2012, ADB approved another major change of scope to TFP program to extend the program beyond its then expiration date of December 2013, subject to reviews by the ADB Board at intervals of no more than 3 years; and expand the currency denominations in

<sup>113</sup> Simple business processes are applied to projects that face cost overruns but are performing well. For a project that faces cost overruns and is not performing well, additional financing is considered on a case-by-case basis when an operations department decides that the benefits of providing additional financing to complete or restructure the project outweigh those of cancelling or scaling down the project; and that the risks hindering project performance have been addressed. A strict review and quality assurance process applies.

<sup>114</sup> In 2003, ADB approved the \$150 million TFP whose objectives were to (i) support trade and enable partnerships between international banks and country banks, (ii) enhance intraregional trade and borrowing country to borrowing country trade and strengthen country banking systems, (iii) support SMEs, (iv) provide countercyclical support in times of crisis, and (v) lengthen tenors and expand the currency denominations in which ADB financing could be transacted under the program.

<sup>115</sup> ADB. 2014. *Corporate Evaluation Study: ADB Trade Finance Program*. Manila.

which ADB financing could be transacted under the program to include the PRC renminbi and the Indian rupee.

From 2009, TFP conducted more than 11,000 transactions supporting over \$22.5 billion in trade. Over 90% of TFP's transactions were conducted in ADF countries. Of TFP's 18 markets at present, Bangladesh, Pakistan, Sri Lanka, and Viet Nam are the most active. TFP recently expanded to Myanmar and in 2016 expanded to the Pacific. Over 80% of TFP transactions support SMEs. Since 2009, TFP has supported more than 2,500 SME transactions. TFP works closely with private sector partners, including through an active risk-sharing strategy, and has mobilized \$13.3 billion in cofinancing since 2009. Of TFP's 11,000 plus transactions, over 8,000 have supported intraregional trade. Of that number, more than 2,500 have been between DMCs.

In addition to closing market gaps through guarantee and loan transactions, TFP provides knowledge that reduces gaps. In 2010, TFP created the Trade Finance Register which, for the first time ever, produced trade finance default and loss statistics on a global industry basis. The Trade Finance Register is now housed at the International Chamber of Commerce and is entirely funded by the private sector. Backed by its AAA credit rating, TFP has become a flagship program of ADB and will continue to close trade finance market gaps in the most challenging markets to stimulate the economic growth and job creation that reduces poverty. As such, there is a need to increase human and budgetary resources, as well provide stronger IT support for the expanding program.

## 6. Thematic Bonds

ADB issued its first thematic bonds in 2010, namely Water Bonds and Clean Energy Bonds. Inaugural green bonds were issued in 2015. The cumulative thematic bond issuance to date is well over \$2.0 billion.

- (i) In 2010, ADB launched its first thematic bonds, raising \$638 million through two tranches of water bond issues. These

bond issues support projects under the Water Financing Program, launched in 2006, which is the driver of ADB's water investments in the region. Following the success of its thematic bonds in 2010, ADB issued two water themed private placements in 2011 totaling \$40 million and, in 2012, water bonds amounting to about \$263 million. This was followed by approximately \$119 million in water bonds in 2013 and an additional \$284 million equivalent in water bonds in 2014.

- (ii) Following the success of this inaugural thematic bond issue, ADB launched its second thematic bond issue in 2010, amounting to \$244 million in clean energy bonds, issued in five tranches. These bond issues support ADB's ongoing renewable energy and energy efficiency projects in the region. There were further issues clean energy bonds amounting to about \$343 million in 2012. This was followed by approximately \$234 million in clean energy bonds in 2013.
- (iii) ADB raised \$500 million from an inaugural green bond issue in 2015, aimed at channeling more investor funds to ADB projects that promote low-carbon and climate-resilient economic growth and development in the region.

## 7. Credit Guarantee and Investment Facility

The 1997 Asian financial crisis highlighted the need for developing local currency bond markets as an alternative to bank loans. With this end in view, the ASEAN worked with the PRC and the Republic of Korea to launch the Asian Bond Market Initiative in 2002. While this initiative helped significantly in the growth of local currency denominated bonds—especially in emerging East Asian economies—there remained a need to develop these markets further.

In order to address these issues, ADB worked with ASEAN+3 (the PRC, Japan, the Republic of Korea) to establish the Credit Guarantee and

Investment Facility (CGIF) in 2010 as a trust fund of ADB to guarantee bonds in the region. ADB is the trustee of CGIF, and as such, holds in trust and manages all CGIF funds and other property in accordance with the provisions of the Articles of Agreement. CGIF promotes harmonization of standards and practices for bond issuance within ASEAN+3, paving the way for regional financial market integration. This helps reduce the currency and maturity mismatches that caused the 1997–1998 Asian financial crisis and make the regional financial system more resilient to volatile global capital flows and external shocks.

The authorized capital of CGIF is \$700 million divided into 7,000 shares, with a nominal value of \$100,000 each. All shares are subscribed and paid in full by the contributors since April 2012. As of December 2014, CGIF has issued seven guarantees covering bonds denominated in Thai baht, Indonesian rupiah, Singapore dollar, and Vietnamese dong equivalent to \$645 million at respective issuance dates. The total outstanding amount of the guarantees, inclusive of coupon payments, issued under the related bonds was \$616 million as of 31 December 2014. CGIF is working to expand its guarantee capacity in 2016.<sup>116</sup>

## 8. Project Design Facility

In 2011, BOD approved, for a 3-year pilot implementation from 2011 to 2013, the project design facility (PDF) to provide loan advances to fund design and project preparation activities. It aimed to provide quick-disbursing resources to fund detailed design activities and feasibility studies (if needed) before approval of an ADB project. This would contribute to total

project readiness and help avoid start-up and disbursement delays in ADB-funded projects. Individual project design advances (PDAs) to clients from the PDF were to be refinanced by ensuing OCR or ADF loans.

At the end of the initial pilot period, uptake for the PDF was low.<sup>117</sup> This was because of the PDF design, which did not effectively address DMC internal processing requirements, reflect the cost of detailed engineering design, and included less than optimal lending terms. A review concluded that if the reasons behind the low uptake were addressed, the PDF could help DMCs and ADB promote greater project readiness and improve project outcomes.<sup>118</sup> In response to the review, BOD approved in 2014 an extension of the PDF pilot period to 2017, with modifications to the product.<sup>119</sup> Modifications centered on (i) introducing a master agreement for PDAs to address concerns of DMCs that face legislative and regulatory hurdles in processing individual PDAs by introducing the concept of a master agreement for PDAs;<sup>120</sup> (ii) increasing the ceiling amount for PDAs to better reflect the cost of detailed engineering designs; and (iii) waiver of commitment charges for 2 years since PDA signing.<sup>121</sup>

Since the approval of the extended PDF pilot period, ADB Management has made great efforts to encourage PDF use.<sup>122</sup> As of April 2015, Bangladesh, Bhutan, Nepal, and India have signed master agreements for PDAs, valued at \$117.5 million. A significant pipeline has been developed, covering nine countries. Before the extended pilot phase expires, ADB will report to BOD on the results achieved, and propose whether the PDF should be mainstreamed, further revised, or discontinued.

<sup>116</sup> Options under discussion include doubling paid-in capital; doubling authorized capital, but structure contributions as callable capital; double the operational leverage from 2.5x to 5x; and increase paid-in capital by \$300 million and increase operational leverage from 2.5x to 3.5x. These would have different implications for the credit ratings.

<sup>117</sup> The PDA to support the Bangladesh Coastal Towns Infrastructure Improvement Project was approved on 6 August 2012 for \$3.5 million. The ensuing ADF loan was approved on 27 June 2014 for \$52 million.

<sup>118</sup> ADB. 2014. *Pilot Financing Instruments and Modalities: Proposed Extension of Pilot Period for the Project Design Facility with Modifications*. Manila.

<sup>119</sup> Footnote 118.

<sup>120</sup> This PDA master agreement will not commit a DMC to request a PDA or ADB to provide a PDA. Instead, it will set out the general framework within which a DMC may avail of PDAs and the general terms and conditions that apply each time that ADB provides a PDA to the DMC.

<sup>121</sup> If the ensuing loan does not materialize after 2 years from PDA signing, commitment charges are applicable thereafter.

<sup>122</sup> ADB. 2015. *Project Design Facility—Annual Implementation Status Report (2015)*. Manila.

## 9. Policy-Based Lending

BOD approved reforms to ADB's policy-based lending (PBL) in 2011.<sup>123</sup> Since an earlier amendment to the policy in 1999, following the Asian financial crisis, ADB had addressed the changing needs of PBL primarily through flexible application of the existing policy.<sup>124</sup> In view of the changing needs and economic environment in developing countries, and to harmonize with practices in other MDBs, it was considered necessary to introduce reforms.

The PBL reforms comprised two main elements: mainstreaming medium-term programmatic budget support, and enhancing ADB's short-term crisis response capacity. The former incorporated the latest best practices in general budget support in international financial institutions aligned with structural reforms in developing countries. The refined PBL policy emphasized the importance of country ownership and flexibility in design and implementation of reforms in a number of the Strategy 2020 priority areas—including finance and private sector development, governance, and institutional development. The latter involved mainstreaming the CSF to provide budget support to DMCs' fiscal stimulus packages, and providing special PBLs for balance of payments support.

## 10. Nonsovereign Public Sector Financing

BOD mainstreamed the Nonsovereign Public Sector Financing Facility (NSP) in 2011. The instrument was introduced in 2005 for a pilot phase.<sup>125</sup> The NSP pilot allowed ADB to provide debt finance (loans and guarantees) directly to subsovereign, quasi-sovereign, and other nonsovereign public sector entities, including state-owned enterprises, on a nonrecourse or limited recourse basis. NSP financing allowed

ADB to cater to the needs of its expanded client base, and support decentralization processes in many DMCs.

The mainstreaming was based on a review of NSP implementation. In the pilot phase, ADB approved 13 NSP transactions totaling \$2,070.5 million, of which four had been cancelled. Despite the mixed track record, the review found that NSP transactions had directly resulted in closer collaboration with the private sector in project cofinancing, and were perceived by DMCs to be to be a responsive and innovative support initiative. Given its development rationale, BOD approved that NSP be offered as a regular ADB financing modality.

## 11. Disaster Response Facility

In 2012, BOD approved the Disaster Response Facility under the ADF on a pilot basis to help ADF countries respond to rehabilitation and reconstruction needs following disasters. During the ADF XI replenishment, ADB presented proposals to strengthen its capacity to assist ADF countries in responding to natural disasters. After intensive discussions, ADF donors agreed to pilot the DRF during ADF XI, 2013–2016. The DRF required ADF countries to contribute a small fraction of their performance-based allocation for the benefit of accessing the DRF in case of a disaster.

Since its establishment in October 2012, the DRF has provided over \$180 million to support response efforts to cyclones, flooding, and earthquake events in seven countries. In almost all cases, the scale of damage was unprecedented. A corporate evaluation study found positive views in client countries on the DRF, supporting its institutionalization beyond the current pilot phase. The overall assessment was that the DRF has been effective in serving its main objectives.<sup>126</sup>

<sup>123</sup> ADB. 2011. *Review of ADB's Policy-Based Lending*. Manila.

<sup>124</sup> ADB. 1999. *Review of ADB's Program Lending Policies*. Manila.

<sup>125</sup> ADB. 2008. *Pilot Financing Instruments and Modalities: Extension of Pilot Period for the Subsovereign and Nonsovereign Public Sector Financing Facility*. Manila; ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila.

<sup>126</sup> ADB. 2015. *Corporate Evaluation Study on Asian Development Fund X and XI Operations: Opportunity Amid Growing Challenges*. Corporate Evaluation Study. Manila.

However, the evaluation pointed out three concerns. First, DRF funding was probably insufficient to meet the DRM needs of ADF countries, and a larger fund was required. Second, while the DRF has functioned as intended, and while ADB has fast-tracked approval of disaster response support, some projects financed by the DRF (in Cambodia, Samoa, and Tonga) have run up against major delays. Additional effort is needed to ensure that ADB processes are expedited. Third, stronger efforts are needed to operationalize ADB's commitment to the building-back-better principle on DRF-supported projects.

During the ADF 12 replenishment meeting in October 2015 (section VI.B), ADB proposed to mainstream the DRF for concessional assistance-only countries, to address postdisaster needs. Donors agreed to the proposal, starting from the ADF 12 period.

## 12. Results-Based Lending

Results-based lending (RBL) was approved in 2013 as a new ADB financing modality, on a pilot basis for six years up to 2019.<sup>127</sup> This modality supports government-owned sector programs, and links disbursements directly to the achievement of program results. The design and implementation of programs supported by RBL include ex ante assessments of the program and its systems, ex post results verification, and systematic institutional development. The objectives of RBL are to increase accountability and incentives for delivering and sustaining results, improve the effectiveness and efficiency of government-owned sector programs, promote institutional development, and enhance development effectiveness.

Results-based lending is important for several reasons. First, RBL has the potential to help ADB reduce transaction costs, response times, and make program administration more efficient. Second, by using country capacity, RBL gives DMCs a stronger sense of ownership of ADB-financed development programs. Third, RBL will contribute

to enhanced aid effectiveness, strengthening incentives for DMCs to deliver the intended results as the basis for receiving ADB financing. Fourth, it helps harmonization with other multilateral development banks, including World Bank and Inter-American Development Bank, which have already introduced similar modalities.

The RBL has quickly become a popular financing modality in ADB. The first RBL program (\$200 million loan) was approved by BOD in June 2013 to help the Government of Sri Lanka modernize its secondary school system (Box 13). Subsequently, more RBL has been approved in Armenia, Bangladesh, India, Indonesia, the Philippines, Solomon Islands, Sri Lanka and Viet Nam. ADB has initiated a midterm review of the RBL modality.

## B. Business Processes

Over the years, ADB has constantly sought to improve business processes. New business processes were introduced in 2002, to make ADB more streamlined and flexible; to enable greater responsiveness to clients; and to delegate more authority to resident missions. These processes were periodically reviewed over the years. Reforms addressed various aspects, including country strategies, procurement, safeguards, loan delivery, and nonlending products and services. While these reforms certainly helped, Strategy 2020 and its midterm review found further room for improvement.

Strategy 2020 called for greater corporate responsiveness through increased efficiency and lower transactions costs for DMCs. This was further highlighted in the midterm review under the strategic priority of delivering value for money for clients. The Strategy 2020 midterm review action plan identified streamlining business processes as one of the key reform areas for ADB. Accordingly, ADB intensified measures to improve operational efficiency.

<sup>127</sup> ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.



### Box 13: ADB's First Results-Based Loan: Education Sector Development Loan in Sri Lanka

The first results-based lending (RBL) program of the Asian Development Bank (ADB) supports the Government of Sri Lanka's Education Sector Development Framework and Program (ESDFP), which seeks to transform the school education system to create a human capital foundation for a knowledge economy. The impact of the ESDFP will be enhanced youth employability. It aims to contribute to the development of a modernized secondary education school system.

The disbursement-linked results consist of incremental disbursement-linked indicators (DLIs) that are development outcomes, sector results, and institutional development indicators. These DLIs and program actions form a results chain that will contribute to the achievement of the ESDFP objectives through the four interrelated results areas.

#### Result 1: Improved Student Learning

This will be achieved by (i) developing a national student assessment framework that integrates school-based assessment with external examinations to fundamentally change the landscape of student learning that would lead to improved pass rates for general certificate of education (GCE) examinations at the ordinary level and advanced level (DLIs 1 and 2); (ii) introducing a technology stream in secondary schools to develop pathways from secondary education to vocational training, which will help to expand the curriculum by making it more responsive to the labor market (DLI 3); and (iii) integrating computer-aided learning as part of the curriculum, building upon the earlier physical investments.

#### Result 2: Improved Equity and Efficiency of the School System

This will be attained by (i) upgrading the facilities in secondary schools in accordance with the 1,000 Secondary Schools Development Program, which includes provision of all necessary physical facilities such as additional classrooms, laboratories, and gender-segregated latrines (DLI 4); and (ii) recruiting, training, and deploying teachers with relevant qualifications, based on detailed teacher mapping and deployment planning. Together, these will lead to increased participation in science and commerce streams at the advanced level (DLIs 5 and 6).

#### Result 3: Strengthened School Leadership

This will be achieved by (i) strengthening the capacity of central educational institutions such as the National Institute for Education and the Center for Leadership and Development, and training school principals by implementing a gender-inclusive human resource training program for enhancing school quality and leadership (DLI 7); and (ii) introducing a financing facility to support sustainable school infrastructure maintenance as part of the Program for School Improvement, including information and communication technology and other higher-order learning equipment and facilities.

#### Result 4: Strengthened Capacity for Effective Program Planning and Implementation

This will be achieved by (i) supporting effective management of ESDFP through the Ministry of Education Sector Monitoring and Technical Support Unit; (ii) performance-based partnership agreements between the ministry and provincial education authorities to improve the alignment of the provincial education sector plans with the ESDFP and ensure better funds allocation and flow (DLI 8); and (iii) strengthening provincial and zonal education capacity, including fiduciary aspects, through capacity development and provision of implementation support (DLI 9).

ADB loans totaling \$200 million will be disbursed over 5 years, subject to the achievement of the DLIs. The first disbursement will be made after the achievement of at least three DLIs. With at least three of the annual DLIs, the MOE may submit a withdrawal application along with the evidence verifying the achievement of the DLIs. Verification mechanisms and protocols have been established and include verification by public, autonomous, and independent sources depending on the nature of the DLI.

Source: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loans Democratic Socialist Republic of Sri Lanka: Education Sector Development Program*. Manila.



## 1. Country Partnership Strategies

A number of measures to enhance quality-at-entry of both country strategies and projects, and to improve analytical work during country planning and programming were introduced in 2006.<sup>128</sup> However, a 2009 review found that CPS preparation had become increasingly time- and resource-intensive, in response to new policies, new insights, and trends that translated into formal requirements and informal prescriptions for CPS preparation.<sup>129</sup> A case study of then recently completed CPS showed that about 2 years were needed to complete the required steps for CPS preparation (excluding the pre-CPS phase), well beyond the 39–45 weeks envisaged in the CPS guidelines.

To address this, ADB introduced new streamlined processes for CPS in 2010. Under the new process, documentation was considerably streamlined and stronger quality assurance processes were introduced. The CPS was made a concise document that customized the global commitments of the Paris Declaration and ADB's corporate priorities under Strategy 2020 for each DMC's circumstances. The format of the CPS document was rationalized to allow for a focused presentation of the strategy without losing any key information. The scope of the CPS was revised to include a succinct assessment of how it would support the five Strategy 2020 drivers of change in the country. The revisions also aimed to define the characteristics of the operational program, determined jointly by ADB and the government; and present a framework for results management.

After the midterm review of Strategy 2020, further streamlining of the CPS process has been undertaken.<sup>130</sup> Key changes include streamlining the sequence of process steps, revising the results framework to focus on thematic outcomes,

reducing the number of background linked documents, and allowing some flexibility in length. These reforms, after implementation, have the potential to reduce the average time to produce a country partnership strategy from 24 months to 8 months.

## 2. Loan Delivery

In 2010, ADB introduced several reforms that aimed to significantly reduce public sector loan delivery time to first disbursement without compromising project quality. Although loan delivery reforms were undertaken periodically, a 2009 review found that loan delivery was still too slow.<sup>131</sup> The average time for loan processing up to approval for a project that includes project preparatory technical assistance had remained about 2 years, despite efforts to streamline it in the new business processes in 2002. The reforms introduced in 2010 included (i) enhanced quality assurance through risk-based project categorization of operations; (ii) more strategic and sector-focused peer reviews; (iii) greater focus on implementation and project readiness; and (iv) simplification of documentation.

Following the midterm review of Strategy 2020, in 2015, ADB introduced a package of 22 operational reforms to enhance efficiency.<sup>132</sup> These focus on (i) simplifying and clarifying selected documentation requirements (including new templates for selected instruments and modalities); (ii) streamlining and standardizing review processes (including risk-based approach to internal review, parallel rather than sequential process steps, and removing full participation requirements for review); (iii) facilitating the use of advance contracting and retroactive financing as default approaches to procurement; (iv) delegating selected approval authorities (including delegating authority to the President

<sup>128</sup> ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

<sup>129</sup> ADB. 2009. *Country Partnership Strategy: Responding to the New Aid Architecture Report of the Country Partnership Strategy Working Group*. Manila.

<sup>130</sup> ADB. 2015. *Reforming the Country Partnership Strategy*. Manila.

<sup>131</sup> ADB. 2009. *Better and Faster Loan Delivery Report of the Loan Delivery Working Group*. Manila.

<sup>132</sup> ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila.

to waive procedural prescriptions as minor deviations of the procurement and consulting guidelines); and (v) streamlining some Board procedures (including unifying and enhancing the effectiveness of summary procedures and no-objection procedures for seeking Board approval, and clarifying the process for requesting full Board discussion and withdrawing such request). Collectively, these measures are expected to generate significant efficiency gains.

Since the midterm review, ADB has taken important steps to improve project readiness. Targets for design and procurement readiness are being closely monitored and reported through annual Development Effectiveness Review reports (section VII.A).<sup>133</sup> ADB encourages the use of project design advances, tranches of multitranche financing facilities, and other facilities, including TA and TA loans with a view to enhancing readiness.

### 3. Procurement

Sound implementation requires that ADB's procurement processes be timely, efficient, and effective. To address procurement-related challenges faced by ADB, a 10-point procurement reform plan (Box 14) was approved in 2014 as part of the Strategy 2020 midterm review action plan, following a procurement governance review. The key objectives were to improve ADB's procurement performance by reducing procurement time, increasing administrative efficiency, and maintaining sound fiduciary oversight.

There has been progress in delegating procurement approval authorities to resident missions. In the large resident missions, procurement decisions have been largely transferred to country directors who are supported by staff qualified to handle procurement issues. Progress in the smaller resident missions is limited by capacity of national

staff. Specialized staff have been posted to the front offices of four regional departments, and to resident missions in Bangladesh, the PRC, India, Pakistan, Uzbekistan, and Viet Nam. Further outposting is under consideration. Outposting helps to operationalize implementation of the new procurement decision authorities under the 10-point plan. After the implementation of this plan, there is evidence that ADB's own procurement processing timelines have gone down since 2013.

In 2014, ADB renewed its emphasis on portfolio management at the corporate and department levels. Contract award targets were introduced for operations department, and regularly monitored. Available portfolio data show an increase in the sovereign project contract award ratio in 2014 (24%), compared to 2013 (20%), followed by a dip in 2015 (23%). The uncontracted balance has increased (\$27.6 billion in 2016 compared with \$26.1 billion in 2015). The 2016 corporate target is set at \$9.5 billion for sovereign project contract awards. The corporate target is cascaded into departmental targets, to emphasize the continued importance of portfolio management.

More remains to be done. These reforms are already showing early results in terms of reducing ADB's own approval timelines. The time between ADB's receipt of the Bid Evaluation Report to approval for contracts \$10 million and above has gone from 57 days in 2013 to 49 days in 2015. However, further measures are needed to reduce the timelines of executing agencies, which have gone up in the meantime. End-to-end timelines for engaging consultants and contractors still remain high, and a backlog in uncontracted and undisbursed balances must be addressed. ADB is embarking on a second generation of reforms that will involve changes to ADB's procurement policy, and introduce greater flexibility.

<sup>133</sup> Procurement readiness is considered to be achieved when bidding documents for major construction or goods contracts are launched before project approval. An infrastructure operation is considered to be design ready at approval when it has detailed engineering designs suitable for preparing and launching bidding documents for major construction or goods contracts, or preliminary design and specifications suitable for preparing and launching bidding documents for: (i) construction contracts involving detailed design; and/or (ii) turnkey or engineering procurement and construction contracts.

### Box 14: 10-Point Procurement Plan

#### Procurement Risk Assessments

More robust procurement risk assessments of country, sector, and agency systems are being undertaken to determine risk-based procurement supervision or prior review thresholds, as well as capacity to take on greater delegation of procurement responsibility.

#### International Competitive Bidding Thresholds

The Asian Development Bank (ADB) increased international competitive bidding thresholds based on market review. Below these thresholds, national competitive bidding will be applied where essentially country systems are used, leading to shorter procurement times.

#### Prior Review Limits

New risk-based prior review limits have been introduced for contracts. ADB will focus its application of prior review on higher risk procurement. Postreview and postreview (sampling) will apply to lower risk procurement, and reduce time and administrative burden.

#### Decision Authorities

ADB has increased the Procurement Committee approval threshold from \$10 million to \$40 million, and introduced differentiated approaches for procurement decisions below the threshold to facilitate decentralization:

- Regional departments, with the endorsement of ADB's specialized Operations Services and Financial Management Department (OSFMD), will make procurement decisions for contracts valued at \$20 million–\$40 million.
- Regional departments, with the endorsement of qualified staff (accredited under the procurement accreditation skills scheme), will make procurement decisions for contracts up to \$20 million.
- The executing agency can decide for contracts up to \$5 million, where ADB postreview (sampling) is applied.

#### Project Procurement Classification

Projects are classified by procurement risk and complexity at concept clearance; specialized procurement support is provided for high-risk and complex projects during processing. This will lead to better procurement plans and enhanced readiness of executing agencies.

#### Procurement Review System

ADB launched an end-to-end procurement review system on 1 January 2015 for transactions above \$10 million. It will allow monitoring of procurement times and introduce accountability.

#### Master Bidding Documents

ADB will encourage the adoption of master bidding documents during project preparation, rather than during implementation. Project readiness will be enhanced if these are agreed by loan negotiations at the latest. Regional departments (rather than OSFMD) will review bidding documents that follow the standard templates, which will save time.

#### Streamlined Procurement Committee Processes

The newly implemented processes include strict timelines and concurrent review. A standard timeline of 10 days has been set, and is expected to contribute to faster procurement approval.

#### Procurement Approval Form

The new simpler procurement approval form includes an electronic template. This will standardize procurement review across ADB, and reduce paperwork.

#### Consulting Services Review

ADB has established a new consulting services unit to improve services. Quality enhancements include increased use of quality- and cost-based evaluation, and enhanced delegation of authority (where possible) to regional departments for loan consulting services up to \$5 million.

Source: ADB. 2015. *2014 Annual Portfolio Performance Review*. Manila

## 4. Disbursement

The increasing role of resident missions in disbursement improved communication with borrowers. New accounting systems were introduced for resident missions in 2010, and their payroll processing was also centralized. These measures helped improve work efficiency and internal financial controls in the field.

The Controller's Department continued revising its accounting policies and organization through the decade to improve efficiency of disbursement. In 2011, the Controller's loan administration division separated its fiduciary control function and the client service and portfolio management function from the ordinary disbursement processing function. This allowed for stronger support to clients.

The Strategy 2020 midterm review action plan called for measures to enhance disbursement efficiency. ADB has introduced initiatives to reduce the time taken from the receipt of withdrawal applications and the related payments. A key step is the ongoing development of the client portal for disbursements. This will enable the online submission, review, approval, payment, and monitoring of withdrawal applications. In addition to providing significant efficiency and information gains, it will improve fiduciary control. While this has been piloted in several resident missions, full rollout of this system is expected by 2017.

An ADB-wide disbursement drive started in 2014, aiming to improve performance. Prior to 2014, the ADB corporate disbursement target was based on a bottom-up approach, using projections from project teams.<sup>134</sup> The corporate target starting 2014 used a different approach—taking into account the available undisbursed balance at the beginning of the year and the need

to work toward an overall disbursement ratio target for sovereign projects of 22.0% by 2016. The corporate target was broken into volume targets for operations departments. Bimonthly management information summaries and quarterly operations review meetings monitored progress toward targets. Closer coordination between operations and support departments is encouraged to help achieve the corporate target.

## 5. Project Classification System

ADB undertook two rounds of reviews of its project classification system (PCS), to align with its corporate strategy. The PCS enables tracking and reporting on the trends of ADB operations with respect to the investment sectors and subsectors, strategic agendas, drivers of change, and poverty and location impacts.<sup>135</sup>

ADB's project classification was reviewed in 2009, to align with Strategy 2020. A second review in 2014<sup>136</sup> (i) simplified and updated the sector and subsector titles to improve its functionality to ADB's operations and reporting; (ii) eliminated the thematic classification titles to align the PCS with ADB's strategic agendas and drivers of change of the Strategy 2020; (iii) gave greater prominence to climate change operations; (iv) strengthened the quality control process through revised staff instructions with definitions and criteria for classification; (v) established a stronger validation process for the proposed classification; and (vi) created a suite of Strategy 2020 reports to enable efficient use of the PCS database for analysis and decision-making. The system enabled ADB to report official development assistance data to the Organisation for Economic Co-operation and Development, provided operational information for analysis of progress toward the objectives of ADB's Strategy 2020, and enabled better comparison of ADB's operations with its peer agencies.

<sup>134</sup> The target was usually conservative, and changes in line with implementation made it a moving number that was often hard to monitor.

<sup>135</sup> The PCS is hosted in eOperations, the integrated IT system that supports the management of ADB's project cycle from country programming to evaluation.

<sup>136</sup> ADB. 2014. *Project Classification System: Final Report*. Manila.

## 6. Private Sector Operations

Several initiatives seeking to reduce redundant processes, and increase the Private Sector Operations Department's ability to close more developmental deals have been undertaken under the Strategy 2020 midterm review action plan. These enhancements also aim to adjust processes to make them commensurate with associated risk and exposure.

- (i) **Small and highly developmental projects.** In 2015, ADB introduced the Faster Approach to Small Nonsovereign Transactions, a pilot framework that streamlines the concept review and Board approval process for eligible transactions involving ADB financing of \$20 million or less (\$10 million or less in the case of equity investments). This is expected to be particularly beneficial to speeding up and reducing the resource intensity for the processing of small and highly developmental projects in frontier and fragile economies. The aggregate time to process eligible small transactions is reduced by at least 40 working days—by eliminating certain internally prescribed procedures and documentary requirements—without diluting the rigor of ADB's due diligence. The first committee meeting for the Faster Approach to Small Nonsovereign Transactions was held in June 2015, instead of an Investment Committee meeting for concept review. The transaction was approved for due diligence via two investment documents (compared with four documents earlier), and involved 11 staff (compared with 40-plus staff earlier).
- (ii) **Investment Committee approvals.** The broader concept stage review process for NSO transactions was also streamlined to a certain extent. The investment memorandum templates used during the concept review of NSO projects were

simplified, and updated staff instructions were provided for concept approval by no objection. To maximize benefits from this action, the Private Sector Operations Department and the Office of Risk Management are increasingly pursuing early (internal) consultations on key credit issues and transaction parameters, with a view to reducing outstanding issues prior to Investment Committee deliberations.

- (iii) **Processing and documentation for risk transfers.** Streamlining of documentation for risk transfers was substantially completed. This will align ADB's internal requirements with products offered in the market and market practices, and thereby accelerate the use of risk transfers. IT support is required to facilitate full implementation of this reform.

## 7. Safeguard Policy Statement

In its Strategy 2020, ADB affirmed that environmental and social sustainability is a cornerstone of economic growth and poverty reduction in Asia and the Pacific. Therefore, ADB's Strategy 2020 emphasizes assisting DMCs as they pursue environmentally sustainable and inclusive economic growth. In addition, ADB is committed to ensuring the social and environmental sustainability of the projects it supports.

In 2009, ADB approved the Safeguard Policy Statement (SPS) governing environmental and social safeguards for ADB operations.<sup>137</sup> The SPS superseded three previous safeguard policies on the environment, involuntary resettlement, and indigenous peoples, uniting them in a single document to enhance consistency and coherence. The policy defined common objectives and policy principles, and outlined a policy delivery process. It also provided specific requirements for borrowers and clients to address the environmental and social impacts and risks of ADB-supported projects.

<sup>137</sup> ADB. 2009. *Safeguard Policy Statement*. Manila.



The goal of the SPS is to promote the sustainability of project outcomes. ADB's safeguards aim to (i) avoid adverse impacts of projects on the environment and affected people, where possible; (ii) minimize, mitigate, and/or compensate for adverse project impacts on the environment and affected people when avoidance is impossible; and (iii) help borrowers and clients to strengthen their safeguard systems and develop the capacity to manage environmental and social risks. The new SPS has improved compliance with environmental and social safeguards.

## C. Knowledge Management

Under the LTSF (2001–2015), ADB had committed to become a learning institution and a primary source of development knowledge in the region drawing upon resources, skills, and expertise both inside and outside the organization. Subsequently, ADB appointed a Vice-President for Knowledge Management and Sustainable Development in 2003 and adopted a knowledge management framework in June 2004.

Knowledge management continued to be accorded significant by ADB's leadership in the fifth decade. At his opening address at the 40th Annual Meeting of the BOG in 2007, in Kyoto, President Kuroda stressed that “access to knowledge is critical to economic and social development. Knowledge is the foundation of productivity and competitiveness—and the backbone of good public policy. As a knowledge institution, [ADB] will continue to apply [its] deep and broad experience to each country's specific challenges, sharing the region's development successes more effectively so that we can achieve development for all.” President Nakao further emphasized the “Finance++ model” of operations. At his opening address at the 47th Annual Meeting of the BOG in 2014, in Astana, he talked of strengthening knowledge work. He said that the institution “should act as ‘one ADB’.” [He had] asked all departments

of ADB, including those responsible for treasury operations, risk management, legal services, and information technology, to be an integral part of [ADB's] knowledge work. [ADB's] 28 resident missions will play a crucial role in coordinating with client countries.” President Nakao was particularly keen to enhance the linkages between operations and knowledge work.

At the start of the fifth decade, knowledge management in ADB was guided by the 2004 knowledge management framework,<sup>138</sup> with its five action programs: (i) improved organizational culture for knowledge sharing; (ii) improved management system of knowledge products and services; (iii) improved business processes and IT; (iv) well-functioning communities of practice (CoPs);<sup>139</sup> and (v) expanded knowledge creation, sharing, learning, and dissemination through external relations and networking. ADB focused on strengthening knowledge management through a variety of measures anchored in its evolving corporate strategy.

### 1. Knowledge Agenda under Strategy 2020

The Regional and Sustainable Development Department (RSDD), established in 2002, underwent significant reorganization in 2008 along sectoral and thematic lines to strengthen its capacity to serve the priorities defined under Strategy 2020, and to enhance linkages with operations. A Climate Change Program Coordination Unit was created to provide common, integrated, multidisciplinary, and cross-regional solutions to climate change. The Agriculture, Rural Development and Food Security team was formalized to support agriculture sector reviews and policy studies.

Under Strategy 2020, ADB identified knowledge solutions as a driver of change. In 2009, a Knowledge Management Action Plan (KMAP) was put in place. The action plan started with emphasis on sharpening the knowledge focus in ADB's operations, to be supported by efforts to empower CoPs for knowledge

<sup>138</sup> ADB. 2004. *Knowledge Management in ADB*. Manila.

<sup>139</sup> Communities of practice were groups of like-minded individuals who kept know-how in sectoral and thematic domains alive by continuously sharing their knowledge, building on the knowledge, and adapting knowledge to specific applications.



generation and sharing, since internal demand is important, and knowledge must feed in at critical points of corporate planning and priority setting. The plan then aimed to strengthen external knowledge partnerships for knowledge development and dissemination, and finally scale up staff development programs. Taken together, the action plan represented a pragmatic and step-by-step approach. The progress of implementation against the results framework was regularly monitored and reviewed as part of the annual budget review.

ADB continued to generate knowledge products under the three strategic agendas of Strategy 2020. The early part of the decade saw many of ADB's flagship publications focused on crisis and recovery (Box 15). At the same time, ADB made some major investments in knowledge about natural resources and the environment: a critical issue for a region increasingly concerned about climate change and the sustainability of economic growth. The Asian Regional Integration Center continued to serve as a knowledge and information portal on regional cooperation and integration, providing economic and financial data. ADB also undertook policy-oriented analyses of challenges to developing regional infrastructure, as well as specific studies on subregional programs.

Devising and disseminating knowledge solutions were the focus of ADB's Knowledge Sharing Program, established in 2011. It supported knowledge sharing among DMCs by connecting people and coordinating efforts. Various initiatives were supported under the program: (i) ADB's first conference on knowledge sharing and development effectiveness; (ii) a comprehensive framework to structure demand-driven knowledge sharing; (iii) model cases and training programs for knowledge sharing; and (iv) knowledge partnerships with development agencies, research and training institutions, and the private sector. ADB organized and supported several conferences that produced knowledge and insights useful to DMCs. Several needs-based learning programs were conducted for staff. ADB developed modalities for learning, from flash animations to e-learning modules. Significant

efforts have been made to overhaul and improve ADB's web pages on knowledge management and learning, increasing readership over the years.

To further empower the CoPs, ADB engaged CoP members in the peer review process for CPS and lending products. This process involved CoP leaders in internal and external selection panels for international staff positions. CoP member contributions were officially recognized in performance reviews. In 2011, the e-newsletter for CoPs were introduced, as database-driven issues, covering the news, events, and knowledge products promoted by individual CoPs.

Knowledge partnerships gained strength.<sup>140</sup> ADB's active involvement in various global forums and platforms, including the G-20 development process, global aid, and development effectiveness agenda; Rio+20; and the post-2015 development agenda discussions has facilitated development of knowledge partnerships. These partnerships have been further boosted by ADB's participation in the Asia-Pacific Communities of Practice on Managing for Development Results and by promoting South–South cooperation through collaboration with MDBs, including the Inter-American Development Bank, Corporacion Andina de Fomento, and the African Development Bank, as well as by knowledge partnerships with several DMCs. A number of memorandums of understanding and partnership agreements have been signed, including those with (i) academic and research institutions such as the Lee Kuan Yew School of Public Policy, the National University of Singapore, and the Energy and Resources Institute in India; (ii) bilateral agencies such as the Japan International Cooperation Agency and the Swedish International Development Cooperation Agency; (iii) multilateral agencies such as the Food and Agriculture Organization of the United Nations, the International Fund for Agriculture Development, the United Nations Development Programme, and the World Bank; (iv) nongovernmental organizations, including the World Wide Fund for Nature; and (v) business entities, including the Export–Import Bank of Korea.

<sup>140</sup> Footnote 9.

### Box 15: Knowledge Products during the Global Economic Crisis

The key knowledge products of the Asian Development Bank (ADB) during the global economic crisis of 2007–2008 focused on themes like resilience of developing Asia through the crisis, threats to macroeconomic stability and sustained growth, and the need to rebalance growth and improve macroeconomic management.

#### Flagship Reports

The *Asian Development Outlook 2009* with the theme “Rebalancing Asia’s Growth” discussed the mix of actions that were undertaken in Asian economies to mitigate the effects of the global economic crisis and recommended measures to rebalance Asia’s growth. The *Asian Development Outlook 2009 Update* concentrated on broadening the scope and structure of Asia’s openness to trade, capital flows, and movement of workers. The *2009 Key Indicators for Asia and the Pacific*—besides featuring the latest available economic, financial, social, and environmental indicators for the region—deliberated on the impact of the crisis on small and medium-sized enterprises, and on how they might foster greater dynamism once the crisis has played out.

#### Asian Development Bank Institute Research

In response to requests from policy-makers, the ADB Institute evaluated the impacts of the global crisis on Asia. The research recommended macroprudential surveillance and regulation of the finance sector; deepening of regional bond markets, including promotion of rating agencies, and harmonization of issuing requirements, regulations, and tax regimes; a regime for monetary policy that takes account of asset price movements to avoid development of bubbles; greater liberalization of regional trade (including services) and investment; development of an Asian infrastructure investment fund; stronger social safety nets and national pension systems; and policies and strategies to achieve low-carbon growth more cost effectively and to lower trade barriers for green technology transfer.

#### Monitoring and Surveillance

To further monitor developments in the region, the Asia Capital Markets Monitor was launched in 2009. It is an annual report that reviews recent developments in Asia’s stock, bond, and currency markets, along with their outlook, risks, and policy implications. The Asia Bond Monitor was launched as a quarterly publication to provide more timely analysis of local-currency-denominated bond markets in the wake of the global financial crisis.

#### Policy Advice

ADB also intensified its policy advice to developing member countries (DMCs) through technical assistance grants. To generate appropriate policy responses to the crisis, ADB and the ADB Institute facilitated expert discussions and ideas exchange among DMCs, organizing about 20 events on the global economic crisis (often in association with other development partners) throughout 2009. In March 2009, ADB convened the first South Asian Forum on the Impact of the Global Economic and Financial Crisis. During the 2-day forum in Manila, public and private sector representatives from seven South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) shared cross-country experiences on the impacts of the crisis, and on the ongoing and planned measures to preserve financial stability, stimulate growth, and ensure social protection in their respective economies. In September 2009, a high-level conference on the impact of the crisis on poverty and sustainable development was held in Ha Noi, Viet Nam. In early October, an international conference co-organized by ADB on financial policy responses to the crisis, held in Seoul, Republic of Korea, drew lessons from the crisis and identified areas to further safeguard regional financial systems.

Source: ADB. 2010. *Annual Report 2009*. Manila.

In 2011 and 2012, ADB received the Asia Most Admired Knowledge Enterprises award in recognition of its work to devise knowledge-based products, services, and development solutions. The 2013 Multilateral Organization Performance Assessment Network survey found ADB's knowledge management to be adequate.<sup>141</sup> It noted that project, sector, and country information was used to revise corporate policies; the quality of ADB's independent evaluations was high; and its disclosure of documents was proactive.

An independent evaluation of the KMAP's implementation shows that several outcomes had been met.<sup>142</sup> The KMAP's objectives to strengthen knowledge focus in operations, CoPs, and external partnerships, had been largely achieved. Since 2005, ADB had made consistent efforts through periodic internal and external surveys to gather feedback on its knowledge work. The number and visibility of internal and external knowledge-dissemination events had improved. Enhancements in collaboration and technology were considered noteworthy.

Some crucial gaps were also identified by the review. While Strategy 2020 was considered to have raised the profile of the knowledge management agenda, it lacked adequate guidance on making this operational. A key concern was that a wide range of knowledge management approaches prevailed within ADB

without sufficient coherence, coordination, and consideration of whether they fulfill priority needs of the region. The role of internal CoPs was undoubtedly important, but their individual performances had been highly varied. Identification of country-level knowledge needs remained a vital gap, especially in light of rapid changes in the physical and financial environment. Progress on staff learning and skills development was considered slow.

Among the review's recommendations for better knowledge management at ADB were: (i) improving incentive structures to better reward staff doing knowledge work; (ii) improving enabling technologies, particularly for knowledge storage, retrieval, and sharing; and (iii) and strengthening the identification of knowledge needs by expanding successful approaches adopted by regional departments and using them to help prepare country-specific knowledge plans.

The experience from ADB's Knowledge Management Action Plan (2009–2011) provided a foundation for further reforms. A new Knowledge Management Directions and Action Plan (2013–2015) was prepared in 2013, addressing many of the earlier concerns (Box 16).<sup>143</sup> In 2013, a Knowledge Sharing and Services Center was established in RSDD, with the mandate of delivering knowledge more coherently and effectively through internal and external linkages.

<sup>141</sup> Multilateral Organization Performance Assessment Network (MOPAN). 2013. *Institutional Report: Asian Development Bank*. [http://www.mopanonline.org/upload/documents/MOPAN\\_2013\\_-\\_ADB\\_Vol.\\_1.pdf](http://www.mopanonline.org/upload/documents/MOPAN_2013_-_ADB_Vol._1.pdf)

<sup>142</sup> ADB. 2012. *Special Evaluation Study on Knowledge Products and Services: Building a Stronger Knowledge Institution*. Manila.

<sup>143</sup> ADB. 2013. *Knowledge Management Directions and Action Plan (2013–2015): Supporting "Finance ++" at the Asian Development Bank*. Manila.

### Box 16: Summary of the Knowledge Management Action Plan (2013–2015)

Under the guidance of the Office of the Vice-President for Knowledge Management and Sustainable Development, the Regional and Sustainable Development Department of the Asian Development Bank (ADB) was tasked with overseeing, monitoring, and reporting on the implementation of the Knowledge Management Action Plan (2013–2015).

#### Goal 1. Prioritizing and Implementing Knowledge Solutions

- Providing corporate-wide strategic guidance for planning knowledge solutions and strengthening their contribution for greater and accelerated development effectiveness
- Establishing ADB's operations cycle in developing member countries as the principal context and basis for planning and implementing ADB's knowledge solutions

#### Goal 2. Enriching the Quality of ADB and Developing Member Country Knowledge Capabilities for Development Effectiveness

- Strengthening the roles and contributions of ADB's sector and thematic communities of practice
- Creating knowledge solutions through partnerships with centers of excellence and knowledge hubs
- Expanding ADB operations for innovation and pilot testing
- Providing ADB-wide knowledge sharing and support services
- Defining, measuring, and reporting the performance of ADB's knowledge solutions

#### Goal 3. Advancing ADB's Knowledge Assets, Information Systems, and Communications

- Investing in integrated databases
- Easing access to data and information

#### Goal 4. Empowering and Resourcing High-Quality Knowledge Solutions

- Creating a more demanding and favorable organizational environment for knowledge solutions
- Improving resource utilization and strengthening financial support for knowledge solutions

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

## 2. Knowledge Agenda under the Strategy 2020 Midterm Review

The midterm review of Strategy 2020 reiterated the importance of knowledge as an important element of ADB's finance++ approach, which integrates ADB's financing with leveraging of additional resources and support for knowledge solutions. Accordingly, the midterm review action plan outlines several reform actions to strengthen knowledge solutions. These are under implementation. Under the midterm review, reflecting President Nakao's vision, a "one ADB" approach would be adopted for all ADB departments to work together to provide knowledge solutions. Resident missions would seek knowledge partnerships and dialogue opportunities with DMCs and coordinate ADB support. To ensure that knowledge work is

operationally relevant, ADB's CoPs would become more actively involved with project processing and preparing related knowledge products. IT would be used more effectively for storage, retrieval, and dissemination of knowledge products and data.

To strengthen the "one ADB" approach, the roles and responsibilities of sector and thematic CoPs were realigned into sector groups and thematic groups (Table 3). Expected benefits from the realignment include (i) greater linkages of sector and thematic groups with operations departments; (ii) improved access to thematic and sector experts across ADB, creating an integrated knowledge marketplace where experts are not confined to particular departments; (iii) the provision of dedicated specialized technical staff support to operations departments; and (iv) career growth opportunities for staff interested in sector and thematic technical roles.

**Table 3: Sector and Thematic Groups**

Sector Groups	Thematic Groups
Education	Climate Change and Disaster Risk Management
Energy	Environment
Finance	Gender Equity
Health	Governance
Transport	Public-Private Partnership
Urban	Regional Cooperation and Integration
Water	Rural Development and Food Security (Agriculture)
	Social Development

Source: Asian Development Bank.

An important organizational reform was the realignment of the knowledge departments. In 2014, the Monetary and Financial Cooperation, Trade and Investment and RCI Special Initiatives Teams of the Office of Regional Integration were merged with the Economic Research and Regional Cooperation Department (Box 10). Concurrently, RSDD was realigned to strengthen links with operations departments and to step up ADB support for climate change actions. In 2015, RSDD was renamed the Sustainable Development and Climate Change Department. The Climate Change Coordination and Disaster Risk Management Unit was upgraded to the Climate Change and Disaster Risk Management Division, headed by a director. Climate adaptation work was transferred to this new division from the Environment and Safeguards Division.

The secretariats of the sector and thematic groups are generally located within the realigned Sustainable Development and Climate Change Department.<sup>144</sup> Each group has a full-time secretariat, comprising international and national staff (typically three international staff and one national staff), and is led by a technical advisor, a senior ADB staff member. To enhance collaboration with operations, the work plans of the sector and thematic groups are prepared with the guidance of sector committees, comprising sector directors from operations departments, in consultation with operations Vice-Presidents and directors general.

Efforts have also intensified to better integrate “one ADB” knowledge work into the operation cycle. Country knowledge plans are expected to increase the client focus of ADB’s knowledge products and services. Country directors are appointed as knowledge custodians, and have been authorized to coordinate the design and implementation of country knowledge plans. The country knowledge plan is prepared by a team from the regional departments, with greater responsibility on resident missions, in collaboration with sector and thematic groups, and knowledge departments. The DMC needs are assessed to increase the country focus, and a list of indicative knowledge publications and events are included in the CKP. The goal is to prepare country knowledge plans for all DMCs by 2016. Business process instructions and technical guides for CKP preparation were issued following extensive consultations with operations departments and resident missions. Thematic and sector groups are mandated to develop 3-year rolling plans for knowledge products and services.

Information technology support is also an integral part of knowledge management. Several reforms are planned to develop a common IT-based knowledge platform, and provide an easy-to-access tool for listing and retrieving knowledge products. A Knowledge Nexus, a “one ADB” management information system for all knowledge products and services, was launched in 2015. All ADB knowledge products and services delivered from 2012 onward are stored in this database.

<sup>144</sup> The secretariat for the Regional Cooperation and Integration thematic group is under the Economic Research and Regional Cooperation Department. The secretariat for the Public-Private Partnership thematic group is under the Office of Public-Private Partnership.



## VI. FINANCIAL POLICIES AND RESOURCE MOBILIZATION EFFORTS



- ADB's authorized capital stock increased 200% following the fifth general capital increase in 2009, the first since ADB increased its capital by 100% in 1994.
- The groundbreaking combination of the Asian Development Fund (ADF) portfolio with the ordinary capital resources balance sheet, approved in 2016, is unique among multilateral development banks, and can raise ADB's annual financing commitments by 50% between 2014 and 2020.
- Three ADF replenishments were concluded, backed by several internal reforms and adjustments to the ADF framework.

ADB's fifth decade was marked by an expansion of its authorized capital stock, the completion of three ADF replenishments, and an innovative combination of the ADF and OCR—all of which resulted in a significant increase in ADB's own lending capacity.<sup>145</sup> This was mirrored by greater focus on leveraging external resources for DMCs to supplement ADB's own financing. ADB leadership in the fifth decade appreciated the importance of resource mobilization to realize ADB's corporate vision. The midterm review of Strategy 2020 noted that the region continued to need large-scale development financing, and

ADB needed a certain scale of operations backed by adequate financial resources to remain relevant and competitive.

### A. Ordinary Capital Resources

By the end of 2016, authorized capital stock amounted to \$143.02 billion. This included subscriptions from a fifth general capital increase (GCI V) and earlier GCIs, as well as subscriptions from 67 members. This represented an almost threefold increase from the authorized capital stock at the end of the fourth decade. As in the

<sup>145</sup> This entire section on financial policies and resource mobilization efforts draws from a study prepared by the Treasury Department. ADB. 2016. *A History of Financial Management at Asian Development Bank: Engineering Financial Innovation and Impact on an Emerging Asia*. Manila.

case of ADB operations, there were changes in OCR financial policies and resource mobilization in line with overall corporate policy and regional economic developments, including the global financial crisis of 2008–2009.

## 1. Capital, Capital Adequacy, and Risk Management

As the fifth decade of its operations commenced, ADB had become a market-based lending institution, offering a lending product linked to the London interbank offered rate (LIBOR) designed not only to meet the needs of its borrowers, but to also provide a high degree of flexibility in managing interest, exchange rate, and intermediation risks. Over the years, ADB had introduced sophisticated tools and methodologies into its policies and practices designed to ensure that it could withstand a disruption in the financing and lending environments. ADB would reap the rewards of its conservative financial management when the 2008 financial crisis hit the global economy.

ADB's risk-based capital (RBC) framework, introduced in 2004, was further enhanced. For much of its first 50-year history, ADB's Income and Reserves policy was at the core of its capital adequacy. The targets set for key financial indicators embedded in this policy, i.e., the interest coverage ratio<sup>146</sup> and the reserves to loan ratio,<sup>147</sup> were seen as appropriate in meeting its capital management objectives at par with other international development institutions. In 2004, these key indicators were replaced by more dynamic approaches aimed at addressing

the financial challenges of the 21st century, such as the RBC framework, which established the equity-to-loan ratio (ELR) as a more appropriate measure of capital adequacy.

Following introduction of the RBC framework for determining capital adequacy in 2004, ADB had intended to undertake future enhancements focused on the gradual application of an in-house country risk assessment model and the adoption of Monte Carlo simulation-based modeling to replace the statistic-based modeling then used under the RBC framework.<sup>148</sup> Accordingly, methodological enhancements were completed in 2008, with the objectives of (i) ensuring sufficient financial capacity to absorb income loss due to nonaccrual shock and other remaining risks to ADB's loan portfolio; and (ii) to ensure sufficient income generation capacity to support a postshock target growth of outstanding loans, then set at 3% per annum, without causing the postshock ELR to fall below a minimum level over 10 years, this minimum level being determined each year on the basis of the nonaccrual shock measured by the RBC framework.<sup>149</sup>

As market dislocations emerged following the collapse of the subprime mortgage-backed securities market during the global economic crisis in 2008, the deteriorating macroeconomic conditions in several DMCs imposed risks on ADB's portfolio. Notwithstanding this, timely remedial actions ensured that ADB's capital adequacy remained strong during the crisis, throughout the fifth decade, evidenced by a reaffirmation of its AAA credit rating by the three major international credit rating agencies.<sup>150</sup>

<sup>146</sup> This is income before interest expense relative to interest expense. The ratio helps determine the ability of income to cover the cost of ADB borrowings.

<sup>147</sup> This is reserves relative to outstanding loans. The ratio indicates the extent to which ADB is covered for possible bad and doubtful debts, i.e., possible defaults in repayments by borrowers.

<sup>148</sup> This method repeatedly simulates a random process for the credit losses covering a wide range of scenarios. A single total portfolio loss number is produced for each scenario. Thousands of different scenarios of portfolio losses are run, resulting in a histogram of portfolio losses, which becomes the simulated loss distribution of the portfolio due to default risk. The expected and unexpected losses are then derived from this simulated distribution, allowing ADB to assess the impact of credit shocks on its capital by modeling ELR over a 10-year horizon.

<sup>149</sup> The Monte Carlo technique provided ADB the opportunity to move away from the then existing practice of assessing capital adequacy through a predetermined ELR target of 35%, which was deemed too conservative. This would give a more complete picture of ADB's current risk-bearing capacity, and would become pertinent in view of the deteriorating risk environment associated with financial crisis of 2007–2008.

<sup>150</sup> The equity-to-loan ratio stood at 38% at the end of 2008, comfortably exceeding targets.

In 2008, ADB revised its policy on lending limitation.<sup>151</sup> This limited the total amount of disbursed loans, approved equity investments, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves, and surplus. In addition, the gross outstanding borrowings would not exceed the sum of callable capital from nonborrowing members, paid-in capital, and reserves (including surplus).<sup>152</sup> This adjustment to headroom, particularly the decline in additional borrowing capacity, was pertinent as it precipitated a series of studies that year on ADB's operational program and the resources required to support it. Accordingly, ADB prepared two working papers that assessed ADB's financial resource position during the implementation period of Strategy 2020, reviewing all possible avenues for further resource mobilization.

In 2009, ADB approved an exposure management policy for nonsovereign operations (NSOs), establishing a medium-term overall limit for nonsovereign exposure that equaled about 15% of projected total operations and gradually phased in NSO growth.<sup>153</sup> This indicated a medium-term NSO exposure limit starting at \$7.7 billion in 2010 and increasing to \$10.6 billion by 2014. The policy also limited to \$2.1 billion the maximum nonsovereign exposure of any single country. The new policy was meant to ensure that the growth of NSO exposure envisaged under Strategy 2020 would not exceed ADB's risk-bearing capacity. The country limit varied according to the country's credit rating. ADB also established prudential limits for industry, groups, single obligors, and counterparties, and introduced a definition of exposure that concurred with that already established by ADB's capital adequacy framework.

In 2014, the existing framework was reviewed in the context of the Strategy 2020 midterm review and

ADB's Long-Term Capital Adequacy Framework, to allow for and to control an expected substantial increase of ADB's risk transfer operations, and support NSOs. The 2014 review amended the prevailing medium-term limit by imposing two separate limits, rather than one, in the future. The gross NSO limit was adjusted to \$12.5 billion for the aggregate sum of disbursed and outstanding loans, guarantees, and equity investments. In addition, a medium-term limit for NSO of \$10.6 billion up to 2019, was established net of amounts guaranteed by or otherwise transferred to eligible counterparties.

## 2. Loan Pricing

Before the financial crisis, ADB had been relatively accommodating with its sovereign borrowers in connection to loan pricing, responding to DMC requests for lower charges. This reflected the strong net income position ADB then enjoyed. In December 2007, ADB revised the lending rates for all sovereign LIBOR-based loans (LBL) negotiated on or after 1 October 2007 by reducing the effective contractual spread to 20 basis points over the base lending rate and eliminating the waiver mechanism for such loans. The impetus behind this was an earlier move by the International Bank for Reconstruction and Development that year to significantly reduce and simplify its loan charges.

The trend of lower lending spreads also extended to fees charged. In December 2007, BOD approved the elimination of front-end fees for sovereign LBL negotiated on or after 1 October 2007. Commitment fees were similarly adjusted. Before 2007, ADB had applied a progressive commitment fee of 75 basis points on undisbursed loan balances for sovereign project loans and a flat commitment fee of 75 basis points for sovereign program loans. Several reductions and adjustments were undertaken during 2006 and 2007, and the commitment charge was reduced from 75 basis points for sovereign program loans and 35 basis

<sup>151</sup> ADB. 2008. *Review of the Asian Development Bank's Lending Limitation*. Manila.

<sup>152</sup> As of 31 December 2008, headroom for lending was \$29.2 billion and for borrowings, \$8.9 billion, based on the new policy (compared with \$35.5 billion for lending and \$16.4 billion for borrowings as of 31 December 2007).

<sup>153</sup> ADB. 2009. *Review of the Asian Development Bank's Exposure Limits on Nonsovereign Operations*. Manila.

points for sovereign project loans to 15 basis points for both sovereign program and project loans negotiated on or after 1 October 2007, eliminating the waiver mechanism for such loans. For nonsovereign loans, ADB continued to charge a commitment fee of about 50–75 basis points on the full amount of undisbursed loan balances.

Unfortunately, the prevailing business environment changed radically following the onset of the 2008 crisis, and by 2009, the impact of a lower interest rate and investment return outlook were clearly evident. While ADB's financial position remained strong and its capital adequacy was considered adequate, its operating income fell by 41% in 2009, to \$420 million.<sup>154</sup> This was primarily caused by lower global interest rates and by loan loss provisions for specific private sector loans. Financial projections undertaken at the time indicated that with increased lending operations and, in retrospect, optimistic estimations of interest rate yields on investments, operating income would recover to precrisis levels by 2012. However, an increasing share of income would be accounted for by NSOs and equity-funded assets, while income from sovereign loans was expected to stagnate given the increasing proportion of new sovereign loan disbursements at the effective contractual spread of 20 basis points approved in 2007.

In 2010, ADB reversed the trend in declining loan spreads. For all sovereign and sovereign guaranteed LBLs, and local currency loans with sovereign guarantees negotiated from 1 July 2010 up to and including 30 June 2011, there was a reduction in the credit of 0.4% to 0.3% for the duration of the loan, resulting in an effective contractual spread of 0.3% over the base lending rate. For the same type of loans negotiated from 1 July 2011, the credit of 0.4% would be reduced to 0.2% for the duration of the loan, resulting in an effective contractual spread

of 0.4% over the base lending rate. The increase in the effective contractual spread was anticipated to reverse the trend in stagnating loan income; cover sovereign administrative expenses over the planning period; strengthen the ELR through creation of an income buffer; and bring ADB's loan pricing more in line with the International Bank for Reconstruction and Development and Inter-American Development Bank, which had both raised their loan charges in 2009. In 2013, ADB would go on to introduce an additional revision to loan pricing for all LBLs and local currency loans negotiated on or after 1 January 2014 reducing the credit of 0.2% to 0.1% for the duration of the loan, resulting in a contractual spread of 0.5% over the base lending rate.

Further, in December 2011, BOD approved the introduction of maturity premiums for all LBL to sovereign, and sovereign guaranteed, borrowers (other than PDF loans) as well as local currency loans with sovereign guarantees, where loan negotiations would be completed on or after 1 April 2012.<sup>155</sup>

### 3. Borrowings

During the period 2007–2016, ADB raised about \$144 billion in long- and medium-term funds, or about \$14.4 billion annually, on average. The new borrowings were raised in a combination of public issues (including additional global benchmark issues) and private placements, and in a variety of currencies, such as the US dollar, Japanese yen, euro, South African rand, Turkish lira, Mexican peso, Brazilian real, and others. ADB also raised funding through numerous local currency bond issues on the Asian markets, including in Hong Kong dollar, Singapore dollar, Thai baht, Malaysian ringgit, Philippine peso, renminbi, Australian dollar, and New Zealand dollar.

<sup>154</sup> For the year 2009, ADB reported a net loss of \$27.5 million on its financial statements. Adjusting this figure to remove unrealized losses related to Accounting Standard Codification 815/825 adjustments (\$466 million) and ADB's proportionate share of unrealized gains from equity investment accounted for under the equity method (\$19 million) resulted in operating income of \$420 million.

<sup>155</sup> This comprised a 10 basis points per annum premium on loans with an average loan maturity of greater than 13 years and up to 16 years, and a 20 basis points per annum premium on loans with an average maturity of greater than 16 years and up to 19 years. ADB also introduced an average maturity limit on new loans not to exceed 19 years.

ADB continued to pursue its strategic objective of contributing to the development of regional bond markets and providing the appropriate local currency funding for its borrowers. In 2010, for example, ADB successfully issued its maiden global renminbi bond in Hong Kong, China, raising 1.2 billion yuan (\$182 million equivalent), tapping into an expanding investor base in the PRC and the rest of Asia. Even in situations where market conditions were not favorable for ADB to issue local currency bonds, ADB was active in raising local currency through the swap markets. In 2008, for example, ADB raised about \$200 million equivalent through cross-currency swaps to meet local currency funding requirements in Indian rupee, Indonesian rupiah, and Philippine peso. In 2010, ADB issued its first Kauri bond under the NZ\$5 billion domestic medium-term note program, a 4-year issue amounting to NZ\$225 million (\$162 million equivalent). In 2014, ADB issued its inaugural euro benchmark bonds totaling €1.5 billion (\$2.1 billion equivalent). In the same year, it also issued its first offshore Indian rupee-linked bonds totaling ₹ 3.0 billion (\$49 million equivalent). Thematic bonds were also issued for the first time in the fifth decade (see subsection on lending overview in section V).

#### 4. Fifth General Capital Increase

The need for increased lending resources had become evident well before the global economic crisis in 2008. ADB was running out of the financial headroom needed to respond to the vast investment and development needs of the region. ADB's research showed that, even before the crisis, OCR borrowers faced an estimated resource gap of \$53 billion a year in their efforts to achieve the MDGs. As per the mandate in ADB's Charter, the capital stock is to be reviewed by BOD at intervals of not less than 5 years. This periodic assessment process had resulted in regular increases to the capital subscriptions, but the last increase was in 1994.

The global economic crisis intensified the demand for additional and immediate financial support. With credit markets impaired, DMCs turned to ADB for increased assistance. In response to these requests, ADB proposed to provide up to an additional \$7 billion–\$8 billion of OCR funding support to crisis-affected DMCs in 2009–2010, compared to \$8.8 billion in 2008. This was almost 50% more than the amount planned for 2009–2010 under ADB's work program and budget framework. However, ADB could respond promptly and properly only with a fifth general capital increase (GCI V). Without a GCI, ADB estimated that it would have to limit its OCR operations to less than \$4 billion from 2010 onward.<sup>156</sup>

Looking beyond the crisis, ADB realized that implementation of Strategy 2020 commitments would require additional resources. After 2010, ADB expected a gradual decline in crisis requirements from its DMCs, and planned to return to sustainable levels of lending. Nevertheless, ADB expected demand for its OCR loans to remain well above the level of lending it could sustain even with a 200% capital increase—as the need for development finance was already huge before the current crisis. To support its GCI proposal, ADB committed that sector lending under GCI V would reflect the focused priorities agreed under Strategy 2020. ADB also agreed to pursue several institutional reforms, including strengthening human resources, organizational effectiveness, and safeguarding standards.

Initial discussions on a capital increase had started in the fourth decade itself.<sup>157</sup> By 2007, the situation had become very tight, and President Kuroda asked the Treasury Department and the Strategy and Policy Department to study ADB's future resource requirements. In May 2008, BOD reported to the BOG on the status of ADB's resources and highlighted the need to initiate a study on financial resources. Accordingly, ADB

<sup>156</sup> ADB. 2009. *The Fifth General Capital Increase of the Asian Development Bank*. Manila.

<sup>157</sup> The need for a general capital increase was raised in 2006 but Management decided not to pursue it, as a few key donors were not supportive.



prepared an assessment of ADB's financial resource position during the implementation period of Strategy 2020, and reviewed all possible avenues for resource mobilization. The final version of the paper was discussed by BOD in April 2009. ADB Management recommended an increase in ADB's subscribed capital of 200% with a paid-in portion of 4%. This implied a proposed threefold increase in ADB's subscribed capital from about \$50 billion to around \$160 billion, and an increase in paid-in capital from more than \$3 billion to about \$8 billion. Management considered that the proposed size of the capital increase adequately took into account ADB's future role and operational agenda under Strategy 2020, the needs of its DMCs, and the resource constraints facing ADB members. The proposed 200% GCI V would allow front-loading lending to respond to the financial crisis.

Following Board discussion, the draft report of BOD, containing the draft resolution for GCI V was sent to the BOG for its consideration and action. On 29 April 2009, ADB closed the casting of votes and recorded the status of voting for adoption of the resolution for GCI V. The results of the voting were reported on 30 April 2009. The overwhelming majority of members endorsed the GCI. The 200% increase is ADB's largest, and the first since ADB increased its capital by 100% in 1994. ADB was also the first MDB to secure a GCI, right after the crisis, and this helped in rapid crisis response.

GCI V was a major supplementation of capital resources (Table 4). The 200% increase allowed ADB to substantially increase its support to countries affected by the global downturn and better positioned ADB to prevent the reversal of hard-won gains in social and economic development and poverty reduction. Although the GCI was not directly triggered by the global crisis, the latter certainly helped to build support among donors, some of whom had not been supportive in the

initial stages of discussion. Member commitments and subscriptions progressively accumulated in subsequent years, and by 31 December 2016, total authorized capital of ADB was valued at \$143 billion.<sup>158</sup>

## B. Asian Development Fund

The ADF remains the major special fund of ADB, and the key instrument of concessional financing to support equitable and sustainable development in the region. Funded by ADB's member countries, ADF offers loans at very low interest rates as well as grants to help reduce poverty in ADB's poorest DMCs. There were several changes to the management of the ADF during ADB's fifth decade of operations. Changes were introduced to respond to the needs of borrowers, in line with the directions of the corporate strategy.

ADF replenishment discussions during the fourth decade had been difficult, with donors pushing for internal reforms, entailing implications well beyond ADF operations. Particularly during the ADF VIII midterm review and continuing through the ADF IX negotiations, donors expressed concerns about various aspects of ADF operations. The establishment of a grant program in ADF IX to aid poorest DMCs was also achieved after difficult discussions, including sharp differences of views between delegations. In response, ADB (led by President Tadao Chino) had committed to a series of reforms.<sup>159</sup>

Into the fifth decade, ADB's implementation of the ADF reform agenda started to be broadly viewed as a success by donors. Senior staff involved in negotiations have opined that ADB gradually came to be regarded more positively by donors and other MDBs. The ADF replenishment discussions of the decade were generally more

<sup>158</sup> Subscribed capital was 10,567,394 shares valued at \$153.06 billion. Of the subscribed capital, \$7.68 billion was paid-in (\$6.13 billion of which was received as of 31 December 2014) and \$145.38 billion was callable. Total shareholder's equity on a statutory basis increased from \$15.27 billion as of 31 December 2008 to \$16.94 billion as of 31 December 2014.

<sup>159</sup> These included establishing a new accountability mechanism; making the Operations Evaluation Department independent; strengthening the results agenda; reviewing ADB's poverty reduction strategy; strengthening ADB's senior management team; reviewing the performance-based allocation system; adopting a new human resource strategy; addressing bunching; conducting an independent review of the reorganization; introducing a new public communication policy; reviewing ADB's governance and anticorruption policies; and reviewing ADB's private sector development strategy.

**Table 4: General Capital Increases and Capital Composition (Authorized Capital Stock), 1966–2009**

	Initial Subscription	GCI I	GCI II	GCI III	GCI IV	GCI V
Resolution Date	22-Aug-66	30-Nov-71	29-Oct-76	25-Apr-83	22-May-94	29-Apr-09
<b>Capital Increase</b>						
% Increase	0	150	135	105	100	200
Number of new shares	110,000	165,000	414,800	754,750	1,770,497	7,092,622
<b>Composition of Capital (%)</b>						
Callable	50	80	90	95	98	96
Paid-in	50	20	10	5	2	4
<b>Components of Capital (%)</b>						
Convertible Currency	50	40	40	40	40	40
National Currency	50	60	60	60	60	60
<b>Composition of Capital, Increase</b>						
<i>in SDR million</i>	<b>1,100</b>	<b>1,650</b>	<b>4,148</b>	<b>7,547</b>	<b>17,705</b>	<b>70,926</b>
Callable	550	1,320	3,733	7,170	17,351	68,089
Paid-in	550	330	415	377	354	2,837
<i>in USD million</i>	<b>1,100<sup>a</sup></b>	<b>1,650<sup>b</sup></b>	<b>4,790<sup>c</sup></b>	<b>8,163<sup>d</sup></b>	<b>25,043<sup>e</sup></b>	<b>106,272<sup>f</sup></b>
Callable	550	1,320	4,311	7,755	24,542	102,021
Paid-in	550	330	479	408	501	4,251
<b>Composition of Capital, Cumulative<sup>g</sup></b>						
<i>in SDR million</i>	<b>1,100</b>	<b>2,750</b>	<b>7,221</b>	<b>14,768</b>	<b>34,910</b>	<b>106,389</b>
Callable	550	1,870	5,823	12,993	32,480	101,084
Paid-in	550	880	1,398	1,775	2,430	5,306
<i>in USD million</i>	<b>1,100<sup>a</sup></b>	<b>2,750<sup>b</sup></b>	<b>8,338<sup>c</sup></b>	<b>15,974<sup>d</sup></b>	<b>49,378<sup>e</sup></b>	<b>159,408<sup>f</sup></b>
Callable	550	1,870	6,724	14,054	45,941	151,459
Paid-in	550	880	1,614	1,920	3,437	7,950

GCI = general capital increase, SDR = special drawing right, US = United States.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Translated at the exchange rate of \$1 per SDR as of 22 August 1966. At the time of ADB's inception, the original authorized capital of ADB was \$1 billion in terms of US dollars. Of this amount, \$500 million was paid-in shares, and another \$500 million was callable. In November 1966, the Board of Governors approved an increase of \$100 million of authorized capital.

<sup>b</sup> Translated at the exchange rate of \$1 per SDR as of 30 November 1971.

<sup>c</sup> Translated at the exchange rate of \$1.15471 per SDR as of 29 October 1976.

<sup>d</sup> Translated at the exchange rate of \$1.08163 per SDR as of 29 April 1983. There are no daily rates in Bloomberg for 1983, only month end rates.

<sup>e</sup> Translated at the exchange rate of \$1.41445 per SDR as of 20 May 1994.

<sup>f</sup> Translated at the exchange rate of \$1.49835 per SDR as of 29 April 2009.

<sup>g</sup> Includes special capital increases of new and existing members.

Source: ADB's Controller's Department and ADB's Annual Reports.

collegial. By and large, donors appreciated the reforms that ADB was undertaking, and, at the respective midterm reviews of ADF X and ADF XI, they expressed general satisfaction with ADF performance. The focus on reforms remained strong, as ADB periodically reported to donors on reform progress.

## 1. Ninth ADF Replenishment (Asian Development Fund X: 2009–2012)

The theme of the ninth ADF replenishment was “towards an Asia and Pacific region free of poverty”. Around the time that the replenishment

was under discussion, ADB's focus turned to optimizing the efficiency of resource utilization. Various adjustments were introduced to the ADF framework, which were consulted and refined in the lead up to the negotiations.

**Changes in ADF Framework.** In July 2007, as an extension of the Board-approved new currency management framework, ADB offered full special drawing rights (SDR) to ADF legacy loans.<sup>160</sup> This provided ADF borrowers with the option of converting their existing liabilities (i.e., disbursed and outstanding loan balances) in various currencies into SDR, while the undisbursed portions would be treated as new loans. The conversion was intended

<sup>160</sup> ADB. 2005. *Asian Development Fund Currency Management Proposal*. Manila.

to reduce exchange rate volatility associated with legacy ADF loans and provide a consistent debt portfolio management framework across peer MDBs and all ADF loans. This conversion was made available beginning 1 January 2008.

In September 2007, BOD approved a revised ADF grant framework that limited grant eligibility to ADF-only countries.<sup>161</sup> This was intended to help low income countries restore or maintain external debt sustainability. High-debt-distressed countries would receive 100% of ADF funding in grants; moderate-risk countries would receive 50%; and low-risk countries would only receive loans. In order to avoid rewarding poor performance, a 20% volume discount would be introduced to the grant portion of ADF resources allocated under the existing country performance assessments.

The resources from the 20% volume discount would be transferred to a new hard-term ADF lending facility. The hard-term facility would have a fixed interest rate of 150 basis points below the weighted average of the 10-year fixed swap rates of the SDR component currencies plus the OCR lending spread, or the current ADF rate, whichever was higher. The interest rate would be reset every January through a Board information paper, would apply to all hard-term loans approved that year, and would be fixed for the life of the loan. In general, blend countries with per capita income not exceeding the International Development Association (IDA) operational cutoff for IDA eligibility more than two consecutive years, and with an active OCR lending program, would be eligible to borrow from the new facility. Income generated from the hard term ADF facility would be used to defray the cost of interest foregone due to the shift from loan assistance to grants for certain countries.

In December 2007, BOD approved a new ADF financial framework intended to enhance the long-term financial capacity of ADF and improve

prudential financial management practices by establishing tranches within ADF liquid assets to improve liquidity management.<sup>162</sup> It would also help maintain minimum prudential liquidity levels for ADF. ADF would now manage its liquidity in two tranches to allow for optimal use of financial resources. The first tranche would ensure that adequate liquidity would be available to meet the expected cash requirements. The second tranche would comprise the prudential minimum liquidity ADF should hold to meet unexpected demands and any usable liquidity for future commitments. It was understood that the new framework would provide ADF a higher and more stable commitment authority for future replenishments and ensure that liquidity would be managed in a transparent and efficient manner.

In April 2008, ADB completed the review of its 1998 Graduation Policy,<sup>163</sup> which guided eligibility criteria for access to ADB's two lending windows—the concessional ADF and the market-based OCR.<sup>164</sup> This review included the country classification framework, the procedures for graduation from ADF and OCR, and classification review process and procedures. While the review concluded that the 1998 policy remained broadly relevant and useful for guiding resource allocation and contributing to risk management, it also introduced some noteworthy changes. These included: (i) using the term “creditworthiness” in place of “debt repayment capacity” to ease communication with stakeholders and link ADB's country classification framework more closely with the creditworthiness consideration under ADB's income-planning framework; (ii) using a refined methodology to assess creditworthiness through analysis of both quantitative and qualitative indicators by a creditworthiness assessment committee; (iii) replacing the previous four-tier classification system with a three-tier system that identifies developing member countries as “ADF only,” “blend,” or “OCR only”; and (iv) further strengthening the classification review process.<sup>165</sup>

<sup>161</sup> ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila.

<sup>162</sup> ADB. 2007. *Review of the Financial Framework of the Asian Development Fund*. Manila.

<sup>163</sup> ADB. 1998. *A Graduation Policy for the Bank's Developing Member Countries*. Manila.

<sup>164</sup> ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila.

<sup>165</sup> Before the 2008 review, ADB's four-tier country classification system for access to the ADF and/or OCR consisted of groups A (ADF only), B1 (ADF with limited OCR), B2 (OCR with limited ADF), and C (OCR only). In the 2008 review, ADB moved to a three-tier country classification system: groups A (ADF only), B (blend), and C (OCR only).

This also significantly harmonized ADB's graduation procedures with that of the World Bank. The 2008 revision would go on to form the basis for the reclassification of several countries during ADB's fifth decade (Box 17).

At around the time of the negotiations, the ADF donors requested ADB's participation in the Highly Indebted Poor Country (HIPC) debt relief initiative.<sup>166</sup> In March 2008, BOD approved a paper recommending submission of a resolution to the BOG for ADB to participate in the HIPC debt relief, and to provide Afghanistan with debt relief upon the adoption of the resolution by the

BOG.<sup>167</sup> Under the initiative, the principal amount of the estimated debt relief would be recorded as a reduction of the disbursed and outstanding loans on a provisional basis and charged against ADF income. The estimated principal amount of Afghanistan's ADF debt to be forgiven was about \$81.5 million. The International Development Association and International Monetary Fund would decide when a country had satisfied the conditions for reaching the completion point, whereupon the debt relief would become irrevocable. The accumulated provision for HIPC debt relief would be reduced when debt relief was provided on the loan service payment date.

### Box 17: Country Reclassifications during the Fifth Decade

Several country reclassifications took place in the fifth decade (2007–2016), based on detailed internal assessments in line with the Asian Development Bank's (ADB) graduation policy, and consultations with the respective governments.

ADB's country classification system for access to the concessional Asian Development Fund (ADF) and/or the market-based ordinary capital resources (OCR) previously consisted of four tiers: groups A (ADF only), B1 (ADF with limited OCR), B2 (OCR with limited ADF), and C (OCR only). In 2008, ADB moved to a three-tier country classification system: groups A (ADF only), B (blend), and C (OCR only). Six countries were reclassified as eligible for ordinary capital resources (OCR) only (Group C).

In 2008, the People's Republic of China (PRC) was reclassified from group B2 to group C. This did not have implications for the PRC, since the PRC never had access to the ADF. In 2008, the Board approved the reclassifications of the Cook Islands from group B1 and Indonesia from group B2, both to group C, effective 2009. In 2013, Azerbaijan was reclassified from group B to group C. Since Azerbaijan did not access ADF since 2008, this did not have borrowing implications. Georgia and Armenia were reclassified from group B to group C in 2014, with the reclassification due to take effect in 2017.

Mongolia and Timor-Leste were reclassified from group A to group B in 2011, thus gaining access to OCR.

There were three cases of reverse graduation to group A in this decade, on account of debt distress risk and creditworthiness issues, all in the Pacific. Tonga (group B1) and Nauru (group B2) were reversed in 2008. This was followed by the Marshall Islands (group B) in 2013.

Additionally, Brunei Darussalam, which had been an unclassified ADB member since 2006, attained the status of a "developing member country" in 2013. On account of its high per capita income, it was directly classified as a graduate developing member country, and does not have access to regular ADF nor OCR resources. Brunei Darussalam's status as a graduate is to become effective following the signing of a Memorandum of Understanding with the government, outlining major areas of cooperation.

Source: Asian Development Bank.

<sup>166</sup> The HIPC Initiative was launched in 1996 by the International Development Association and the International Monetary Fund to reduce the excessive debt burden faced by the world's poorest countries. The initiative stipulated a "sunset clause" to prevent the HIPC debt relief from becoming a permanent facility and minimize moral hazard. This sunset clause had been extended several times with the latest "sunset" attempting to limit its application to countries satisfying the income and indebtedness criteria using end-2004 data. At the time, the only ADF borrower qualifying for HIPC debt relief was Afghanistan. While other ADF borrowers had met the HIPC indebtedness criteria, no others qualified for HIPC debt relief at that time.

<sup>167</sup> ADB. 2008. *Policy for Providing Heavily Indebted Poor Countries Relief from Asian Development Fund Debt and Proposed Debt Relief to Afghanistan*. Manila.



### *Asian Development Fund X Negotiations*

Negotiations for the ninth replenishment of the concessional Asian Development Fund (ADF X) were held from September 2007 to May 2008, in parallel with the formulation of Strategy 2020. The overall framework of Strategy 2020 also applied to ADF operations and the strategic agendas on inclusive growth, environmentally sustainable growth, and regional integration also became the strategic priorities of ADF X. Similarly, Strategy 2020's core and other operational areas have defined ADF X's operational priorities, with considerations made for circumstances unique to ADF countries.

Four ADF X negotiation meetings were held. Negotiations kicked off in Sydney, Australia on 13–14 September 2007, calling for a significantly larger replenishment for ADF X compared to ADF IX. A panel discussion was also held with selected representatives of Pacific DMCs. The second ADF X Donors' Meeting was held in Vientiane, Lao People's Democratic Republic on 26–27 November 2007. The meeting was the first to be held in an ADF recipient country. This was followed by the third ADF X Donors' Meeting, held at ADB Headquarters in Manila, Philippines on 13–14 March 2008. ADF X negotiations were concluded in Madrid, Spain on 1–2 May 2008. The meetings were chaired by the former Dean of the ADB Institute, Peter McCawley.

The replenishment discussions focused on several important issues. Prominent ones included the managing for development results (MfDR) agenda (see subsection on development results in section VII), ADB's human resource reforms, streamlined business processes, continued strengthening of resident missions, and further

decentralization of decision-making. Discussions also centered on the performance-based allocation of ADF resources, the new grants framework based on the debt-repayment capacity of recipient countries, and ADB's participation in the debt relief initiative for HIPC. It was proposed (and agreed) that the two postconflict countries—Afghanistan and Timor-Leste—would begin the 6-year phaseout period from exceptional postconflict assistance in ADF X.<sup>168</sup> Other issues discussed included ADF support for RCI, implementation of ADB's approach to weakly performing countries, and financing of ADF X. Findings of a special evaluation study on ADF VIII (2001–2004) and ADF IX (2005–2008) recommended that the ADF be enlarged to accelerate the achievement of the MDGs.<sup>169</sup>

The ADF X was successfully concluded with 30 donor members of ADB agreeing to a total replenishment size of SDR7.1 billion (equivalent to \$11.3 billion), which consisted of SDR6.9 billion for ADF X and SDR0.2 billion (equivalent to 3% of the total replenishment) for the fourth replenishment of the Technical Assistance Special Fund. Donors pledged new burden-shared contributions of SDR2.6 billion (\$4.2 billion), and some additional contributions. This amount, which was considerably larger than the ADF resources previously available, would enable ADB to make a greater contribution to poverty reduction in its lower-income DMCs and fulfill its priorities as articulated in Strategy 2020.

In the final meeting in Madrid, donors endorsed the role and priorities of ADF, both of which were aligned with Strategy 2020. They also agreed on the allocation rules for ADF X, including refinements to the performance-based allocation system and the financial management and

<sup>168</sup> It was agreed at ADF X negotiations that Afghanistan would begin its phaseout from exceptional postconflict assistance beginning with the 2009–2010 allocation. The country would receive its PBA plus a premium as exceptional assistance, to be based on its ADF IX allocation scaled up in proportion to the increase in ADF operations. Timor-Leste would be brought into the regular PBA system within the Pacific beginning with its 2009–2010 allocation. Although the quantity of assistance will be determined by the PBA formula, in light of its status as a postconflict country, the funds will be provided on a grant basis regardless of its debt distress status with the grant share declining during the postconflict phaseout period. The treatment of the postconflict countries—in particular, the plans to phase out exceptional assistance—would be reassessed during the ADF X midterm review.

<sup>169</sup> ADB. 2007. Evaluation of Asian Development Fund VIII and IX Selected Findings. Discussion paper presented at the Second ADF X Donor's Meeting, Vientiane, Lao People's Democratic Republic, 26–27 November. Manila.



framework for ADF X. Discussions emphasized the importance of increasing ADB's institutional effectiveness as a means of ensuring effective implementation of the ADF X program. To achieve this objective, the donors and ADB agreed on a time-bound implementation plan for ADF X. The donors also endorsed an ADF results framework with specific performance indicators and targets, and results-based performance reporting to be accomplished through annual development effectiveness reviews. Finally, donors authorized the use of ADF X contributions for grants. In July 2008, BOD adopted the ADF X Donors' Report, which contained the main understanding and recommendations reached at the four ADF X negotiation meetings.<sup>170</sup>

## 2. Asian Development Fund X Midterm Review

The ADF X midterm review was held in Manila, Philippines, on 18–19 November 2010 to assess the progress made in implementing ADF X and agree on next steps forward. The meeting was chaired by Huguette Labelle, Chair of the Board of Directors, Transparency International.

In general, participants expressed satisfaction with the performance of ADF X in its first 2 years. They appreciated ADB's proactive and timely response to the global economic crisis, with significant levels of approvals and disbursements. They acknowledged that resources had been allocated effectively through the performance-based allocation system, balancing country needs and performance. ADB had also made good progress in implementing the ADF X strategic agenda, particularly in promoting inclusive economic growth, prioritizing efforts to combat climate change, supporting RCI, and

strengthening its support for conflict-affected countries. Donors noted progress on initiatives to improve ADB's operational effectiveness, including internal reforms agreed with ADF donors—such as MfDR, responding more efficiently and quickly to clients, and better management of human resources.

Deputies confirmed the decision to temporarily finance an additional allocation to Afghanistan for 2011–2012 as result of the suspension of the postconflict phaseout from internal resources;<sup>171</sup> and supported ADB's proposal to continue with the agreed approach to the postconflict phaseout in Timor-Leste.<sup>172</sup> Overall, there was broad concurrence on ADB's proposal to further study how the institution could respond even better to crises, learning from its recent experience with economic crises and natural disasters.<sup>173</sup>

## 3. Tenth ADF Replenishment (Asian Development Fund XI: 2013–2016)

The theme of the tenth ADF replenishment was “empowering Asia's most vulnerable” reflecting the challenges posed by the 2008 global financial crisis and economic slowdown that followed. As for previous replenishments, various changes were introduced to the ADF framework, which were discussed in the lead up to the negotiations.

### Changes in ADF Framework

In June 2012, BOD approved a hardening of lending terms to blend countries (who had access to both ADF and OCR). These included, for project and policy-based loans financed from ADF resources, a tenor of 25 years (including a 5-year grace

<sup>170</sup> ADB. 2008. *Asian Development Fund X Donors' Report: Towards an Asia and Pacific Free of Poverty*. Manila.

<sup>171</sup> ADB. 2010. *Update on Debt Relief to Afghanistan from the Asian Development Fund under the Enhanced Heavily Indebted Poor Countries Initiative*. Manila.

<sup>172</sup> A cautious approach was adopted for Timor-Leste by providing ADF grants on an exceptional basis. Regardless of its debt distress status, Timor-Leste received 100% of its allocation as grants in 2009–2010. Its grant share was to decrease progressively over the rest of the phaseout period as follows: 67% grants and 33% loans in 2011–2012, and 33% grants and 67% loans in 2013–2014. No volume discount would be applied to grants because of the country's postconflict status. ADB proposed that the financing modality for the postconflict phaseout assistance to Timor-Leste agreed to by donors during the ADF X replenishment, be maintained. Despite the global economic crisis, economic growth had remained robust in the country, mostly driven by petroleum production. Timor-Leste is considered at low risk of debt distress.

<sup>173</sup> ADB. 2010. *Chair's Summary on the ADF X Midterm Review Meeting*. Summary presented during the ADF X Midterm Review Meeting, ADB Headquarters, Manila, 18–19 November.

period), 2.0% per year interest rate throughout the loan tenor, and equal amortizations. For hard-term ADF loans, the tenor was also set at 25 years (inclusive of 5-year grace period), and interest remained at 150 basis points below the weighted average of the 10-year fixed swap rates of the SDR component currencies plus the OCR lending spread, or the applicable ADF interest rates, whichever was higher, throughout the loan tenor. Amortization would also be in equal installments. The new lending terms were applicable to loans where formal loan negotiations were completed on or after 1 January 2013.

Under the 2007 ADF financial framework, the prudential minimum liquidity (PML) requirement was set at 100% of the next year's projected cash outflows.<sup>174</sup> Donors agreed to reduce the PML requirement because certain ADF borrowers had converted their ADF legacy loans to SDR in 2008–2009, thereby lowering foreign exchange risk. An adjustment of the PML components to reflect the percentage of converted legacy loans was reassessed as part of the ADF XI replenishment exercise, and the possibility of adjusting the PML formula downward from 100% to 81% of the next year's projected cash outflows was raised. ADB confirmed that the adjusted PML level would be sufficient to meet disbursements and cover administrative expenses over the ADF loan tenor, as well as provide sufficient liquidity even during adverse financial circumstances, as envisaged in the 2007 ADF financial framework. Adjusting the PML requirement to 81% of the next year's projected cash outflows provides a substantial SDR 502 million in additional internal resources for ADF XI.

### ADF XI Negotiations

Preparations for the ADF XI negotiations started during the 2011 Annual Meeting in Ha Noi, Viet Nam with the annual consultation between ADF donors and ADB Management. Three ADF XI replenishment meetings were subsequently held.

The first took place in Manila, Philippines on 8–9 September 2011, followed by a meeting in Dhaka, Bangladesh on 5–6 December 2011, concluding in Manila, Philippines on 7–9 March 2012. The meetings were chaired by Huguette Labelle.

During the ADF XI negotiations, ADB highlighted the urgent need for ADF countries to intensify efforts to meeting the MDGs and called for continued support and generous contributions to ADF XI, as it was the last replenishment before the target date of 2015 for the Millennium Development Goals. Participants recognized the need for ADF support. To maximize the impact of the ADF, donors noted that it should continue to pursue Strategy 2020 priorities—on inclusive growth, environmentally sustainable growth, and regional integration—under ADF XI. Within this strategic context, ADB would also focus on the issue of food security in response to rising food price inflation. Donors further agreed to give special consideration to FCAS and gender issues. Deputies emphasized the role the ADF could play in promoting private sector development and investment, and good governance in ADF countries. They reconfirmed the importance of development effectiveness.

Deputies welcomed the two evaluations by IED, of ADF operations,<sup>175</sup> and of managing for development results,<sup>176</sup> noting that ADB had undertaken substantial reforms, which had resulted in improved internal governance and stronger focus on results. A number of areas for improvement remained, including project sustainability and achievement of development outcomes, particularly from ADF operations. With respect to replenishment scenarios, deputies recognized the need for continued strong support for the ADF while also acknowledging the difficult economic and financial environment. Deputies recognized the challenges of working in ADF countries, in particular the need to enhance capacity. In view of this, they called for a strong replenishment of the Technical Assistance Special

<sup>174</sup> ADB. 2007. *Review of the Financial Framework of the Asian Development Fund*. Manila.

<sup>175</sup> ADB. 2011. *Special Evaluation Study on the Asian Development Fund Operations: A Decade of Supporting Poverty Reduction in the Asia and Pacific Region*. Manila.

<sup>176</sup> ADB. 2011. *Special Evaluation Study on Managing for Development Results*. Manila.

Fund. Deputies expressed general satisfaction with the implementation of the performance-based allocation system. They supported ADB's proposals to maintain the Pacific set-aside at 4.5% of total performance based allocation resources, to continue earmarking 10% of ADF resources for the RCI set-aside, and to bring forward the end of the postconflict phaseout for Timor-Leste from 2014 to 2012.

ADB also presented preliminary scenarios of financial capacity and a number of options to further enhance ADF XI internal resources. Deputies expressed broad support for the various financial enhancement options. These included seeking the approval of the Board to exercise the accelerated repayment clause for outstanding loans to ADF graduates, except for the Cook Islands; hardening lending terms to blend countries, which have access to both the ADF and OCR; and adjusting the prudential minimum liquidity to 81%.

ADF XI included intensive discussion about the need to establish the Disaster Response Facility (DRF) for ADF countries, which are particularly vulnerable to natural disasters that can undo development gains and threaten their ability to reduce poverty. Donors and ADB agreed to pilot the DRF from 2013 to 2016 to help these countries respond effectively and quickly to natural disasters.<sup>177</sup> In June 2012, the Board adopted the ADF XI Donors' Report, which contains the main understanding and recommendations reached at the replenishment meetings.<sup>178</sup>

Despite fiscal difficulties in many traditional donor countries on account of the global crisis, donors agreed on a total replenishment size of SDR7.93 billion, consisting of SDR7.69 billion

for ADF XI and SDR0.24 billion for the fifth replenishment of the Technical Assistance Special Fund. This was equivalent to \$12.40 billion. This represented an increase of 9.5% in US dollar terms over the previous replenishment.

#### 4. ADF XI Midterm Review

The ADF XI Midterm Review meeting was held in Manila, Philippines on 12–13 November 2014. The meeting was chaired by Mike Callaghan, former international executive director of the Australian Treasury, who gave a summary report on the highlights and agreements during the meeting.<sup>179</sup>

Donors welcomed the performance of the ADF and the progress that had been made over the first 2 years of implementation of the ADF XI period. The meeting agreed on the continued strategic focus on inclusive growth, environmentally sustainable growth including climate change adaptation, mitigation and resilience in its operations in ADF countries, and regional economic integration in ADF operations. The DRF, introduced during the ADF XI replenishment, was reviewed and favorably assessed. Key ADF priorities highlighted included (i) continued focus on gender outcomes and greater attention to projects with gender equality as a theme; (ii) attention to the challenging issue of governance and the importance of promoting anticorruption, as well as improving public sector management; and (iii) effective support to enhance PSOs. Donors appreciated ADB's increased focus on supporting FCAS. Donors also welcomed the IED reports on inclusive growth,<sup>180</sup> safeguards,<sup>181</sup> and governance,<sup>182</sup> which were discussed during the meetings.

<sup>177</sup> In line with the objective of Strategy 2020 to mainstream disaster risk management and reduction, and provide early and medium-term disaster responses, the Board approved the piloting of the DRF, with effect from 1 January 2013. ADB. 2012. *Piloting a Disaster Response Facility*. Manila.

<sup>178</sup> ADB. 2012. *ADF XI Donors' Report: Empowering Asia's Most Vulnerable*. Manila.

<sup>179</sup> ADB. 2014. *Chair's Summary on the ADF XI Midterm Review Meeting*. Summary presented during the ADF XI Midterm Review Meeting, ADB Headquarters, Manila, 12–13 November.

<sup>180</sup> ADB. 2014. *Thematic Evaluation Study of ADB's Support for Inclusive Growth*. Manila.

<sup>181</sup> ADB. 2014. *Corporate Evaluation Study of Safeguards Operational Review: ADB Processes, Portfolio, Country Systems, and Financial Intermediaries*. Manila.

<sup>182</sup> ADB. 2014. *Thematic Evaluation Study of ADB Support for Enhancing Governance in its Public Sector Operations*. Manila.

Donors commended the introduction of increased allocations to the ADF-only countries. A minimum allocation of \$3 million per year for ADF DMCs was introduced under the performance-based allocation system, starting with the 2015–2016 biennial allocations.<sup>183</sup> Under this measure, performance-based allocations of small ADF DMCs that fall below \$3 million per year would be topped to the minimum level.<sup>184</sup> The 20% volume discount would not be applied to the grant portion of the minimum allocation. However, 3% of the minimum allocation would be retained under the pilot DRF.

Donors reviewed ADF assistance in Afghanistan and Timor-Leste, and possible reengagement with Myanmar. Under ADF XI, it was agreed that ADB would continue to provide postconflict assistance to Afghanistan over an extended phaseout period, from 2013 to 2018. By contrast and in light of the positive developments in Timor-Leste, ADB would end that country's special postconflict status and assistance by bringing forward the end of the postconflict phaseout period from 2014 to 2012. Donors agreed that ADB should closely monitor the evolving situation in Myanmar and consult them on its possible reengagement once the situation is deemed conducive for ADF support.

Donors encouraged ADB to continue internal reforms. The need to improve disbursement performance was stressed. The completion of the midterm review of Strategy 2020 was reported, and reforms identified to make the ADB more effective and efficient were appreciated by ADF donors, as these also have impacts on ADF operations. The combination of the ADF lending operations with the OCR balance sheet to scale up overall lending was also discussed. This combination would subsequently be approved in 2015, prior to the commencement of meetings for the 11th replenishment of the ADF.

## 5. Eleventh Asian Development Fund Replenishment (ADF 12: 2017–2020)

The first ADF 12 Replenishment Meeting was held on 28–30 October 2015 in ADB headquarters, in Manila. The ADF 12 replenishment is the first replenishment after the combination of ADF lending operations with the OCR balance sheet. The meeting was chaired by Mike Callaghan. The discussions focused on the role of the ADF, ADB's continuing reforms, proposed revisions to the performance-based allocation system, demand for concessional and technical assistance, the ADF 12 financing framework, and planning for the next replenishment meeting.

In his remarks, President Nakao noted the significance of the ADF 12 replenishment negotiations.<sup>185</sup> First, the combination of ADF and OCR was expected to provide 40% more concessional assistance from ADB for both concessional loans and ADF grants—an increase from about \$11.1 billion during the ADF XI period to \$15.4 billion during the ADF 12 period. While ADF would be limited to grant operations only from 2017 onward, ADF donors were expected to continue sharing their views about the use of concessional lending. Second, the contribution of donors in the ADF 12 replenishment was significantly reduced (to about half of the ADF XI contribution). Third, as this was the first replenishment after the combination, ADB sought guidance from the donors on changes required on policies governing the allocation of both grants and concessional loans. Proposals for policy changes included increasing the minimum assistance to small countries, removing the set-aside for Pacific island countries, mainstreaming the DRF, and continued stronger allocation for Myanmar and Afghanistan. Fourth, further changes were proposed to ADF financial policies by the transfer of concessional loan assets to OCR.

<sup>183</sup> ADB. 2014. *Introducing a Minimum Allocation in ADF's Performance Based Allocation System*. Manila.

<sup>184</sup> Any country allocation that has fallen below the minimum allocation after the 20% volume discount under the ADF grants framework will be topped up to this minimum level.

<sup>185</sup> <http://www.adb.org/news/speeches/opening-remarks-adf-12-replenishment-meeting-takehiko-nakao>



Donors endorsed the seven strategic priorities and operational areas of focus for ADF 12, as (i) mainstreaming gender in operations, (ii) addressing fragile and conflict-affected situations, (iii) promoting food security, (iv) strengthening private sector development, (v) improving governance and capacities, (vi) strengthening preparedness and response to climate change and natural disasters, and (vii) supporting regional public goods. The ADF 12 replenishment also marked the beginning of ADB's discussions with donors on ADB's new corporate strategy leading to 2030 (section VIII).

The second ADF 12 replenishment meeting was held on 24–27 February 2016 in Kathmandu, Nepal. In his remarks, President Nakao emphasized three key areas for donor consideration during the meeting: (i) resources for disaster risk reduction, (ii) support for regional health security, and (iii) greater flexibility on policy-based lending (PBL). He also highlighted the prevailing uncertain global economic conditions and the fear of many DMCs that their economic prospects could be seriously impaired by these conditions. He emphasized that ADB needed the right toolkit to respond to economic distress, including for concessional assistance countries, and committed to preparing a concrete proposal for discussion with BOD. Donors agreed to ADB's proposed financing scenario. They also agreed to use ADF grants for disaster risk reduction in all concessional assistance-only countries, and to promote regional health security on a pilot basis in all concessional assistance countries.

A pledging meeting was held on the sidelines of the 49th Annual Meeting in Frankfurt, Germany on 1 May 2016 to conclude the negotiations. The 32 ADF donors agreed to a \$3.3 billion replenishment of the ADF grant window. ADF would support ADB's grant operations in its poorest and most debt-distressed member countries from 2017 to 2020. In addition, an amount of \$52.5 million was contributed to the ADF facility to be set aside for regional health security. Donors also committed to replenish the Technical Assistance Special Fund with

\$0.5 billion. The replenishment is to be financed from different sources, including new donor contributions amounting to \$2.5 billion and intended contributions that will be finalized in coming months, net income transfers from ADB's OCR amounting to \$1.0 billion, and income from liquidity investments amounting to \$0.2 billion.

## C. Combination of the Asian Development Fund and Ordinary Capital Resources

As its fifth year of operations wrapped up, issues of resource mobilization persisted, particularly in discussions over ADB's future operational profile. The needs of the region were changing, as were the menu of products and services offered by ADB. However, volume limitations on assistance, reflecting the constraints of ADB's own balance sheet and the ability or willingness of shareholders to contribute sizeable amounts of additional capital, increasingly restricted operations—particularly concessional assistance. The midterm review of Strategy 2020 had called for enhancing ADB's lending capacity to pursue its developmental objectives. However, constraints in both ADF and OCR were increasingly stretching ADB's financial capacity.

At the ADF XI negotiations, ADB had committed to develop a long-term strategic vision for the ADF, adapting its role, mandate, and financing structure to meet present economic and financial conditions in the region. In subsequent consultations, donors encouraged ADB to explore how to leverage ADF.

Internal discussions were under way on combining the ADF lending operations with the OCR balance sheet, to achieve a “magical capital increase”. The logic behind a potential combination was straightforward. While ADF equity capital was about double the size of the equity capital of OCR, ADF outstanding loans of \$29.1 billion were only about 54% the size



of OCR outstanding loans (\$54.2 billion). This translated into a mobilization (leverage) ratio of loans and guarantees to equity capital of 3.1 for OCR, but only 0.9 for ADF. The divergence in mobilization ratios was attributable to the fact that ADF, which does not have a separate legal identity as a structured special window of ADB, is not able to issue bonds to support its lending. When ADF was created, this inability to issue debt was not considered problematic as the low creditworthiness of ADF borrowers would have proved to be a constraint in convincing capital market investors to purchase bonds issued by a new entity for lending to these borrowers. However, this absence of financial leverage was now deemed suboptimal, particularly given the strong track record of regular ADF loan service payments. A leveraged approach was considered more effective in optimizing the management of concessional financing.

Various financial options were internally considered. An early option considered was the termination of ADF in accordance with Article V of the ADF regulations and the return of its assets to donors (including ADB). The funds could then be applied as a capital contribution for newly issued OCR shares. This option was not preferred, since it would involve setting up a new entity to act as the vehicle for grants, and also result in major restructuring of ADB's institutional structure. Therefore, the preferred option was to continue ADF, but transfer its loan assets to OCR. ADF would discontinue lending operations, and exist as a grant-dedicated fund, requiring donor replenishments for grants. It was determined that the combination should not require an amendment to the ADB Charter, and was helped by the fact that ADF was a trust fund, without a separate legal personality.

Initial options to transfer ADF loan assets to the OCR balance sheet included (i) transfer of assets without any change in the shareholding structure of OCR, with the transferred assets to be reflected as reserves, increasing the total equity of OCR; (ii) transfer of assets in consideration of increasing the paid-up shares (within the paid-up capital) of ADF donors, without issue of new shares or change in voting rights; (iii) transfer

of ADF loans against issuance of new shares through a Special Capital Increase, including issuance of proportionate shares to non-ADF donors to prevent dilution in voting rights; and (iv) issuance of hybrid capital by OCR to ADF or ADF donors, to absorb the entire loan assets of ADF.

ADB started external deliberations on the proposed combination in the summer of 2013. Through the process, ADB undertook extensive consultations with its DMCs, particularly ADF recipient countries and ADF donor countries, and with civil society organizations. Discussions did not always go smoothly, as ADB Management sought to build consensus among various stakeholders. Some stakeholders voiced concerns about the optics of using ADF resources (meant for low-income countries) to support the needs of middle-income countries after the combination. Others initially envisaged legal issues in getting internal government support for changes in ADB's capital structure that involved donor funds. There were queries from stakeholders about how the combination would affect the credit defaults risk, the robustness of financial projections underlying the combination proposal, incentive mechanisms to emerging donors to increase contributions to the future ADF grant fund, the valuation of transferred ADF loans assets from a financial reporting perspective, and other issues.

This initiative formed a key topic of discussion at the ADF XI midterm review, as well as at the 2014 Annual Meetings of the BOG in Astana. At his opening speech at the latter event, President Nakao said of the combination that, "...if approved, it would allow [ADB] to increase [its] lending capacity, and enhance support for low-income countries while reducing the burden on ADF donors. It would also better position ADB to respond to any future financing needs including for natural disasters and economic crises." The issues discussed included (i) protecting assistance to ADF countries; (ii) preserving financial soundness; and (iii) avoiding a sudden, large drop in donor contributions. Donors expressed broad support for the proposal.

Faced with such a fundamental reworking of the institution's financing model, ADF donors asked for an independent assessment, for which the Center for Global Development (CGD) was formally commissioned in the summer of 2014. CGD's assessment was positive, and the assessment was publicly released.<sup>186</sup> The assessment "...found that the main promises of the proposal are sound, and therefore [CGD has] encouraged the ADF's donors to move swiftly to approve it in order to take full advantage of the benefits that will come from greater leveraging of ADF resources. More fundamentally, though, [CGD sees] the proposal as an impressive launching point for further innovations in the ADB's basic model, potentially paving the way for fresh thinking across the multilateral development banks."

Several rounds of consultations took place with BOD. A draft working paper was discussed with BOD in August 2014.<sup>187</sup> A working paper on the proposal, taking earlier comments into account, was circulated to BOD in September 2014, and discussed at a meeting of the Board in October 2014. Further reflecting the guidance received, a proposal paper to the ADF donors was issued in October 2014 to seek their consent to the proposal.<sup>188</sup> All 34 past and present ADF donors provided their unanimous consent to the proposal by the end of February 2015. In his announcement to staff on this approval, President Nakao called it a "landmark financial innovation". Subsequently, BOD approved, on 30 March 2015, to send the proposal to BOG of ADB's 67 member countries.<sup>189</sup> The BOG unanimously approved the combination by end April 2015. The combination became effective in January 2017.

The combination is a groundbreaking move to leverage concessional lending in a manner unique among MDBs. As approved, the donors agreed to transfer ADF loan assets, and part of the liquid assets, to OCR without a change in shareholding

structure or voting within ADB. The value of ADF transferred assets would be reflected in ordinary reserve, and total OCR equity would approximately triple in size. ADB would continue to offer ADF countries concessional lending on the same terms and conditions currently provided, but through its OCR window, while ADF would provide only grant assistance. In consequence, ADB's lending, borrowing and equity investment headroom would increase significantly. Future loans to ADF borrowers would continue to be offered at current concessional terms, but through a new OCR concessional lending window. The level of grant assistance and concessional lending would be determined by consensus among the donors.

As of 1 January 2017, OCR equity will almost triple to about \$50 billion through this combination. This can raise ADB's annual loan and grant approvals by a targeted 50%, (from \$13.5 billion in 2014 to \$20 billion in 2020). The combination will favor poor countries. In particular, annual financing commitments to poor countries (the current ADF countries) can go up by up to 70%—from the present level of about \$6.5 billion to \$7.5 billion–\$11.0 billion during 2017–2026, according to baseline scenarios. The combination will also enhance ADB's risk bearing capacity, further support PSOs, strengthen ADB's preparedness for any future economic crises or natural disasters, and alleviate burden on donors. Donor contributions to continued ADF grant operations would reduce by about 50% from \$1.2 billion to \$0.6 billion.<sup>190</sup>

To prepare for an expansion of operations, departments have been urged to be ambitious in programming lending operations.<sup>191</sup> Lending for 2015 and 2016 reached record levels, which is a good sign (see the lending overview discussion in section IV). Starting 2016, departments have been asked to overprogram beyond their annual resource allocations by at least 20%–25%.<sup>192</sup> While the overprogramming should ideally be spread

<sup>186</sup> <http://www.cgdev.org/sites/default/files/CGD-Assessment-Birdsall-Morris-RuedaSabater-ADB.pdf>

<sup>187</sup> ADB. 2014. *Enhancing ADB's Financial Capacity to Achieve the Long-Term Strategic Vision for the Asian Development Fund*. Manila.

<sup>188</sup> ADB. 2014. *Proposal Paper on Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific*. Manila.

<sup>189</sup> ADB. 2015. *Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific*. Manila.

<sup>190</sup> This is based on the average annual donors' contribution in the current ADF XI.

<sup>191</sup> Programming for concessional resources will still adhere to the allocated resource base.

<sup>192</sup> Overprogramming is also expected to help mobilize greater cofinancing from traditional and new partners.

across countries accessing market-based resources, preference will be given to the countries that access both ADF and OCR. ADB will keep in mind demand, absorptive capacity, project readiness, and debt sustainability of DMCs when expanding lending. Operations departments have also been urged to build a pipeline of large transformational projects, particularly in the urban, transport, and energy sectors.

Operations departments are seeking to expand their lending in different ways. Departments have already commenced discussions with DMC governments on increasing the pipeline for bankable projects and identifying opportunities for major flagship projects. Departments are also making efforts to increase the average size of projects from the 2014 baseline of \$100 million. This will allow them to make the most of available staff resources to deliver higher approval volumes. In terms of modalities, greater use of results-based lending and multitranche financing facilities are under consideration. The reforms being pursued under the Strategy 2020 midterm review action plan are expected to better equip ADB for the potential expansion.

## D. Additional Resource Mobilization Efforts

### 1. Other Special Funds, Trust Funds, and Financing Facilities

Resource mobilization efforts continued on many fronts. One area of growth was in special funds, trust funds, and financing partnership facilities.<sup>193</sup> Initially, trust funds were established through donor-specific channel financing agreements across a wide range of sectors and focused principally on financing technical assistance operations. In time, and due to

the emerging needs of DMCs for greater consistency and harmonization of development efforts, ADB began establishing some trust funds based on common agreements with development partners and financing through instruments of contribution. These were generally established under an umbrella facility of sector- and theme- focused financing of TA and grant components of investment projects, under ADB Management. Several new funds and facilities were established in the fifth decade. To simplify procedures, in 2015, ADB streamlined financing partnership operations by empowering the President to approve the establishment of trust funds and financing partnership facilities, ADB's participation in global funding initiatives, as well as administration of cofinancing, and a small amount of B-loans.

A number of initiatives were centered on clean energy and climate change. In 2007, there was the establishment of the Clean Energy Financing Partnership Facility.<sup>194</sup> In 2008, the Climate Change Fund (a special fund) was established to facilitate greater investments in DMCs in addressing the causes and consequences of climate change alongside ADB's own assistance in various related sectors. Under ADB's Carbon Market Initiative, the Future Carbon Fund was also established in 2008, complementing the existing Asia Pacific Carbon Fund. This fund would provide upfront financing for ADB-supported projects that would continue to generate carbon credits after 2012. In 2009, new trust funds included the establishment of a Carbon Capture and Storage Fund under the Clean Energy Financing Partnership Facility, and a multi-donor Urban Financing Partnership Facility. The Urban Environmental Infrastructure Facility was its maiden trust fund supported by the Government of Sweden. The second trust fund, the Urban Climate Change Resilience Trust Fund was established in 2013 supported by the governments of Switzerland, the United Kingdom, and the United

<sup>193</sup> ADB is authorized under the ADB Charter to establish and administer Special Funds, the resources of which may be used in its special operations for granting technical assistance and making loans with longer maturities, longer grace periods, and lower interest rates than those established for ordinary operations loans.

<sup>194</sup> Two new initiatives were established under these facilities, namely, the Asian Clean Energy Fund under the Clean Energy Financing Partnership Facility, and the Investment Climate Facilitation Fund under the Regional Cooperation and Integration Financing Partnership Facility. The Clean Energy Fund was a multidonor fund to support TA, grant components of investment projects, and any other activities that could be agreed upon between financing partners and ADB. The Investment Climate Facilitation Fund was established to help address the challenges of promoting investment and tackling climate change through energy efficiency.

States, and the Rockefeller Foundation. It is designed to support specific climate resilience components of ADB infrastructure investment projects including climate resilience planning, knowledge work, and capacity building. The Canadian Climate Fund for the Private Sector in Asia was established in March 2013. The fund aims to catalyze greater private investment in climate change mitigation and adaptation in Asia and the Pacific. The Japan Fund for the Joint Crediting Mechanism is a single-donor trust fund established in 2014 and managed by ADB. The fund aims to provide financial incentives for the adoption of advanced low carbon technologies in ADB-financed and administered projects.

ADB is also stepping up resource mobilization efforts through the Climate Investment Funds (CIF), the Green Climate Fund (Box 18).

Disaster management funds gained prominence. The Asia Pacific Disaster Response Fund (a special fund), established in 2009, provides quick-disbursing grants to assist ADB DMCs in meeting immediate expenses to restore life-saving services to affected populations following a declared disaster and in augmenting aid provided by other donors in times of natural crisis. In 2013, the Integrated Disaster Risk Management Fund was established by ADB, and supported by Canada, as a resource to assist the development of regional IDRM solutions in line with the disaster risk management priorities of Southeast Asia.

Infrastructure funds continued to be important. The Afghanistan Infrastructure Trust Fund, established in 2010, provides an opportunity for bilateral, multilateral, and individual contributors to partner with ADB in financing infrastructure

### Box 18: ADB and Climate Funds

The Climate Investment Funds (CIF) were established in 2008 to support developing countries in their transition to a low-carbon, climate-resilient economic growth path. The CIF enables developing countries to invest in initiatives that (i) reduce greenhouse-gas emissions; (ii) mitigate the negative impact of climate change; or (iii) allow the countries to adapt to that impact. Funds sourced from government, multilateral development banks (MDBs), and the private sector augment and leverage the financial resources pledged to the CIF by donors. The CIF is comprised of two distinct pools of financial resources that are held in trust until they are deployed: (i) the Clean Technology Fund and (ii) the Strategic Climate Fund.

The Asian Development Bank (ADB) is participating in 19 investment plans for 17 developing member countries (DMCs), a regional investment plan for the Pacific and a regional mini-grid program under the Clean Technology Fund Dedicated Private Sector Program. ADB is administering over \$1.6 billion in funding for 46 projects and programs now operating across Asia and the Pacific. As ADB's largest source of external finance (\$1.6 billion), the CIF allow ADB to invest more in much-needed mitigation and adaptation measures in its DMCs.

ADB's efforts gained further momentum when, in 2015, it became the first MDB accredited to receive financing from the Green Climate Fund for projects to enhance climate change mitigation and adaptation in its DMCs. The Green Climate Fund was established in 2010 under the United Nations Framework Convention on Climate Change (UNFCCC) to serve as the central global investment vehicle for climate finance. It will help developing countries reduce greenhouse gas emissions and adapt to climate change. On the accreditation, President Takehiko Nakao noted that "combining the Green Climate Fund's concessional finances with ADB's financing, knowledge, and regional experience will boost much-needed climate change investments in Asia and the Pacific. Successful deployment of financing will help to create momentum for the climate agreement expected in December at the UNFCCC climate summit in Paris, France."

In his opening address at the 48th Annual Meeting of the Board of Governors in Baku, in 2015, President Nakao emphasized that ADB was "... working closely with multilateral funds such as the Climate Investment Funds. [He was] proud that ADB is the first among Multilateral Development Banks to be accredited by the Green Climate Fund. [ADB has] already started identifying innovative projects to be cofinanced with this new organization."

Source: Asian Development Bank.



investments and improve livelihoods. 2011 saw the establishment of the ASEAN Infrastructure Fund to support ASEAN's Master Plan on Connectivity, which calls for a better-connected ASEAN region that brings people, goods, services, and capital closer together (Box 11). In 2015, ADB and Japan announced a \$16 billion partnership over 5 years to boost support for private infrastructure projects and promote public infrastructure development.<sup>195</sup>

Several other funds and facilities were set up. Among them, the Regional Cooperation and Integration Financing Partnership Facility, a special fund established in 2007 in partnership with Japan, aims to channel additional financing and knowledge resources from development partners in support of ADB's RCI program. The facility is designed to support untied grants for TA, including advisory, project preparatory, and regional TA. Two funds have been set up under the "umbrella" of the facility: the multidonor Regional Cooperation and Integration Fund and the Investment Climate Facilitation Fund. Moreover, the Pacific Business Investment Trust Fund, established in 2014, is a multidonor trust fund aimed at supporting sustainable private sector growth in selected Pacific island countries. The CGIF and AP3F also constitute major facilities set up during the fifth decade.

## 2. Cofinancing Resources

Strategy 2020 committed ADB to engage in partnerships with a diverse group of institutions. This emphasis underscores both the centrality of partnerships in the strategy, and the fact that ADB does not have the resources to address the region's development challenges alone. Strategy

2020 recognizes the importance of operational and cofinancing partnerships, through a target of "having total annual direct cofinancing exceed the value of ADB's stand-alone project financing" by 2020.

The Strategy 2020 midterm review assessed progress toward meeting cofinancing targets.<sup>196</sup> The ratio of direct value-added (DVA) cofinancing relative to ADB's annual approved has gone up since 2007, although the trajectory of increase showed considerable variability. Over 2008–2012, official cofinancing increased by 165%—from \$766 million in 2008 to \$2.02 billion in 2012. Commercial cofinancing grew from \$425 million in 2008 to more than \$6 billion in 2012 and formed the major part of total cofinancing during 2008–2012. However, cofinancing was concentrated in Strategy 2020's core areas of operations, likely because partners considered ADB to have a lead or substantial engagement at policy, program and portfolio level. Consequently, about 90% of DVA cofinancing in 2008–2012 was concentrated in ADB's core operational areas, and it has been harder for ADB to attract cofinancing in the other areas of operations, where its role has been less visible. In fact, cofinancing in the other operational areas during 2008–2012 was half of the level achieved during 2003–2007.

The Strategy 2020 midterm review reinforces the cofinancing targets, while noting that they are ambitious. Stronger efforts are needed to raise the cofinancing ratio from 51% in 2010–2012, and 58% in 2012–2014, to achieve the corporate targets of 70% by 2014–2016 and 100% by 2018–2020. Cofinancing reached record levels in 2016, crossing \$14 billion, or more than four-fifths of ADB financing.

<sup>195</sup> This partnership includes two new modalities: (i) a new fund capitalized with \$1.5 billion from JICA, in which ADB will act as trustee and which is expected to yield a cumulative \$6 billion of new private sector infrastructure investment; and (ii) \$10 billion in new sovereign cofinancing for quality and sustainable public infrastructure development, leveraging the comparative advantage of each institution.

<sup>196</sup> Footnote 9.



Several reforms under the Strategy 2020 midterm review action plan have been adopted to strengthen cofinancing. Commercial DVA cofinancing amounts were previously underreported due to definitional stringencies, and were not capturing some key components of ADB's third party resource mobilization efforts. To address this, the definition of commercial DVA cofinancing was enhanced in 2014.<sup>197</sup> ADB also revised its Operations Manual on financing partnerships in 2014. The revisions (i) supported efforts to explore new cofinancing modalities and sources to leverage more resources amidst the changing development finance landscape; and (ii) enabled regional departments to report DVA cofinancing from sources other than official and commercial.

Additional measures facilitated official cofinancing mobilization efforts. Starting 2014, corporate focus on cofinancing was strengthened. For the first time, corporate as well as departmentally differentiated targets for official cofinancing were established. These were monitored and reported to management on a quarterly basis. This corporate focus helped ADB to reach a record level of cofinancing in 2014–2016, and the

official cofinancing targets were achieved. Also, processes related to the Japan Fund for Poverty Reduction have been streamlined through updated guidelines in 2015—which include increases in seed money and higher ceilings on incremental costs in project grants.<sup>198</sup>

The recent establishment of other MDBs providing services has created further opportunities to enhance cofinancing. At the sidelines of ADB's 2016 annual meetings, President Nakao and Asian Infrastructure Investment Bank (AIIB) President Jin Lique signed a memorandum of understanding that set the stage for joint financing of projects. ADB and AIIB are already discussing projects for cofinancing in the road and water sectors. The first of these projects is expected to be Pakistan's M4 highway project, a 64-kilometer stretch of motorway connecting Shorkot to Khanewal in Punjab Province. Jin marked the occasion stating that "AIIB looks forward to deepening our already strong relationship and expanding our collaboration as we seek to address the significant infrastructure financing needs in the Asia region."

<sup>197</sup> The following are now being additionally counted as commercial direct value-added cofinancing: (i) B-loans raised in excess of estimates made at the time of initial Board of Directors approval; (ii) third party parallel debt in transactions that have ADB's direct equity participation; and (iii) third party equity in private equity funds where ADB takes on the role of a limited partner and in transactions where ADB invests in direct equity.

<sup>198</sup> Seed money can be used by the project team for project design, stakeholder consultations, and other grant preparation activities. Incremental cost can be used during project implementation for hiring staff consultant, workshop expenses, travel costs to facilitate community participation or NGO collaboration, and monitoring and evaluation activities in operations of unusual complexity, which require ADB staff resources beyond those that can be financed by the regular administration budget.

## VII. RESULTS, ACCOUNTABILITY, AND EVALUATION



- Following commitments under Strategy 2020, ADB became the first multilateral development bank to adopt a corporate results framework in 2008.
- Progress was made on institutionalizing the managing for development results approach, disclosing information, improving ADB's own accountability and compliance, and tackling corruption.
- ADB strengthened the independence of its evaluation department, and adopted a more rigorous system to implement and monitor evaluation recommendations.

ADB had adopted the Managing Development for Results (MfDR) framework in its fourth decade, in response to external views from the development community in the late 1990s and early 2000s that aid programs were not delivering on their intended development objectives. Through the implementation of successive MfDR action plans, ADB had sought to align its policies, strategies, and practices with a set of well-designed and defined results. Among other reforms, ADB mainstreamed results-based country strategies and programs, and introduced the design and monitoring framework (DMF) as a participatory tool for conceptualizing, implementing, and evaluating projects.

ADB's fifth decade was distinguished by enhanced its focus on delivering outcomes and achieving results—both in the wider development community, and within ADB. This sentiment was expressed by President Kuroda who “committed to being fully accountable for the results of [ADB's] efforts.”<sup>199</sup> This was further emphasized by President Nakao, who, in initiating the Strategy 2020 midterm review, expressed that “perhaps what matters most ... is ADB's performance and the results it achieves.”<sup>200</sup> Under its corporate strategy, ADB promised to partner with its DMCs and other development agencies, and share responsibilities in a transparent manner to improve aid effectiveness.

<sup>199</sup> ADB. 2009. Opening Address. Speech by President Haruhiko Kuroda delivered at the 42nd Annual Meeting of the ADB Board of Governors. Bali. 4 May 2009. Manila.

<sup>200</sup> ADB. 2013. Opening Address. Speech by President Takehiko Nakao delivered at the 46th Annual Meeting of the ADB Board of Governors. New Delhi. 4 May 2013. Manila.

ADB reaffirmed, in its Strategy 2020, that it would meet all major commitments under the Paris Declaration on Aid Effectiveness (2005) by the agreement's target date.<sup>201</sup> ADB was a sponsor of and key participant in the Third High Level Forum on Aid Effectiveness held in 2008 in Accra, Ghana. The forum's major outputs included an Accra agenda that identified three major facilitators to increasing aid effectiveness: enhanced country ownership, more effective and inclusive partnerships, and achievement of development results and accountability for them.

## A. Development Results

### 1. Corporate Results Framework

Following commitments under Strategy 2020, ADB became the first MDB to adopt a corporate results framework in 2008. The framework sought to monitor and improve ADB's performance in achieving Strategy 2020 priorities through specific performance indicators and targets. Indicators focused on four tiers: regional outcomes, ADB's contribution to country outcomes, ADB's operational effectiveness, and ADB's organizational effectiveness. It has since served as a key management tool to measure Strategy 2020 results, as well as take corrective actions where required.

ADB's progress in achieving the desired targets is assessed annually through the development effectiveness review report (DEfR). A performance scorecard is used to rate ADB's performance against the targets. The results drive decision-making at ADB, and inform work planning and budgeting processes. By publishing the scorecard in the annual DEfR, ADB holds itself fully accountable for the results it has promised to deliver. The findings of DEfRs are presented at ADB's Annual Meetings of the BOG.

ADB has continued to refine its results framework over time on the basis of experience gained through its use. In 2012, a comprehensive review of the framework was initiated to ensure it continued to be a relevant corporate performance management tool. The review assessed the framework's achievements and challenges associated with its use, examined good practices, and consulted stakeholders on areas in which it could be strengthened. Several improvements were adopted, including (i) incorporation of inclusive economic growth indicators; (ii) more focus on project outcomes, sustainability, and implementation; and (iii) improved measurement of nonsovereign operations, budget efficiency and adequacy, and decentralization. ADB's revised results framework was approved in 2013, covering a reporting period of 2013–2016.<sup>202</sup>

In 2014, ADB undertook an interim update of its results framework to align it with the outcomes of the Strategy 2020 midterm review.<sup>203</sup> The updated results framework contains 91 indicators, arranged in a two-section, four-level structure, which applies for 2014–2016 (Box 19). In 2015–2016, ADB has initiated a comprehensive review to adopt the results framework for the next cycle, 2017–2020.

Several reforms have been initiated to improve internal results orientation. In 2010, ADB introduced, through the President's Annual Planning Directions, a pilot results delivery scheme linking departmental allocation of OCR to performance in cofinancing, gender mainstreaming, and education. Under this scheme, additional OCR allocations (amounting to 2% of base allocations per target achieved) were to be awarded to regional departments achieving the corporate targets in these three areas, for use in the following 2 years. This scheme was discontinued in 2014, when gender mainstreaming targets were consistently achieved across all regional departments, and departmentally differentiated cofinancing were introduced.

<sup>201</sup> At the Second High Level Forum on Aid Effectiveness (2005) in Paris, it was recognized that aid could—and should—be producing better impacts. The Paris Declaration was endorsed in order to base development efforts on first-hand experience of what works and does not work with aid. It is formulated around five central pillars: ownership, alignment, harmonization, managing for results, and mutual accountability.

<sup>202</sup> ADB. 2012. *Review of the ADB Results Framework*. Manila.

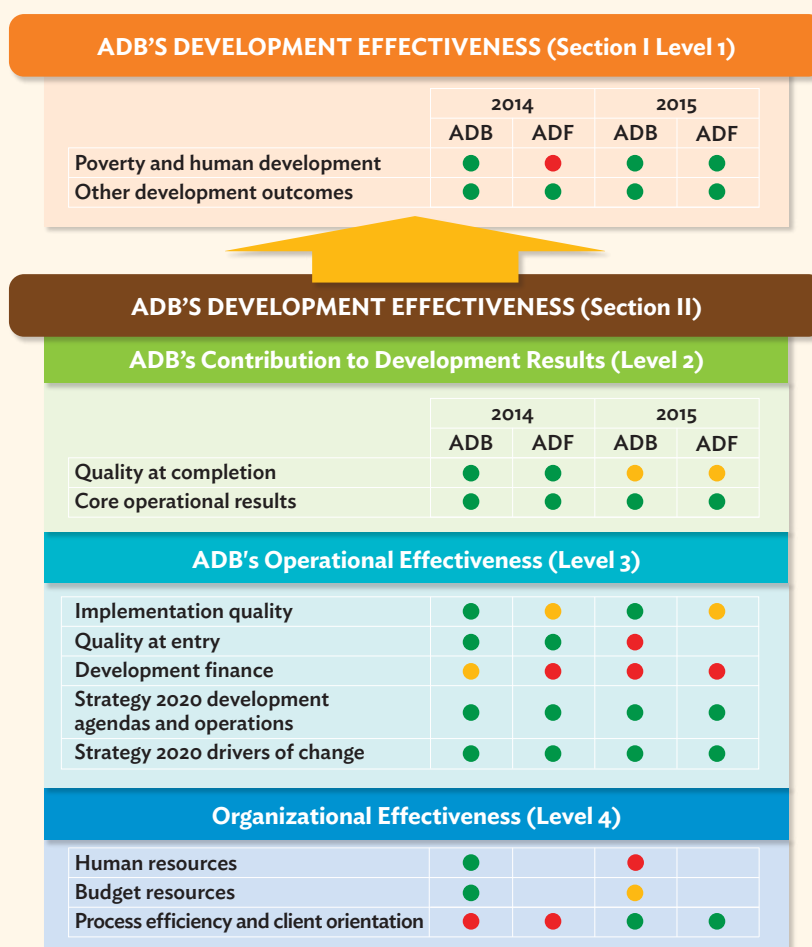
<sup>203</sup> ADB. 2014. *ADB's Results Framework: Interim Update to Align with the Midterm Review of Strategy 2020*. Manila.

**Box 19: Development Effectiveness Review 2015**

The Development Effectiveness Review 2015 (DEfR) is the ninth in a series of yearly reports on the performance of the Asian Development Bank (ADB). It tracks development progress in Asia and the Pacific, and monitors ADB's development effectiveness.

ADB has updated the results framework that the DEfR uses as its yardstick. The changes from the 2013 DEfR reflect the recommendations of the Strategy 2020 midterm review of 2014. New indicators were added to measure project readiness and the financing levels for education, health, and private sector operations. The update also introduced 17 new standard explanatory data indicators. These will help improve ADB's tracking of support for inclusiveness, environmental sustainability, and regional cooperation and integration, as well as enhance monitoring of ADB's organizational effectiveness.

The 2015 review confirms that ADB is improving its overall development effectiveness, with the majority of performance indicators on track to meet targets. However, it also highlights areas that need strengthening, such as project design readiness, processing and start-up times for operations, development finance (cofinancing and leveraging), and project sustainability. The Summary Performance scorecard in the DEfR uses a traffic light system to assess progress across the four levels.

**Box Figure: Summary Performance Scorecard, 2014 and 2015**


ADB = Asian Development Bank, ADF = Asian Development Fund.  
 Source: ADB. 2016. *2015 Development Effectiveness Review*. Manila.

ADB has made considerable progress in cascading Strategy 2020 corporate results down to results-based departmental and individual workplans. A departmental scorecard system was piloted in 2014, as per the Strategy 2020 midterm review action plan. The objectives of DSCs are to monitor the performance of departments and offices, support the identification of areas for improvements, promote joint efforts and shared results between operations and nonoperations departments, and contribute to ADB's performance. In addition, in 2014, improvements have been introduced to the format of annual individual work plans, to enhance their results focus.

In 2010, the Private Sector Operations Department (PSOD) produced its first annual development effectiveness report. Under the guidance of Strategy 2020, PSOD was committed to expanding operational volumes, mobilizing financial resources, and contributing to development outcomes. The development effectiveness report represented the first attempt to systematically assess the extent to which ADB's PSOs meet their development objectives. There have been five of these reports so far. They show how PSOs contributed to Strategy 2020's three development agendas for region. PSOs are helping to create economic opportunities, including jobs. PSOD requires that at least 25% of annual approvals support clean energy by 2015, and during 2010–2013 the average was already 30%. Regional integration was mainly supported through cross-border infrastructure and the TFP.

## 2. Managing for Development Results

In 2009, ADB approved a new action plan for 2009–2011, to institutionalize the managing for development results (MfDR) approach, support DMCs' capacity to follow its methods, and build partnerships with other organizations.<sup>204</sup> The plan was set up to guide ADB toward (i) improving support for MfDR capacity development in DMCs;

(ii) further integrating a results-focused approach to managing the implementation of Strategy 2020 at the corporate, country, and project level; and (iii) sustaining partnerships with other development partners on selected MfDR initiatives. A monitoring framework for the plan was included.

As part of implementing the action plan, ADB further refined its focus on results, through the use of better tools for country operations planning, monitoring, and reporting, helped by user-friendly management information systems. Since 2010, ADB's country and regional partnership strategies incorporate results frameworks to ensure that they are managed to achieve their intended development outcomes. Furthermore, ADB designs and implements projects using project-level results frameworks.

ADB has taken several steps to help improve results management capacity in DMCs. ADB promotes learning and knowledge exchange through the Asia-Pacific Community of Practice on Managing for Development Results. The community of practice fostered exchange between public managers, organizations, executing agencies, and practitioners. ADB also funded initiatives to promote MfDR in planning and implementing programs in developing member countries. ADB conducts regular assessments, staff training and coaching, and project management training for implementing agencies in DMCs to ensure that project management is driven by quality results frameworks.

In 2011, an independent evaluation of the outcomes under the 2009–2011 MfDR action plan found that these were largely achieved.<sup>205</sup> It found that the DEfR had evolved into a valued tool for reporting corporate results under the MfDR agenda. The evaluation called for greater attention to enhancing DMC capacity on MfDR, improving results orientation of sectoral and thematic plans, and improving the corporate results framework by (i) strengthening the links between outputs and

<sup>204</sup> ADB. 2009. *ADB Action Plan on Managing for Development Results 2009–2011*. Manila.

<sup>205</sup> ADB. 2011. *Special Evaluation Study on Managing for Development Results*. Manila.



outcomes; and (ii) reviewing indicators to serve as a better management tool to gauge development effectiveness. The 2012 update of the corporate results framework addressed many of these issues.

With a view to sharing aid information, ADB has been implementing geomapping and geocoding of its projects since 2014, following consultation with the World Bank and the African Development Bank.<sup>206</sup> The exercise is expected to improve ADB's compliance with the transparency standard set by the International Aid Transparency Initiative, and raise its ratings in international surveys such as the Aid Transparency Index.<sup>207</sup> ADB's continued efforts to enhance transparency led to an improved overall ranking on this index, to five out of 68 funding organizations in 2014 from 16 out of 58 in 2011.

To demonstrate its contributions to development, ADB produces Development Effectiveness country briefs for DMCs. Over the decade, ADB has added more quantitative data alongside qualitative country assessments in its briefs, to better communicate ADB's development contribution at the country level. These publications are a blend of performance data and development stories that describe ADB's operations. In 2014, ADB introduced a new publication on projects with clear development impacts to highlight to external stakeholders its successful operations, best practices, and innovations.<sup>208</sup>

ADB's sharper focus on development effectiveness under Strategy 2020 has earned it a rating of "strong" for corporate strategy and mandate in the 2013 report of the Multilateral Organization Performance Assessment Network. Assessments by several other organizations and bilateral agencies have also rated ADB as one of the best performing development institutions in terms of providing value for money. In a 2012 external perceptions

survey, 90% of external stakeholders reported that ADB was having an increasingly positive impact on development.<sup>209</sup>

## B. Accountability and Disclosure

### 1. Accountability Mechanism

In May 2003, ADB introduced a new Accountability Mechanism policy.<sup>210</sup> The ADB Accountability Mechanism provides an independent forum for people adversely affected by ADB-assisted projects to voice complaints and seek solutions to problems. This takes place through consultation and facilitation. Affected people may also request an investigation of whether ADB has complied with its policies and procedures. The mechanism is designed to contribute to ADB's development effectiveness and to improve project quality. The mechanism has two phases: consultation and problem solving conducted by the Office of the Special Project Facilitator, and compliance review led by the independent Compliance Review Panel.

An extensive review of the Accountability Mechanism was completed in 2012, undertaken by a Board–Management Working Group established in 2010, as part of ADB's commitment to enhancing accountability. It aimed at fine tuning the existing system to make it more accessible and efficient. The review included public consultations with a full range of stakeholders, including several regional and in-country consultations, as well as multiple rounds of web-based consultations. The review confirmed that the mechanism was sound, but made recommendations to make it more participatory, credible, and effective.

<sup>206</sup> Geocoding involves digitally recording the geographic location of activities by means of location names (e.g., state, province, city, municipality, and district) and geographic coordinates (latitude and longitude).

<sup>207</sup> The Aid Transparency Index is published annually by Publish What You Fund ([www.publishwhatyoufund.org](http://www.publishwhatyoufund.org)), an international campaign by a coalition of civil society organizations.

<sup>208</sup> ADB. 2014. *Together We Deliver: 10 Stories from ADB-Supported Projects with Clear Development Impacts*. Manila.

<sup>209</sup> ADB. 2013. *ADB Perceptions Survey: Multinational Survey of Stakeholders 2012*. Manila.

<sup>210</sup> ADB. 2003. *Review of the Inspection Function: Establishment of a New ADB Accountability Mechanism*. Manila.

Changes to the Accountability Mechanism were approved in 2012.<sup>211</sup> Reforms included direct access to compliance reviews for people adversely affected by projects, as well as the creation of a complaint receiving officer position to serve as a single entry point for the receipt of all complaints. Steps to enhance the independence of the compliance review panel and a clearer and longer cut-off date for filing complaints were also introduced. Other improvements to the Accountability Mechanism include stepped-up tracking and monitoring of complaints, increased outreach activities with stakeholders, and a partnership approach to reduce impediments to project site visits.

## 2. Public Communications

ADB adopted in April 2005 a new Public Communications Policy, which guided ADB toward improved disclosure of information and external relations. ADB completed a review of its 2005 Public Communications Policy (PCP) in October 2011. When adopted in 2005, the PCP was considered progressive and at the forefront of best practices among multilateral development banks. The policy brought about a major cultural change within ADB such that disclosure is now considered standard operating procedure for all ADB projects. In the 2007 Global Accountability Report published by One World Trust, ADB received a score of 100% on transparency good practice. ADB's external relations strategy, which supports the policy, has led to more proactive efforts to raise ADB's profile and share information about its work. ADB has significantly raised its profile in top tier media through outreach activities and public speaking engagements by its management and staff at major international forums and conferences.

Strategy 2020 acknowledges the importance of accountability, participation, and transparency in ADB's operations and activities. Despite much progress, the review of the 2005 PCP recognized

the need for even greater transparency. Other MDBs had adopted, or started work on, new policies on access to information that increase transparency. ADB also needed to increase its efforts to ensure that the information it makes available reaches the people concerned. New technologies such as social networking and mobile applications were opening up new opportunities for ADB to reach audiences.

The revised communication policy is based on extensive consultations with various stakeholders.<sup>212</sup> Consultation drafts were released in June and November 2010. ADB also undertook two global surveys of its stakeholders. The new PCP took effect in 2012, aiming to keep ADB at the cutting edge of transparency best practices. The presumption in favor of disclosure remains, as in the 2005 PCP. The new PCP included key revisions to expand and speed up access to information. These include (i) the release of more information, such as audited project accounts of ADB-financed sovereign projects; (ii) earlier release of documents (simultaneous disclosure of information circulated to ADB's BOD for a decision); (iii) creation of an independent appeals panel (with three international experts) as a second tier of the appeals process; (iv) clarification of the exceptions to disclosure; and (v) strengthened project communications.

Annual reports are prepared to assess the progress of the implementation of the new policy. As per the latest 2015 report, ADB has made good progress on public communications.<sup>213</sup> ADB achieved recognition for its work on transparency through the NGO, Publish What You Fund, in 2014, when it was ranked fifth (up from 10th place in 2013) overall and first among development banks in the organization's annual Aid Transparency Index.<sup>214</sup> However, there continues to be some slippage in the overall disclosure and timeliness of posting of project documents on ADB.org, but with progress in the timeliness of disclosure for safeguard-related

<sup>211</sup> ADB. 2012. *Accountability Mechanism Policy 2012*. Manila.

<sup>212</sup> ADB. 2011. *2011 Public Communications Policy (PCP) of the Asian Development Bank: Disclosure and Exchange of Information*. Manila.

<sup>213</sup> ADB. 2015. *Annual Report on the Implementation of the Public Communications Policy in 2014*. Manila.

<sup>214</sup> This index measures the transparency ranking of 68 of the world's leading donor organizations.

documents. Information technology issues and lack of staff awareness of disclosure requirements will be addressed to improve implementation.

### 3. Anticorruption and Audit

ADB's Office of Anticorruption and Integrity (OAI) recognizes that tackling corruption requires a multifaceted approach and a comprehensive network of partnerships and alliances. OAI's anticorruption work focuses on prevention, oversight, investigation, and deterrence through partnership, awareness raising, and outreach. OAI continued to work in close partnership and teamwork with ADB's governance and operations departments as well as external partners to address fraud, corruption, abuse of resources, and other violations that undermine the integrity and effectiveness of ADB-funded activities. OAI's mandate is underpinned by ADB's zero tolerance to corruption. It is aligned with ADB's broader commitment to combat corruption and improve governance as a core strategic objective of ADB Strategy 2020, and the Paris Declaration on Aid Effectiveness of 2005—to which ADB is a signatory—in support of effective, transparent, and accountable aid.

An important development in 2010 in ADB's fight against corruption was when ADB signed a Cross Debarment Agreement together with other MDBs, including the African Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank and World Bank Group. This agreement allows MDBs to recognize each other's debarments. An MDB will determine when it should recommend a party for cross debarment. ADB recommends cross debarment following the second Integrity Oversight Committee sanction upon a firm or individual. An MDB that receives the recommendation can decide whether they cross debar or not. To enhance transparency and accountability, ADB publishes a sanctions list. It contains the names of entities that violated the sanctions while ineligible, entities who

committed second and subsequent violations, debarred entities who are uncontactable, and cross debarred entities.

Since 2012, OAI has provided integrity due diligence services to assist Operations departments to address the integrity risks in ADB-financed projects. The integrity due diligence advisory function emerged due to the rise in ADB's equity investments, lending, and development initiatives involving the private sector and the increased need for ADB to evaluate and minimize integrity and reputational risks in dealings with other entities. There has been a rapid rise in requests for OAI's advisory support to ADB Operations departments. During 2012–2014, OAI has provided advice and support for 176 requests involving 451 entities.<sup>215</sup> In addition to providing direct integrity due diligence support, OAI continually encourages its internal and external development partners to integrate due diligence practices into their evaluation and assessment procedures and emphasized that due diligence is each individual's responsibility.

ADB's Office of the Auditor General (OAG) continued to provide independent and objective audit and advisory services designed to improve ADB operations. In 2011, the OAG audit process was improved to introduce a risk-based audit approach. This approach aims to achieve acceptable audit risk level with limited audit resources, by allocating more audit resources to riskier areas. In 2011, OAG also introduced the Diagnostic Reviews of Field Offices, an advisory service designed to assist field offices in strengthening controls in finance and administration. OAG's audit reports during the fifth decade covered operations, risk management, treasury, IT, and finance and administration. It monitored the implementation of audit recommendations, and validated the actions of business units to mitigate risks. OAG also undertakes advisory engagements on internal processes, provides advice on the audit requirements of donors and cofinanciers, and participates in key committees.

<sup>215</sup> ADB. 2015. *Office of Anticorruption and Integrity Annual Report 2014*. Manila.

## C. Independent Evaluation

As part of its efforts to enhance development effectiveness and accountability to stakeholders, ADB strengthened the independence of its evaluation department during its fifth decade. In 2008, ADB undertook a comprehensive review of its Operations Evaluation Department (OED), as it was then called. An ad hoc working group, consisting of Board and Management representatives, as well as external experts, was created to undertake the review.

The review concluded that while ADB has a clearly articulated model of independent evaluation, OED's credibility as an independent evaluation unit could be further enhanced by adopting the following measures: (i) expanding the nonrenewable term of OED's director general from 3 to 5 years; (ii) allowing OED's director general to be appointed by BOD upon recommendation by the Development Effectiveness Committee in consultation with the President; (iii) strengthening the selection process for OED's director general with the Development Effectiveness Committee leading the process and using an executive search firm and extensive media advertising; (iv) exempting OED's director general from the formal performance review process, with his or her salary determined by a formula; and (v) allowing OED's budget to be approved by BOD separately from ADB's overall administrative budget; and renaming OED the Independent Evaluation Department to reflect its more independent status. To further strengthen the department's effectiveness, the review urged that interaction between OED and operations staff be intensified to ensure ownership of evaluation results and accelerate the application of lessons learned; and that a more rigorous system for monitoring the progress achieved in implementing the department's recommendations be put in place.

A revised policy was approved by BOD in 2008 to give effect to the changes referred to above.<sup>216</sup> This policy superseded the 2003 policy on enhancing the independence and effectiveness of the

department and the 2008 amendment of terms of appointment of the director general, with effect from 2009.

The review of OED's independence and effectiveness recommended a more rigorous system for monitoring implementation of evaluation recommendations. In response, the department developed the management action record system (MARS), which was operationalized in 2009. The Office of the Managing Director General is the focal point in the scrutiny of evaluation recommendations and their conversion into actions. The MARS tracks recommendations of completed independent evaluations, and their corresponding management responses and action plans. Results from MARS are regularly reported through annual evaluation reviews, and are available to staff. Communication between ADB Management and IED has improved, since the inception of the MARS. There is more joint ownership of the actions to address IED recommendations, as management gets more deeply involved in the process. In 2015, agreement was reached that the two-category acceptance system of recommendations in MARS (accepted or not accepted) would be expanded with the addition of a third category: partly accepted. This was expected to make it more convenient for management to provide responses to cluster recommendations with many potential actions that IED sometimes has to resort to, given the complex nature of its evaluations.

To align its operations with Strategy 2020, IED modified both its internal organization and its evaluation and knowledge dissemination activities to make them consistent with Strategy 2020's strategic agendas, drivers of change, and core specializations. Evaluation activities throughout the decade continued to focus on providing input to the formulation of ADB policies, strategies, and programs; providing feedback and capacity building in evaluation to operations departments and DMCs; and contributing to knowledge solutions through special evaluation studies on cross-country

<sup>216</sup> ADB. 2008. *Review of the Independence and Effectiveness of the Operations Evaluation Department*. Manila.

and thematic topics. Throughout the decade, IED devoted significant effort to corporate, thematic, country, and sector evaluations to complement project-level evaluations, many of which have been referenced in this report.

IED continued to validate success rates of completed projects based on the criteria of relevance, efficiency, effectiveness and sustainability. Of 512 sovereign projects with project completion reports circulated between 2007 and 2014, IED validated 413 and found 62.5% to be *successful* or *highly successful*. The

overall trend over the decade was toward rising validated success rates. At the same time, project efficiency and sustainability were found to be notably weaker than the relevance and effectiveness of projects. Another finding was a divergence between self-evaluation and IED's postevaluation. During 2007–2014, a net of 51 projects were downgraded by IED from their original self-evaluation ratings (or more than 12% of validated projects). This has led to some disagreements with ADB Management on the validation processes and results, which are the subject of continuing internal discussions.





## VIII. EPILOGUE

- A new long-term strategy for ADB, going beyond 2020, is now being crafted.
- Prior to his unanimous reelection in 2016 by the Board of Governors, President Nakao put forward his vision for the future.

External and internal developments during the fifth decade have prompted ADB to begin preparation for its new corporate long-term strategy beyond 2020, building on the Strategy 2020 midterm review. Discussions on the new strategy have been initiated at the first ADF 12 replenishment meeting in Manila in 2015, and a consultative process is under way. The new strategy will respond to several recent developments.

First, there have been notable changes in the global development agenda in 2015. The Financing for Development Conference in Addis Ababa in July 2015 was one of the key events leading up to the adoption of a new development agenda and a universal agreement on climate change. The Sustainable Development Goals were adopted in September 2015, with more ambitious targets compared to MDGs. Moreover, the COP 21 in Paris in December 2015 marked a landmark agreement among world leaders, to endeavor to limit global temperature rise to 1.5°C above pre-industrial levels. ADB's corporate vision will need to incorporate the new international agenda.

Second, the emergence of new development finance institutions, including the Asian Infrastructure Investment Bank and the New Development Bank, will help to address huge development financing gaps and offer ADB expanded opportunities for collaboration. In his statement on the signing of the AIIB Articles of Agreement, President Nakao stated that "ADB is committed to working closely and cofinancing with AIIB to address the vast infrastructure needs facing Asia by using [ADB's] long experience and expertise in the region. ADB will continue sharing necessary information and look into specific projects that could benefit from cofinancing." However, this will also pose new challenges. To remain competitive, ADB must become faster and less bureaucratic.

Third, by 2020, except for Afghanistan and Nepal, ADB clients are expected to all be middle-income clients. ADB must sharpen its strategic approach to stay relevant to their development needs. ADB has developed an approach for its engagement with the upper middle-income countries in 2015, under the

midterm review action plan, to engage with them as clients, active contributors to regional development, and important collaborators and partners of ADB.<sup>217</sup> This approach will need to be refined, and be integrated with ADB's post-2020 strategy.

Fourth, with the combination of ADF and OCR, there will be significant expansion in ADB's lending capacity from 2017. This will have a substantial impact not only on the scale of ADB operations but also on the nature of ADB's strategic partnerships with client countries. It will affect allocation of lending and human resources, as ADB engages with its clients to build a stronger pipeline. This must be reflected in ADB's new strategy.

President Nakao's speech at the 49th Annual Meeting of the BOG in Frankfurt, Germany, summarized the future directions of ADB. He noted that Asia's long-term growth potential was strong. However, "in order to realize their full growth potential, Asian countries must maintain sound macroeconomic policies, invest more in infrastructure, human capital and technology, develop efficient financial markets, and improve the investment climate." He highlighted three areas that were "critical for a vibrant and sustainable Asia: one, creating quality jobs; two, promoting private sector development; and three, combatting climate change." He noted stronger partnerships would be needed with all

ADB stakeholders including private sector and civil society organizations, to work on these three areas.

In July 2016, after announcing that he would stand for reelection, President Nakao presented his vision statement for a possible new term, where he outlined his 10 priorities for the institution: (i) increase in ADB's annual loan and grant approvals; (ii) effective use of increased resources to achieve poverty reduction and climate actions; (iii) strengthening ADB's support for high priority infrastructure development; (iv) expanding private sector operations; (v) enhancing ADB's credentials as a knowledge institution; (vi) continuing personal effort for high-level dialogue with national leaders and authorities; (vii) continuing to upgrade human resource management; (viii) continuing to keep ADB efficient including through greater use of country systems, more effective IT system, and stronger organizational resilience; (ix) preparation of a new long-term strategy; and (x) maintaining strong governance of ADB including enhanced external relations (Box 20).

Following his unanimous reelection in August 2016, President Nakao hopes to lead the ADB to an even more elevated standing as the primary development institution in the region. He reiterated his goal of a stronger, better, and faster ADB, to help DMCs address the remaining and emerging challenges in the region.

<sup>217</sup> ADB. 2015. *Clients–Contributors–Collaborators: A New Partnership with Upper Middle-Income Countries*. Manila.

### Box 20: Excerpts from President Takehiko Nakao's Vision Statement for the New Term

**“First,** I will work hard to achieve and even surpass the targeted 50% increase in ADB’s annual loan and grant approvals (from \$13 billion in 2014 to \$20 billion in 2020), building on a strong start with a record \$16.3 billion in approvals in 2015. At the same time, I remain committed to accelerating disbursements. We will also catalyze greater private resources and work in partnership with other development partners including new institutions such as the Asian Infrastructure Investment Bank and the Green Climate Fund. Given the large financing needs of the region, I will consider all options for strengthening ADB’s financial capacity when necessary.

**“Second,** I will use these increased resources effectively to achieve our objectives of poverty reduction and climate actions. ADB will be a key player in the region’s progress toward meeting the Sustainable Development Goals. In order to make growth more inclusive, we will increase our support to health, education, food security, social protection, and financial inclusion. We will work for gender equality through our operations. Our poorest members, including those in fragile and conflict-affected situations such as Pacific small island countries, will receive priority in the allocation of resources. We will double our annual climate financing for mitigation and adaptation to \$6 billion by 2020. We will help countries pursue their commitments under COP21 and environmentally sustainable growth by using loans, grants, and technical assistance. Disaster risk reduction and management will be integral parts of our operations.

**“Third,** I will strengthen ADB’s support for high priority infrastructure development in the region in transport, power, water, and urban development. Our operations will align with national strategies. We will pay greater attention to maintenance cost and sustainability over the life cycle of infrastructure assets. We will effectively integrate cleaner and more advanced technologies in our projects by improving project designs and rationalizing procurement procedures. Safeguards for social and environmental impacts will remain indispensable components of our operations. ADB will continue to support capacity building, including for implementation and anticorruption efforts.

**“Fourth,** I will further expand our private sector operations, stressing strong development impact, wider geographic reach, and sound commercial returns. I will ensure closer coordination between our public and private sector operations and greater collaboration with a wide range of partners. We will manage and deploy more funds into the private sector through cofinancing and equity fund arrangements, and expand the use of our risk-mitigation products such as guarantees and reinsurance. We will focus on private streamlined approval process adopted in 2015, we will increase small but innovative transactions in poorer economies. Our PPP office will act as transaction advisors in large-scale projects. We will use effectively trust funds supported by donors, such as the newly established Asia Pacific Project Preparation Facility, to find and prepare bankable PPP projects.

**“Fifth,** I will continue to enhance ADB’s credentials as a knowledge institution. Our clients need knowledge inputs, based on ADB’s cross-country experiences. It is critical that the sector and thematic groups, under the leadership of their technical advisors, promote knowledge work, provide expertise and ideas to operations departments, and strengthen partnerships with centers of excellence around the world. I will encourage our research and knowledge departments to produce high-quality publications that stimulate discussions on policies and provide insights from a regional perspective. We have started the preparation of two important publications. One is a history of ADB in commemoration of our 50th anniversary. The other is a reflection on development in Asia over these 50 years, with a focus on what were the essential conditions for development and what policies worked.

**“Sixth,** I will continue my personal effort to have high-level dialogue with national leaders and authorities regarding their development priorities, and important policy issues such as pursuing sound macroeconomic management, maintaining open trade and investment regimes, and implementing structural reforms. It has been a tradition of ADB from its beginning to learn from countries before we advise them. Resident missions in 28 countries play an important role in conducting intensive communication with authorities. ADB will assist with reforms in public finance management, state-owned enterprises, and the financial sector. ADB will use policy-based loans as appropriate to encourage necessary reforms. ADB will also provide prompt support to countries affected by exogenous economic shocks, based on their sound policies, reform efforts, and active discussions with the International Monetary Fund.

*continued.*

Box 20. *continued.*

**“Seventh,** I will continue to upgrade human resource management. Skilled and motivated staff are at the heart of any effective institution. I will ensure merit-based and transparent recruitment and promotion, enhance mobility across departments and between headquarters and resident missions, strengthen talent management, provide leadership training, and invest more in staff development. I will make every effort to hire, retain, and promote more women. I will continue to foster an innovative culture and ‘one ADB’ approach. Implementing the respectful workplace initiatives will be an absolute priority.

**“Eighth,** I will continue to work hard to keep ADB efficient. ADB will make the best use of its staff and budget. ADB will continue to streamline its procedures and consider greater use of country systems for procurement and safeguards. It is important to have prudent and careful management of the administrative budget. ADB’s compensation and benefit packages should be competitive enough to attract the best talent, sustainable and fair, consistent with our mission, and in line with international trends. We must make ADB’s IT system more effective, better integrated, and more user-friendly. Strengthening business continuity and organizational resilience will be an urgent task.

**“Ninth,** I will prepare a new long-term strategy for ADB, leading up to 2030. The strategy will outline a vision and key directions for ADB to support the region as it transforms. It will elaborate how ADB will best support the poorest countries lagging behind the region’s rapid development, as well as the growing number of middle-income member countries. We are adopting a fully consultative process in preparing the strategy.

**“Finally,** I will maintain the strong governance of ADB. I will continue to ensure close consultation and cooperation with member governments, development partners, the private sector, and civil society. I value independent evaluation and appreciate impartial advice from outside the institution. ADB will increase its visibility and transparency through enhanced external relations.

Source: Asian Development Bank.

# APPENDIXES

**Appendix Table A1.1: Key Macroeconomic Indicators, 2006 and 2015**

	GDP (2010 constant US\$, million)		Population (million)		GDP per capita (2010 constant US\$)		Share in GDP					
	2006	2015	2006	2015	2006	2015	Agriculture (%)		Industry (%)		Services (%)	
							2006	2015	2006	2015	2006	2015
<b>Central and West Asia</b>	<b>394,290</b>	<b>616,605</b>	<b>256.1</b>	<b>305.3</b>	<b>1,540</b>	<b>2,019</b>	<b>17</b>	<b>16</b>	<b>32</b>	<b>29</b>	<b>51</b>	<b>54</b>
Afghanistan	10,305	20,737	25.2	28.6	409	725	29	23	29	23	42	54
Armenia	8,680	11,457	3.0	3.0	2,891	3,813	20	19	45	28	35	53
Azerbaijan	33,290	59,025	8.5	9.7	3,924	6,117	8	7	69	50	24	43
Georgia	9,903	14,754	4.1	3.7	2,394	3,973	13	9	25	25	62	66
Kazakhstan	121,197	186,232	15.3	17.5	7,917	10,618	6	5	42	33	52	62
Kyrgyz Republic	3,979	6,059	5.2	5.9	763	1,028	33	16	20	27	47	57
Pakistan	159,256	215,035	156.5	191.7	1,017	1,122	23	25	21	19	56	56
Tajikistan	4,388	7,913	6.9	8.6	631	925	24	25	31	28	45	47
Turkmenistan	15,301	37,278	4.8	5.4	3,187	6,935	17	8 (2014)	36	63 (2014)	46	29 (2014)
Uzbekistan	27,989	58,114	26.5	31.3	1,057	1,857	28	19 (2013)	30	33 (2013)	42	48 (2013)
<b>East Asia</b>	<b>5,554,521</b>	<b>10,843,840</b>	<b>1,391.6</b>	<b>1,459.0</b>	<b>3,991</b>	<b>7,432</b>	<b>8</b>	<b>8</b>	<b>42</b>	<b>40</b>	<b>50</b>	<b>53</b>
China, People's Rep. of	4,023,920	8,795,129	1,311.0	1,374.6	3,069	6,398	11	9	48	41	42	50
Hong Kong, China	201,916	264,271	6.9	7.3	29,446	36,173	0.1	0.1 (2014)	8	7 (2014)	92	93 (2014)
Korea, Rep. of	941,020	1,266,580	48.4	50.6	19,454	25,023	3	2	37	38	60	60
Mongolia	5,702	11,694	2.6	3.0	2,229	3,863	20	15	43	34	37	51
Taipei, China	381,963	506,165	22.8	23.5	16,736	21,573	2	2	32	35	66	63
<b>South Asia</b>	<b>1,380,088</b>	<b>2,554,298</b>	<b>1,353.2</b>	<b>1,491.0</b>	<b>1,020</b>	<b>1,713</b>	<b>18</b>	<b>17</b>	<b>29</b>	<b>30</b>	<b>53</b>	<b>54</b>
Bangladesh	91,589	156,630	144.8	157.9	632	992	19	16	25	28	56	56
Bhutan	1,077	2,049	0.7	0.8	1,615	2,706	22	18 (2014)	39	43 (2014)	39	39 (2014)
India	1,227,441	2,295,155	1,162.1	1,283.0	1,056	1,789	18	17	29	30	53	53
Maldives	1,845	2,905	0.3	0.5	5,540	6,228	6	3 (2014)	14	18 (2014)	80	78 (2014)
Nepal	13,311	19,661	25.8	28.0	516	703	35	32	17	15	48	53
Sri Lanka	44,826	77,899	19.5	21.0	2,296	3,716	11	9	31	31	58	61
<b>Southeast Asia</b>	<b>1,620,279</b>	<b>2,527,784</b>	<b>567.1</b>	<b>626.1</b>	<b>2,857</b>	<b>4,038</b>	<b>11</b>	<b>11</b>	<b>41</b>	<b>36</b>	<b>48</b>	<b>53</b>
Brunei Darussalam	13,848	13,638	0.4	0.4	37,614	32,689	1	1	73	60	26	39
Cambodia	9,015	15,930	13.5	15.1	667	1,058	32	28	28	29	41	42
Indonesia	602,627	987,514	229.3	255.2	2,629	3,870	13	14	47	41	40	45
Lao PDR	5,266	10,378	5.8	6.5	902	1,598	35	25 (2014)	28	35 (2014)	37	41 (2014)
Malaysia	216,303	329,954	26.3	31.0	8,236	10,644	9	9	46	40	45	52

continued.



Appendix Table A1.1. continued.

	GDP (2010 constant US\$, million)		Population (million)		GDP per capita (2010 constant US\$)		Share in GDP					
							Agriculture (%)		Industry (%)		Services (%)	
	2006	2015	2006	2015	2006	2015	2006	2015	2006	2015	2006	2015
Myanmar	33,103	70,538	50.4	52.5	657	1,345	44	27	19	35	37	39
Philippines	165,099	265,832	87.6	101.0	1,885	2,632	12	10	33	31	54	59
Singapore	185,843	287,018	4.4	5.5	42,224	51,855	0.1	0.0	32	26	68	74
Thailand	297,868	392,475	66.2	67.2	4,501	5,837	9	9	39	36	51	55
Viet Nam	91,308	154,509	83.3	91.7	1,096	1,685	19	19	39	37	43	44
<b>The Pacific</b>	<b>17,447</b>	<b>24,639</b>	<b>9.4</b>	<b>11.8</b>	<b>1,867</b>	<b>2,232</b>	<b>20</b>	<b>12</b>	<b>28</b>	<b>17</b>	<b>52</b>	<b>71</b>
Cook Islands	289	317	0.0	0.0	12,144	16,855	5	8	9	9	86	83
Fiji	3,088	3,844	0.8	0.9	3,732	4,421	14	11 (2014)	19	19 (2014)	67	70 (2014)
Kiribati	155	182	0.1	0.1	1,643	1,656	23	23 (2014)	8	15 (2014)	69	62 (2014)
Marshall Islands	155	177	0.1	0.1	2,969	3,285	9	14	12	11	79	75
FSM	298	292	0.1	0.1	2,817	2,853	24	28	4	6	71	66
Nauru	...	114	0.0	0.0	...	10,465	8	3 (2012)	2	66 (2012)	90	31 (2012)
Palau	207	222	0.0	0.0	10,364	12,600	5	3	14	9	82	88
Papua New Guinea	7,442	13,313 (2014)	6.2	8.2	1,193	1,784 (2014)	21	20 (2013)	36	27 (2013)	43	53 (2013)
Samoa	639	716	0.2	0.2	3,531	3,698	12	9	30	24	58	67
Solomon Islands	574	790	0.5	0.6	1,194	1,332	36	28 (2014)	7	15 (2014)	58	57 (2014)
Timor-Leste	3,622	3,504 (2014)	1.0	1.2	3,636	2,891 (2014)	5	7 (2014)	85	73 (2014)	10	21 (2014)
Tonga	353	386	0.1	0.1	3,477	3,706	19	19 (2014)	18	18 (2014)	63	62 (2014)
Tuvalu	30	37	0.0	0.0	3,063	3,386	24	24 (2014)	6	6 (2012)	70	70 (2012)
Vanuatu	596	747	0.2	0.3	2,778	2,692	24	27 (2012)	9	9 (2014)	67	64 (2014)
<b>Developing Member Economies</b>	<b>8,966,625</b>	<b>16,567,166</b>	<b>3,577.4</b>	<b>3,893.3</b>	<b>2,506</b>	<b>4,256</b>	<b>10</b>	<b>10</b>	<b>40</b>	<b>38</b>	<b>50</b>	<b>53</b>

... = data not available, FSM = Federated States of Micronesia, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.

Notes: Where no data are available for the specific year headings, available data for the earliest and/or nearest years are reflected. Aggregates are provided for subregions/region where at least two-thirds of the economies and 80% of the total population are presented.

Sources: ADB. Statistical Database System. <http://sdb.sdb.aib.org> (accessed 20 January 2017); World Bank. World Development Indicators Database. <http://data.worldbank.org> (accessed 20 January 2017); ADB estimates.

Appendix Table A1.2: Selected Trade and Social Indicators, 2006 and 2015

	Trade Indicators				Social Indicators			
	Exports (% of GDP)		Imports (% of GDP)		Life expectancy (years)		Mortality, <5 (per 1,000 births)	
	2006	2015	2006	2015	2006	2014	2006	2015
<b>Central and West Asia</b>	...	...	...	...	64	67	91	71
Afghanistan	25	7	70	49	57	60	116	91
Armenia	23	30	39	42	74	75	22	14
Azerbaijan	67	38	39	35	69	71	49	32
Georgia	33	45	57	65	73	75	23	12
Kazakhstan	51	29	40	25	66	72	30	14
Kyrgyz Republic	42	36	79	72	68	70	38	21
Pakistan	14	11	22	17	64	66	99	81
Tajikistan	58	11 (2014)	83	58 (2014)	67	70	62	45
Turkmenistan	73	73 (2012)	35	44 (2012)	65	66	68	51
Uzbekistan	37	19	30	19	67	68	53	39
<b>East Asia</b>	...	...	...	...	74	76	21	11
China, People's Rep. of	36	22	28	19	74	76	22	11
Hong Kong, China	202	202	191	199	82	84	...	...
Korea, Rep. of	37	46	36	39	79	82	5	3
Mongolia	59	45	53	42	66	69	40	22
Taipei, China	66	65	60	52	78	80 (2013)	...	...
<b>South Asia</b>	...	...	...	...	65	69	70	46
Bangladesh	16	17	22	25	68	72	63	38
Bhutan	54	36 (2014)	59	57 (2014)	66	69	55	33
India	21	20	24	23	65	68	72	48
Maldives	53	...	71	...	75	77	20	9
Nepal	13	12	31	42	66	70	57	36
Sri Lanka	30	21	41	28	74	75	13	10
<b>Southeast Asia</b>	...	...	...	...	69	70	38	27
Brunei Darussalam	72	52	25	33	76	79	9	10
Cambodia	69	...	76	67 (2014)	64	68	60	29
Indonesia	31	21	26	21	67	69	40	27
Lao PDR	40	...	46	...	62	66	94	67
Malaysia	112	71	90	63	74	75	8	7
Myanmar	0.2	17	0.1	28	64	66	68	50
Philippines	47	28	48	34	67	68	35	28
Singapore	230	177	200	150	80	83	3	3
Thailand	69	69	65	58	73	74	17	12
Viet Nam	68	90	71	89	74	76	28	22
<b>The Pacific</b>	...	...	...	...	63	65	65	51
Cook Islands	...	...	...	...	74	75	12	8
Fiji	47	52	68	63 (2014)	69	70	24	22
Kiribati	11	...	91	...	65	66	65	56
Marshall Islands	28	53 (2014)	89	103 (2013)	70	73	40	36
FSM	...	...	...	...	68	69	46	35
Nauru	...	...	...	...	64	66	39	35
Palau	43	...	76	...	70	73	22	16
Papua New Guinea	72 (2004)	...	59 (2004)	...	61	63	73	57
Samoa	29	...	53	...	71	74	19	18
Solomon Islands	35	54	56	66 (2014)	66	68	33	28
Timor-Leste	97	93 (2014)	26	57 (2014)	65	68	79	53
Tonga	14	18 (2014)	51	56 (2014)	72	73	17	17
Tuvalu	...	...	...	...	63	66	36	27
Vanuatu	41	49 (2014)	48	51 (2014)	70	72	28	28
<b>Developing Member Economies</b>	46	33	42	29	69	71	54	36

... = data not available, FSM = Federated States of Micronesia, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.

Notes: Where no data are available for the specific year headings, available data for the earliest and/or nearest years are reflected.

Sources: ADB. 2016. ADB Key Indicators 2016; ADB. Statistical Database System. <http://sdbas.adb.org> (accessed 20 January 2017); Directorate-General of Budget, Accounting and Statistics. <http://eng.dgbas.gov.tw/mp.asp?mp=2> (accessed 8 November 2016); World Bank. World Development Indicators Database. <http://data.worldbank.org> (accessed 20 January 2017); United Nations Inter-agency Group for Child Mortality Estimation. <http://www.childmortality.org> (accessed 28 December 2016); ADB estimates.

**Appendix Table A2.1: Loan and Technical Assistance Approvals, 2007–2016**  
(\$ million)<sup>a</sup>

Country	Ordinary Capital Resources <sup>a</sup>	Asian Development Fund <sup>a</sup>	Technical Assistance Projects <sup>b</sup>	Total	Percent <sup>c</sup>
India	25,032	–	97.48	25,130	17.72
China, People's Republic of	18,076	–	172.88	18,249	12.86
Pakistan	9,503	3,571	52.48	13,126	9.25
Viet Nam	7,948	4,072	71.62	12,091	8.52
Indonesia	11,412	210	29.04	11,651	8.21
Bangladesh	5,357	4,641	53.36	10,051	7.09
Philippines	7,959	–	42.57	8,002	5.64
Uzbekistan	4,126	1,244	31.22	5,401	3.81
Kazakhstan	4,560	–	9.85	4,570	3.22
Sri Lanka	3,035	1,224	29.99	4,289	3.02
Azerbaijan	4,231	10	12.55	4,253	3.00
Region <sup>d</sup>	2,523	19	592.67	3,135	2.21
Afghanistan	78	2,795	18.23	2,892	2.04
Nepal	–	2,519	37.74	2,556	1.80
Georgia	1,253	900	10.63	2,163	1.53
Myanmar	592	1,141	23.36	1,757	1.24
Lao PDR	592	921	28.45	1,541	1.09
Cambodia	87	1,414	35.78	1,536	1.08
Thailand	1,396	–	9.30	1,405	0.99
Papua New Guinea	844	524	17.11	1,385	0.98
Armenia	659	527	10.93	1,197	0.84
Mongolia	582	574	35.86	1,191	0.84
Tajikistan	8	1,104	11.00	1,123	0.79
Kyrgyz Republic	20	1,056	14.03	1,090	0.77
Bhutan	124	412	18.42	554	0.39
Timor-Leste	136	167	15.22	318	0.22
Fiji	269	–	4.87	274	0.19
Samoa	–	147	6.76	154	0.11
Solomon Islands	–	132	8.75	141	0.10
Turkmenistan	125	–	1.45	126	0.09
Maldives	17	107	8.93	132	0.09
Palau	56	14	3.80	74	0.05
Tonga	–	61	3.87	64	0.05
Cook Islands	51	7	2.18	60	0.04
Vanuatu	–	48	4.03	52	0.04
Kiribati	–	37	3.22	40	0.03
Tuvalu	–	19	2.39	21	0.02
Marshall Islands	–	20	1.35	21	0.01
Nauru	–	11	2.28	13	0.01
Micronesia, Federated States of	5	4	3.15	12	0.01
Malaysia	10	–	1.68	12	0.01
<b>Total</b>	<b>110,663</b>	<b>29,648</b>	<b>1,540</b>	<b>141,851</b>	<b>100</b>

– = nil, Lao PDR = Lao People's Democratic Republic.

a Lending operations include loan, grant, equity, and guarantee approvals.

b Technical assistance operations cover grants funded by the Technical Assistance Special Fund and Japan Special Fund.

c As percent of total lending and technical assistance operations.

d "Region" refers to lending or technical assistance to a subregion or a group of member economies within the region, not to any particular economy.

Sources: ADB Operations Dashboard, eOperations database; and ADB Strategy, Policy and Review Department.

**Appendix Table A2.2: Loans and Technical Assistance Approvals,  
by Fund Source, 2007 to 2016**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	%	%	Total
<b>Total Lending<sup>a</sup></b> (\$ million)	<b>11,081</b>	<b>11,335</b>	<b>15,758</b>	<b>13,655</b>	<b>13,858</b>	<b>13,141</b>	<b>14,213</b>	<b>13,528</b>	<b>16,280</b>	<b>17,462</b>	<b>100</b>	<b>100</b>	<b>140,311</b>
<b>A. Ordinary Capital Resources</b>	<b>8,669</b>	<b>8,838</b>	<b>12,637</b>	<b>10,475</b>	<b>11,306</b>	<b>10,136</b>	<b>10,363</b>	<b>10,438</b>	<b>13,413</b>	<b>14,389</b>	<b>78</b>	<b>100</b>	<b>110,663</b>
India	1,386	2,895	1,851	2,370	3,043	2,418	2,442	2,917	2,657	3,053	18	23	25,032
China, People's Rep. of	1,471	1,750	1,980	1,588	1,465	1,809	2,035	1,820	2,054	2,105	13	16	18,076
Indonesia	995	925	2,224	785	580	1,233	1,014	554	1,375	1,727	8	10	11,412
Pakistan	1,632	642	695	629	1,007	343	1,072	820	1,345	1,318	7	9	9,503
Philippines	584	940	1,176	600	362	775	872	975	842	833	6	7	7,959
All Others	2,601	1,685	4,710	4,504	4,850	3,558	2,928	3,351	5,140	5,353	28	35	38,681
<b>B. Asian Development Fund</b>	<b>2,412</b>	<b>2,497</b>	<b>3,122</b>	<b>3,180</b>	<b>2,552</b>	<b>3,005</b>	<b>3,850</b>	<b>3,091</b>	<b>2,867</b>	<b>3,073</b>	<b>21</b>	<b>100</b>	<b>29,648</b>
Bangladesh	466	510	428	449	450	654	362	493	565	264	3	16	4,641
Viet Nam	515	159	523	580	365	463	365	409	290	404	3	14	4,072
Pakistan	455	529	245	270	320	74	460	563	420	235	3	12	3,571
Afghanistan	176	254	333	352	232	376	468	149	200	255	2	9	2,795
Nepal	109	139	336	263	270	104	376	325	290	307	2	8	2,519
All others	692	906	1,256	1,266	915	1,335	1,819	1,152	1,102	1,608	9	41	12,051
<b>Total TA Projects<sup>b</sup></b> (\$ million)	<b>144</b>	<b>174</b>	<b>179</b>	<b>159</b>	<b>140</b>	<b>143</b>	<b>149</b>	<b>152</b>	<b>139</b>	<b>162</b>	<b>100<sup>c</sup></b>	<b>100<sup>d</sup></b>	<b>1,540</b>
China, People's Rep. of	17	16	17	19	19	20	19	17	16	13	18	11	173
India	10	24	13	11	6	7	5	12	3	7	10	6	97
Viet Nam	10	12	7	8	9	5	4	5	5	6	8	5	72
Bangladesh	7	4	12	5	6	6	6	2	2	4	6	3	53
Pakistan	7	8	2	2	4	2	8	7	5	8	6	3	52
All others (including RETA)	93	111	127	113	97	103	107	110	108	124	53	71	1,093

RETA = regional technical assistance; TA = technical assistance.

a Lending operations include loan, grant, equity and guarantee approvals.

b Technical operations only cover grants funded by the TA Special Fund and the Japan Special Fund.

c As percent of total TA Operations excluding RETA.

d As percent of total TA Operations including RETA.

Notes: The top five recipients of Asian Development Fund, ordinary capital resources, and TA are listed in this table. Lending and TA approvals for all other developing member economies are classified as "All Others."

Sources: ADB Operations Dashboard, eOperations database; and ADB Strategy, Policy and Review Department.

## Key ADB Milestones, 2007–2016

- 2007**
- Georgia joins ADB
  - Extensive consultations are launched during the 40th Annual Meeting for a new Long-Term Strategic Framework (LTSF) based on the Eminent Persons Group report
  - ADB approves new approach to achieve development effectiveness in weakly performing countries
- 2008**
- The Board of Directors approve the new LTSF for 2008–2020 called Strategy 2020, reaffirming ADB's focus on poverty
  - ADB becomes the first multilateral development bank to adopt a corporate results framework
  - The First Development Effectiveness Report released in November
  - The ninth replenishment of the Asian Development Fund (ADF) starts (and became effective in 2009)
  - Review of graduation policy is completed
  - Review of technical assistance operations is completed
  - A working group reviews the independence and effectiveness of the Operations Evaluation Department, later renamed Independent Evaluation Department (IED)
  - ADB approves a new evaluation policy to further strengthen IED's independence
  - ADB reviews the operations of its resident missions to assess the achievement of their objectives and expectations
  - Strategy on human resources is reviewed
  - Responding to rising demand from member countries, ADB mainstreams the multitranch financing facility, one of the instruments implemented on a pilot basis since 2005
  - ADB conducts a comprehensive inventory and review of all existing strategies and policies and their relevance to achieving Strategy 2020
  - The Regional and Sustainable Development Department (RSDD) is reorganized to create a climate change unit; an Agriculture, Rural Development and Food Security team is formalized
  - Around \$4 billion additional resources are allocated to address food, commodity, oil price, and global financial crises in the region
  - Two loans to state-owned enterprises without sovereign guarantees are approved worth \$300 million
  - Resident missions are established in Armenia, Georgia, and Turkmenistan
- 2009**
- ADB approves a 200% general capital increase, a critical step in securing the funds needed to implement Strategy 2020—an increase that was the largest to date and the first since a 100% increase in 1994
  - In response to the global financial crisis, ADB creates the Countercyclical Support Facility and expands its Trade Finance Facilitation Program
  - A new energy policy is approved
  - New operational plan for sustainable food security and an action plan for implementing disaster and emergency assistance policy are approved
  - The Bank approves a New Safeguard Policy Update, unifying three safeguard policies on environment, involuntary resettlement, and indigenous peoples into a single document
  - A revised project classification system is issued, in line with Strategy 2020
  - The management action record system launched, to monitor how IED's recommendations translate into actions
  - A new managing for development results (MfDR) action plan is adopted to guide the MfDR process across ADB
  - The approach to mainstreaming gender mainstreaming in operations is updated
  - ADB's new exposure management policy for nonsovereign operations is established limits for nonsovereign exposure
  - The Human Resources Committee of the Board is established to provide guidance on human resource matters within ADB
  - The Strategy and Policy Department is realigned, the Risk Management Unit is upgraded to the Office of Risk Management (ORM)
  - A Unit for Institutional Coordination is created in the Budget, Personnel, and Management Systems Department

*continued.*



Key ADB Milestones, 2007–2016. *continued.*

- 2010**
- ADB creates the new post of Vice-President for Private Sector and Cofinancing Operations
  - New operational plans completed for climate change, sustainable transport, and education
  - To improve service delivery and increase internal efficiency, ADB introduces new streamlined business processes for country partnership strategies and loan delivery
  - ADB's supplementary financing policy is reviewed and renamed "Additional Financing"
  - ADB introduces a new pilot delivery scheme linking allocation of ordinary capital resources (OCR) to targets in education, gender mainstreaming, and cofinancing.
  - Our People's Strategy, a comprehensive plan to recruit, retain, and develop ADB staff, is approved
  - ADB establishes a credit guarantee and investment facility to guarantee bonds in the region
  - ADB signs the cross debarment agreement with participating multilateral development banks
  - ADB issues thematic bonds for the first time (water and clean energy)
  - Results-based work plans introduced to align department, division, and staff work plans to Strategy 2020 priorities
- 2011**
- Haruhiko Kuroda is reelected for a third term as ADB President
  - New operational and action plans (2011–2020) are completed for the water sector and financial sector
  - A new public communication policy is approved to help expand and speed up access to ADB information
  - A Project Design Facility is established
  - ADB undertakes a review of its policy-based lending
  - ADB mainstreams nonsovereign public sector financing
  - ADB realigns regional departments and other departments (Department of External Relations, Office of the Auditor General, and Controller's Department)
  - ADB consolidates commercially related operations by transferring commercial cofinancing from the Office of Cofinancing to the Private Sector Operations Department (PSOD)
- 2012**
- Tenth ADF replenishment started (becoming effective in 2013)
  - New operational and action plans completed for Public-Private Partnership (2012–2020), Environment Operational Directions, 2020, and Urban Operational Plan
  - Review of ADB Results Framework is completed
  - Accountability Mechanism Policy is reviewed and updated
  - ADB pilots a Disaster Response Facility
  - ADB introduces results-based lending
  - Normal operations in Myanmar are resumed (last loan project was approved in 1986)
  - Establishment of a resident mission in Bhutan approved
  - Several departments realigned: IED, Office of Regional Economic Integration (OREI), Office of Cofinancing, Office of Information Systems and Technology, PSOD, Central Operations Services Office, Treasury Department (TD), and Office of Administrative Services (OAS)
  - Knowledge Sharing and Services Center established in RSDD

*continued.*

*Key ADB Milestones, 2007–2016. continued.*

- 2013**
- Takehiko Nakao is elected as ninth ADB President and assumes office in April
  - Midterm Review of Strategy 2020 is initiated
  - The following operational and action plans are completed: Gender Equality and Women's Empowerment Operational Plan (2013–2020), Knowledge Management Directions and Action Plan (2013–2015), Finance++ at ADB, Social Protection Operational Plan, 2014–2020, Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations, and Implementation Review of Second Governance and Anticorruption Action Plan
  - ADB approves revised results framework
  - ADB completes a procurement governance review, and implements a 10-point procurement reform plan
  - Establishment of a resident mission in Timor-Leste is approved after being upgraded from a special office
  - The Office of the Vice-President (Finance and Risk Management) is established to oversee TD, Office of Risk Management, and Controllers
  - The Office of the Vice-President (Administration and Corporate Management) is established to be responsible for BPMSD, Operations Services and Financial Management Department (OSFMD), Office of Administrative Services (OAS), Office of the General Counsel, and Office of the Secretary
  - BPMSD, OAS, and Office of the General Counsel are realigned; the Central Operations Services Office is upgraded to OSFMD
- 2014**
- Midterm Review of Strategy 2020 is completed (April) and the Midterm Review Action Plan is developed
  - The Operational Plan for Integrated Risk Management, 2014–2020 is approved
  - ADB holds discussion on the proposal combining ADF lending operations with OCR (project Galaxy)
  - Some realignments were implemented in CTL, ORM, PSOD, RSDD, and TD.
  - The Office of Public–Private Partnerships is established to enhance ADB's PPP operational approach and strengthen efforts to implement the PPP operational plan 2012–2020
  - ADB establishes a resident mission in Myanmar
- 2015**
- ADB's 67 Board of Governors unanimously approves the proposal to combine ADB's ADF lending operations with its OCR balance sheet (ADF–OCR merger). With this, ADB's financing capacity dramatically increases by up to 50% (effective January 2017)
  - ADB scales up support to help DMCs deliver on internationally agreed commitments under the new Sustainable Development Goals and new climate deal (COP21).
  - ADB joins other multilateral development banks for the Third International Conference on Financing for Development in Addis Ababa
  - Consultations on developing ADB's new corporate strategy, Strategy 2030, commence
  - ADB announces that it will double annual climate financing to \$6 billion by 2020, the first multilateral development bank to commit to a sizable climate finance target.
  - ADB is the first among multilateral development banks to be accredited by the Green Climate Fund
  - ADB starts negotiations on the 11th replenishment of the ADF and TASF (completed in 2016 and effective 2017)
  - Operational plans for agriculture and natural resources (2015–2020) and health (2015–2020) are approved
  - ADB reorganizes the Regional and Sustainable Development Department and strengthens its sector and thematic groups with full-time secretariats to better build and share expertise across the Bank
  - ADB establishes the Economic Research and Regional Cooperation Department (bringing together the Office of Regional Economic Cooperation and the Economics and Research Department)

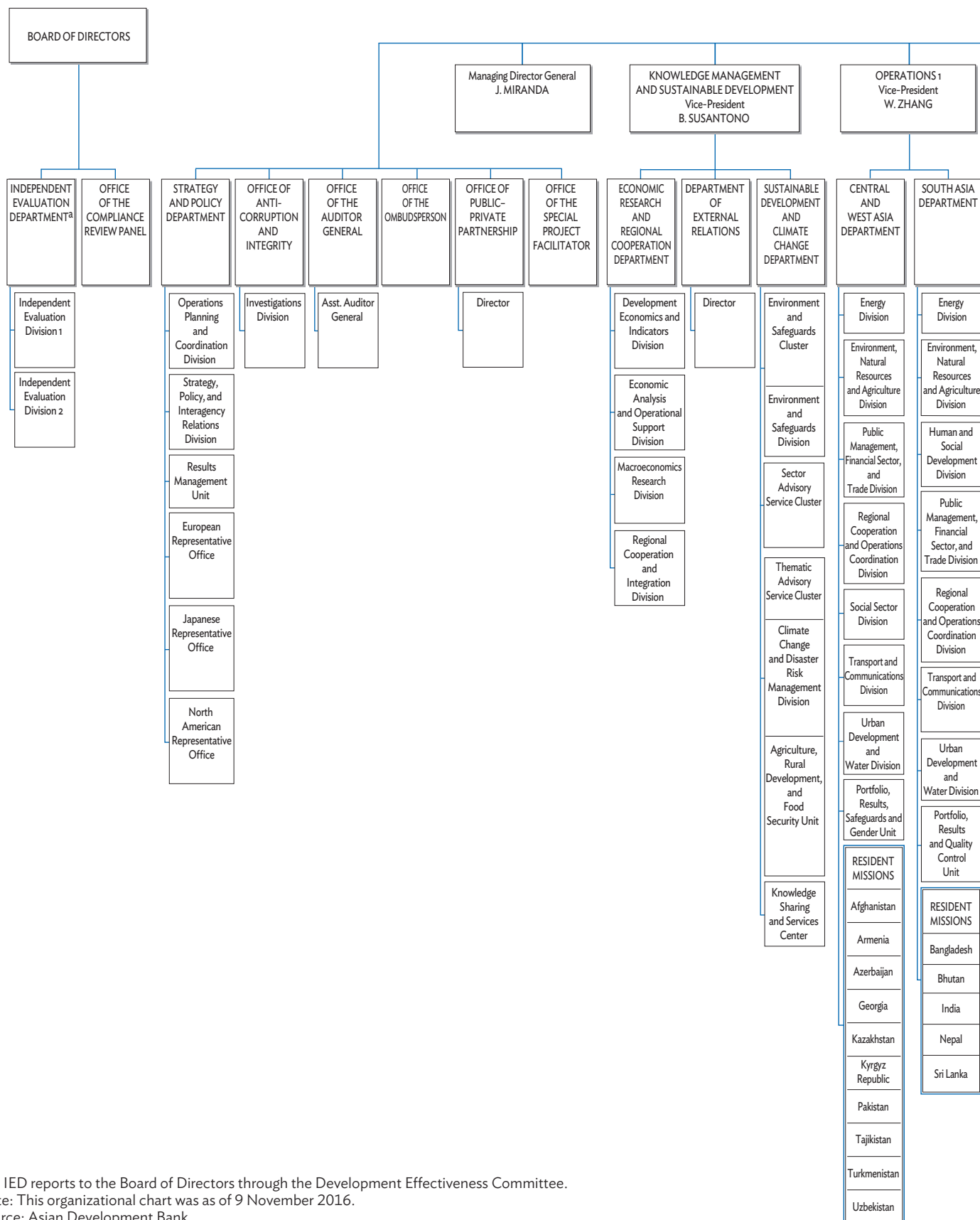
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*Key ADB Milestones, 2007–2016. continued.*

- 2016**
- Takehiko Nakao is reelected as President for a further 5 years beginning on 24 November
  - To support the ADF–OCR merger, ADB approves a new concessional policy and reviews its financial policies, capital adequacy framework, and accounting approach
  - Revisions to ADB’s anticorruption policy are made to include tax integrity and due diligence
  - ADB approves the first contingent disaster risk financing in the Cook Islands, the first privately financed solar project in Cambodia, and results-based lending for an elderly care project in the People’s Republic of China
  - ADB successfully closes the transaction advisory mandate for the Turkmenistan–Afghanistan–Pakistan–India (TAPI) natural gas pipeline project
  - The Asia Pacific Project Preparation Facility officially launches operations, assisted by several donor countries
  - ADB approves the first two projects cofinanced with the Asian Infrastructure Investment Bank in Pakistan and Bangladesh
  - An innovative guarantee agreement with the Swedish International Development Cooperation Agency (Sida) is signed to allow ADB to increase financing by \$500 million over the next 10 years.
  - A landmark agreement with the Japan International Cooperation Agency is signed to finance private sector infrastructure projects for \$6 billion
  - The first operational plan on regional cooperation and integration (2016–2020) is approved
  - The Board approves a paper on organizational resilience to strengthen ADB’s ability to respond to disruptions, adversity, and change
  - ADB establishes a Respectful Workplace Unit in the Office of Anticorruption and Integrity (operational in 2017)

Note: Establishment dates of resident missions indicated above are dates of the host country agreements but if these are not available, establishment dates based on R-papers circulated/approved by the Board of Directors were used.

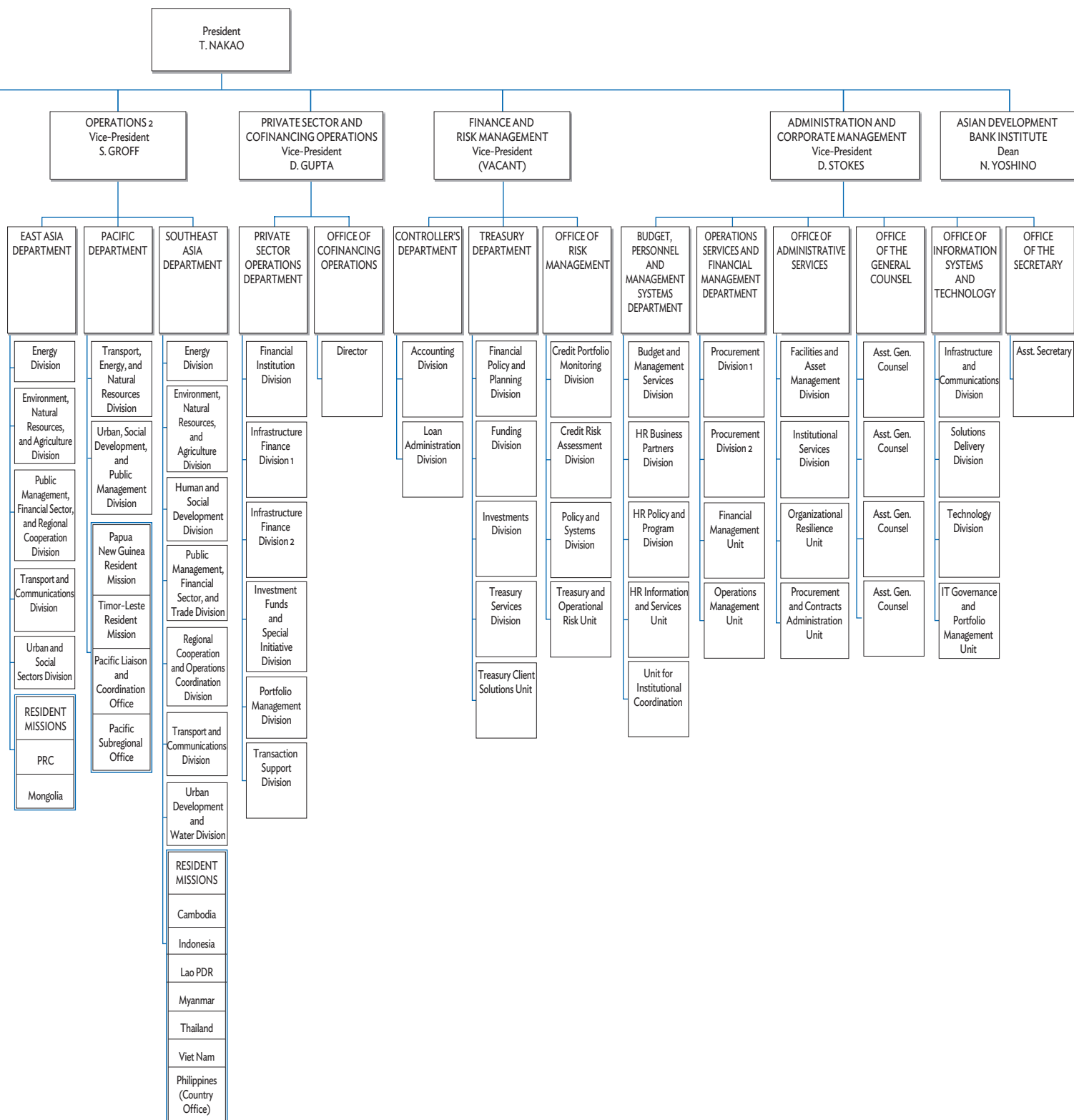
## ADB's Organizational Structure, 2016



<sup>a</sup> IED reports to the Board of Directors through the Development Effectiveness Committee.

Note: This organizational chart was as of 9 November 2016.

Source: Asian Development Bank.





## **ADB Through the Decades**

### ***ADB's Fifth Decade (2007–2016)***

Asia proved resilient to the effects of the 2008–2009 global financial crisis, but sustaining rapid growth became more difficult afterward. Development challenges intensified, the global development agenda became more ambitious, and new sources of development finance emerged.

This volume shows how the Asian Development Bank (ADB) continued to reform in order to meet these challenges. A new long-term strategic framework, Strategy 2020, was launched in 2008, to respond to the changing needs of the region. A midterm review of Strategy 2020 was released in 2014, further refining and adjusting priorities in order for ADB to remain relevant and responsive to borrowers. Various organizational changes were introduced, internal business processes were improved, and several new instruments were adopted as part of ADB's efforts to become "stronger, better, faster." ADB's lending capacity expanded significantly, with the fifth general capital increase in 2009, followed by the unique and groundbreaking combination of the Asian Development Fund portfolio with the ordinary capital resources balance sheet approved in 2015. Lending reached record levels in 2015 and 2016, exceeding the earlier spike in 2009 when ADB had responded to the needs of countries affected by the global economic crisis. ADB also enhanced its accountability and results orientation, becoming the first multilateral development bank to adopt a corporate results framework in 2008.

### **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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