

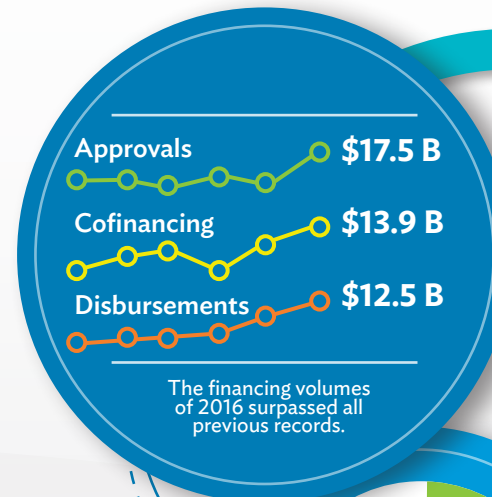


# 2016 DEVELOPMENT EFFECTIVENESS REVIEW

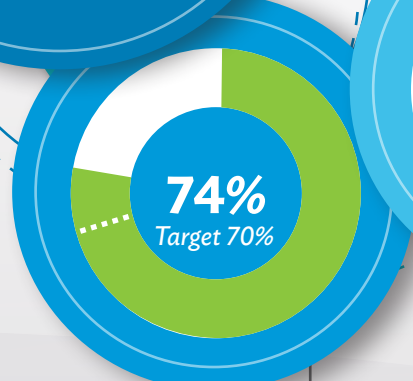


# 2016 PERFORMANCE AT A GLANCE

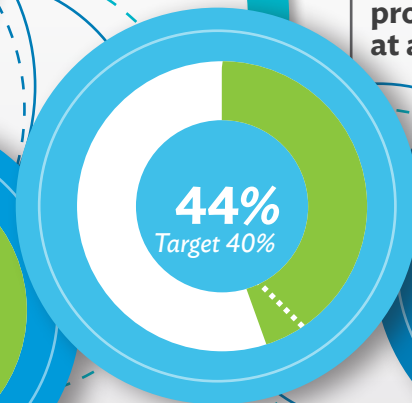
Record volumes of approvals, disbursements, and cofinancing



## Major Achievements

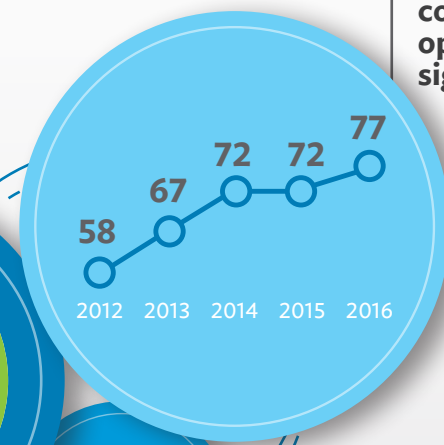
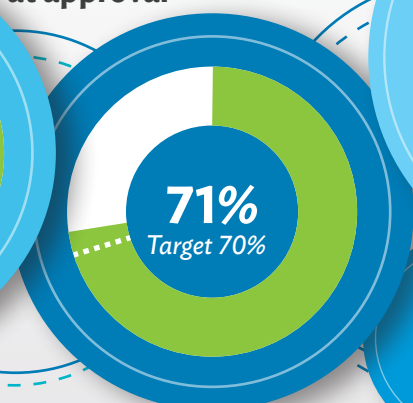


Completed sovereign operations delivered more gender equality results



Direct value-added cofinancing as share of ADB approvals

Infrastructure projects procurement-ready at approval



Success rates of completed sovereign operations increased significantly



Project development transactions for public-private partnerships

## Results Achieved 2013-2016

Energy: Greenhouse gas emissions reduced **10,763,000** tCO<sub>2</sub>-equiv each year

Education: Education quality improved **38,330,000** students

Finance: Microfinance borrowers reached **2,389,000** women

RCI: Cross-border cargo facilitated **42,602,000** tons each year

Transport: Roads built or upgraded **34,000** kilometers

Water: Flood risk reduced **5,667,000** households

## Challenges

Slow processing times



Low sustainability of operations



Low nonsovereign operations success rate



Stagnant levels of women international staff



## Actions

Strengthen resources and capacity for operation and maintenance



Continue with procurement reforms



Reduce gender gap among international staff



Shorten start-up time and reduce completion delays



Improve learning process on nonsovereign performance





# 2016 DEVELOPMENT EFFECTIVENESS REVIEW

ASIAN DEVELOPMENT BANK





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### **LINKED DOCUMENTS**

1. ADB's Results Framework: Interim Update to Align with the Midterm Review of Strategy 2020
2. Results Framework Indicator Definitions
3. Standard Explanatory Data Indicator Definitions
4. Technical Note on the Development Effectiveness Review Rating System

### **WEB-LINKED RESOURCES**

Download the Results Framework paper, Development Effectiveness Reviews, the scorecards, standard explanatory data indicators, and linked documents from <http://www.adb.org/Documents/LinkedDocs/?id=2016-DEFR>

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# ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
APDRF	-	Asia Pacific Disaster Response Fund
CAREC	-	Central Asia Regional Economic Cooperation
CO <sub>2</sub>	-	carbon dioxide
CPA	-	country portfolio assessment
CSO	-	civil society organization
DeFR	-	development effectiveness review
DMC	-	developing member country
FCAS	-	fragile and conflict-affected situations
FSM	-	Federated States of Micronesia
IAE	-	internal administrative expenses
IDA	-	International Development Association
IED	-	Independent Evaluation Department
km	-	kilometer
Lao PDR	-	Lao People's Democratic Republic
MDG	-	Millennium Development Goal
O&M	-	operation and maintenance
OCR	-	ordinary capital resources
PBL	-	policy-based lending
PCR	-	project and/or program completion report
PPER	-	project performance evaluation review
PPP	-	public-private partnership
PRC	-	People's Republic of China
PSM	-	public sector management
PSOD	-	Private Sector Operations Department
RBL	-	results-based lending
RCI	-	regional cooperation and integration
SDG	-	Sustainable Development Goal
SMEs	-	small and medium-sized enterprises
TA	-	technical assistance
TVET	-	technical and vocational education and training





**PERFORMANCE  
HIGHLIGHTS**





# PERFORMANCE HIGHLIGHTS

The 2016 Development Effectiveness Review (DEfR) is the fourth and final annual report under the 4-year Asian Development Bank (ADB) corporate results framework for 2013–2016. The DEfR takes stock of the performances by ADB and the Asia and Pacific region it serves on 91 results indicators, using data and targets for selected periods spanning 2010–2016. Section 1 (level 1) reviews development progress in the region. Section 2 (levels 2–4) measures how well ADB is executing Strategy 2020 and the strategic priorities of the midterm review of Strategy 2020 conducted in 2014.

This DEfR highlights eight stories of performance about ADB and the region and the way forward. These stories weave together the data and analysis from results and indicators across the four levels, connecting elements of the framework into a narrative of successes, challenges, actions, and remaining issues.

## 1. Regional Successes but Unfinished Agendas

Gross domestic product per capita growth eased to 5.8% across ADB's developing member countries (DMCs) in 2015 but was still far higher than in the rest of the world. Extreme income poverty has dropped as economies have grown and was down to 9% in 2013 from 12% in the previous year. If growth and other favorable conditions can be sustained, extreme poverty could be largely eradicated in the region by 2020. People gained greater access to vital infrastructure such as roads and electricity, and their use of formal banking services also grew. The 2015 Millennium Development Goal (MDG) targets on education were surpassed, and gender equality in access to education made large gains.

The raw numbers on the contributions of ADB operations during 2013–2016 supporting development in the region remained impressive. They included

- (i) 34,000 kilometers of roads and 1,400 kilometers of railways built or upgraded;
- (ii) 13 gigawatts of new power generation capacity installed, more than one-third of it renewable, and 692,000 households connected to electricity;
- (iii) more than 3 million households given access to a new or improved water supply;
- (iv) 3.3 million hectares of land newly serviced by better irrigation, drainage, and flood infrastructure and management;
- (v) 5.7 million people, more than two-fifths of them women, benefited by the improved availability of financial services; and
- (vi) 2.4 million teachers trained to provide better education for the region's students.

Behind these important successes, however, lie many unfinished agendas. There are still 330 million people living below the recognized poverty line, and the number living just above it increased to 844 million. These people are at high risk of falling back into extreme poverty in the event of personal

misfortune or macroeconomic shocks. While the number of countries where inequality is considered high declined, inequality grew in many of the region's most populous countries. Despite improvements, the MDG targets for maternal and child mortality were not met. Neither were those for access to better sanitation facilities, which an estimated 1.5 billion people in the region must still do without.

Environmental sustainability is still a major challenge. While forest cover expanded region-wide, it diminished in the comparatively low-income countries that benefit from ADB's concessional Asian Development Fund (ADF). The rapid rise in the region's carbon dioxide emissions is starting to slow, but they are still growing faster than in the other regions of the world.

Issues such as resilience to climate change, how to manage urbanization, equity of access to information and communication technology, and resource scarcity and efficiency are likely to become increasingly relevant for efforts to sustain prosperity in the region. As part of the solution to address these interconnected issues, the 17 Sustainable Development Goals that succeeded the MDGs in 2016 set out a more holistic set of targets.

## 2. Responding to the Climate Change Imperative

Many DMCs are highly vulnerable to the impacts of climate change. Yet, as the region's economies have grown, so too have its greenhouse gas emissions. Since 2008, ADB has stepped up its efforts to respond to climate change, paying it special attention in its core infrastructure sectors, such as energy. It monitors its financing of operations to support renewable energy (which added 4,800 megawatts in generation capacity during the 2013–2016 results framework period) and to reduce greenhouse gas emissions (which lowered potential emissions by 10.8 million tons of carbon dioxide equivalent per year over the same period).

ADB's climate change mitigation projects and energy projects, including operations to develop renewable energy, achieved 100% of their intended outputs in 2016. The share of operations supporting climate change mitigation and/or adaptation was 45% for ADB operations overall and 44% for the ADF subset. The share of ADB's overall financing that went to climate change mitigation and/or adaptation projects during 2014–2016, monitored using joint approaches developed by the multilateral development banks, remained steady at 19% for ADB overall and decreased by 7 percentage points to 14% for the ADF subset. ADB approved \$2.54 billion in clean energy investments in 2016 and aims to raise this to \$3.0 billion a year by 2020. It is working to scale up its engagement in sustainable transport operations, particularly those in urban public transport, which will help stem total fossil fuel emissions growth.

ADB has put its concessional funding and technical assistance resources behind the DMCs' push to respond to climate change imperatives and meet the international objectives of the 2015 Paris Agreement on climate change. DMCs have set out their Nationally Determined Contributions of climate



action. They will need substantial financial support to carry them out, however, and it is estimated that many of the projected impacts of climate change cannot be avoided. Greater financial flows are therefore needed to fund low-carbon and climate-resilient development and to invest in sustaining natural capital in land, forest, and water systems. ADB, which can play a vital role in helping DMCs find greener paths to growth, is developing a new climate change strategy.

### 3. Success and Sustainability

To help build on the region's advances, finish outstanding agendas, finally eradicate poverty, and deal with climate change, ADB's interventions need to be successful upon completion. Their benefits also need to last.

Despite past challenges, ADB's 3-year average success rates have been rising. Those for sovereign projects (78%) and policy-based operations (76%) narrowly missed the 80% target for 2016. The ADF-financed policy-based operations met the 80% target for the first time, up from 62% in 2011–2013. Strong and steady performances by the education and energy sectors provided a foundation for the improvement in sovereign operations ADB-wide. Better-performing road projects lifted the success rate for transport operations in 2016, and all four policy-based operations in the finance sector were rated *successful*. The two sectors accounted for 42% of successful operations in 2016. The success rates of education projects consistently improved following the significant success of technical and vocational education and training (TVET) and secondary education projects. TVET and secondary education subsectors accounted for half of completed education projects in 2011–2016.

ADB cannot assume that sovereign operation success rates will automatically continue to rise. It needs to supervise its ongoing sovereign portfolio closely and improve its designs if it is to head off potential reversals as its scaled-up operations. To respond to quality concerns in projects scheduled for approval, ADB instituted an ad hoc quality review process in 2016. That was replaced with a formalized process in 2017, and efforts to improve quality at entry are ongoing.

Finance sector projects held down the latest 3-year average success rate for nonsovereign operations. The overall success rate of nonsovereign operations remained well short of the 80% target and only 2 percentage points higher than the 67% in the previous period. The rate for finance projects was improving but still low at 63%, in contrast with an 85% success rate in the infrastructure sector. The trend is positive for finance sector and nonsovereign operations overall, however. The success rate for all completed nonsovereign projects approved during 2000–2004 was 50% (47% in the finance sector). The rates for those approved during 2008–2012 had improved to 82% (83% for finance operations).

ADB is taking steps to raise the performance of nonsovereign finance sector operations that make up two-thirds of the nonsovereign total. It has (i) initiated independent reviews by and the involvement of ADB's Office of Risk Management at the concept approval stage of such

investments, (ii) instituted a more rigorous investment committee approval process, (iii) enhanced credit assessments and introduced rating and pricing models for lending projects, and (iv) created new strategy guidelines in 2015 to enhance the financial returns and development impacts of investments in private equity funds. The expected approval during 2017 of a new nonsovereign operational framework will provide a long-term vision for expanding ADB nonsovereign operations.

ADB must also intensify its efforts on the sustainability dimension of operations, which concern the likelihood that the outcomes of ADB operations—such as faster travel and easier access to schools from project-improved roads—will last. Results have improved on the sustainability indicator, but not nearly enough to reach the 80% target. This acts as a drag on the overall rising success rates of ADB's operations. Only 65% of all completed operations were rated both *successful* and *likely sustainable* in 2014–2016. The rate for the ADF subcategory was 60%. The ratios for finance (61%) and water and other urban infrastructure and services (46%) rose but remained low. Those for health (64%), agriculture and natural resources (64%), and transport (53%) fell during the 2013–2016 results framework period.

To improve sustainability rates, action needs to be taken at the design stage. This is when the factors that will help determine an operation's long-term sustainability need to be examined and the steps to mitigate risks and create optimal conditions need to be planned. Attention to how infrastructure will be operated and maintained after ADB involvement ends is important. So is consideration of whether the funding, skills, governance structures, and institutional capacity are likely to be adequate throughout the long economic life of an ADB-supported asset, and what to try to do about it if they are not.

Establishing sustainability is particularly challenging in transport and water operations, and ADB is working with the DMCs to solve the underlying problems. Approaches include improving road asset management systems, making more use of performance-based maintenance contracts, developing maintenance plans, and enhancing transport agency staff abilities to manage and supervise projects. ADB is working on contracting mechanisms that will ensure single-point responsibility for services. It is using performance-based and design-build-operate contracts to make private sector water service delivery more efficient. ADB's efforts to help make DMC water supply and sanitation systems more sustainable focus on water governance and institution-level improvements in the sector. They often require the adoption of sound policies and regulations on tariffs and the collection of enough tariff revenues to fund operation and maintenance.

#### 4. Vital Importance of Gender Equality

ADB's DMCs cannot reach their full potential without transforming gender relationships. Gender parity in secondary and tertiary education has already been reached in most DMCs. In fact, girls are slightly ahead of boys in completing lower secondary school. The region missed the MDG

target for reducing its maternal mortality ratio, however, and the number of women living with HIV has risen across all the DMCs.

The share of completed ADB sovereign operations delivering their intended gender equality results has risen from 60% in 2012–2014, to a target-matching 70% in 2013–2015, to a new best of 74% in 2014–2016. ADB gender equality operations have had strong returns. Projects that supplied clean water cut back the time and work burden on women who had previously had to fetch it from distant sources. Other operations gave rural women access to credit and savings services for the first time, trained female teachers, built girls' toilets in schools, and helped women gain know-how that was in demand in local labor markets.

ADB has consistently surpassed its targets for the proportion of sovereign approvals it classifies as supporting gender mainstreaming. In 2014–2016, for example, they accounted for 50% of ADB operations and 56% of the ADF subset. ADB builds gender-responsive features in its operations' designs to promote safety and equal access, employment, and roles for women. Some designs have been crafted to help women break into male-dominated job areas. However, the latest 3-year average masks a 7-percentage-point decline in 2016, when fewer gender-mainstreamed projects were approved in the infrastructure sectors. ADB needs to work to ensure that this drop is corrected in 2017 and beyond.

## 5. Maintaining Strategic Alignment in a Context of Scaling-Up

Strategic alignment is one of ADB's strong points. Its operations were closely aligned with the priorities of Strategy 2020 and its midterm review. They met or exceeded most of their targets for supporting ADB's three strategic development agendas and core operational areas, as well as Strategy 2020's drivers of change in the region. This included the targets for supporting environmental sustainability, climate change mitigation and adaptation, regional cooperation and integration, health, private sector development and private sector operations, governance and capacity development, and gender mainstreaming.

ADB has been scaling up its operations, and strategic alignment will require its special attention as this growth accelerates. Approved financing rose by 23% in total amount and by 21% in terms of the number of operations during 2013–2016. Financing volumes grew fastest in the agriculture, natural resources, and rural development; health; and industry and trade sectors. Annual approval amount volumes are now projected to increase particularly quickly in the following Strategy 2020 areas of operation: transport; water and other urban infrastructure and services; agriculture, natural resources, and rural development; and irrigation. The water and other urban infrastructure and services sector is likely to see the steepest rise in operation numbers. In terms of modalities, the scaling up has been apparent most in ADB's policy-based lending, which grew substantially in volume terms during 2013–2016 and is projected to remain at the recent levels for several years.



ADB will continue to grow to make the best use possible for its DMCs of the additional lending capacity made available through the January 2017 merger of its ADF and ordinary capital resources (OCR) balance sheets. Balancing robust portfolio growth with its strategic alignment targets each year will demand careful planning and execution. This was illustrated in 2016, when the large overall increase in approvals combined with declines in three areas of strategic alignment to leave ADB below its financing and support targets for private sector operations, education, and social protection:

- (i) **Financing for private sector operations.** Although nonsovereign approvals remained largely unchanged in value in 2016 after increasing strongly from 2014 to 2015, they declined to 17.4% as a portion of the expanded overall OCR financing. The steepening of the OCR approvals growth curve made the 2016 20.0% alignment target increasingly difficult to attain. In 2012, the baseline year of the current results framework, nonsovereign approvals stood at \$1.8 billion or 18.2% of the OCR total. To grow to 20.0% under a low-growth OCR trajectory, they would have had to increase by only \$190 million. By 2016, however, OCR financing had risen by 42.0%. Financing for private sector operations would have had to grow by more than \$1 billion by 2016 to meet the target ratio. Despite an increase of 36% during 2012–2016, it fell short.
- (ii) **Financing for education.** Despite a rise from \$586 million to \$771 million, education approvals increased from 3.6% to only 4.4% relative to the faster-growing overall ADB financing approved, leaving education short of the 4.7% lower-band target for 2016. If four projects with a total value of \$730 million had not been delayed, education's share would have been well within the target range at 8.3%.
- (iii) **Support for social protection.** Dropping from 8.5% in the previous period, the 7.2% share held by ADF operations that supported social protection approved during 2014–2016 failed to meet the target of exceeding the 8% baseline. These projects declined in number to 12 from 14.

In addition, the 7-percentage-point decline in projects focused on gender mainstreaming in project design from 2015 to 2016 may also be due to the overall portfolio growth. The share of infrastructure operations benefiting lagging areas has also declined steadily since 2013. These operations take longer to design and cannot be easily increased in number during a period of strong portfolio growth.

To keep annual approvals strategically aligned, ADB will need to plan and carefully monitor its preparation processes during this period of growth and put more operations and redundancy into its pipeline. This will allow a similarly aligned project to be substituted for approval if an operation must be held back because it is facing difficulties and preparation delays. Planning of this nature has been constrained by fourth-quarter bunching of ADB's approvals, which has left little time for advancing the approval process for projects that fit the needs for strategic alignment in that year. ADB needs to approve

a larger share of operations during the first part of the year to have room to maneuver and adjust portfolio alignment. Other actions being implemented in the three strategic areas where ADB has underperformed are as follows:

- (i) **Actions for private sector operations.** To reach the 2020 target for private sector operations, approvals will need to increase by 66% during 2016–2020. ADB's OCR operations are projected to increase by 15% over the same period. A new nonsovereign operational framework to be introduced in 2017 will provide a path for expanding private sector operations. ADB is planning to increase the Private Sector Operations Department's staff size to ensure that it has sufficient capacity to continue growing the portfolio to meet the ambitious 2020 target.
- (ii) **Actions for education.** The pipeline indicates that education sector approvals will be about \$1.05 billion in 2017 or 5.6% of ADB's overall total, which would put education on track to reach the target set by the midterm review of Strategy 2020. ADB's Education Sector Group is helping to build lending volume in the education sector and find new approaches to meet the ambitious target. It is organizing project conceptualization and design support to develop new ideas and/or good practices for education operations and exploring the possibilities for pilot projects with good prospects for scaling up. The group is working to enhance quality and relevance in new projects through a stronger peer review process; more collaboration between ADB's sector operations; knowledge partnerships; and the establishment of an education financing partnership facility to leverage financing, technical support, and innovative inputs for ADB education projects.
- (iii) **Actions for social protection.** Increasing the share of social protection operations will require additional work and planning by regional departments to strengthen the pipeline, particularly for ADF operations. Regional departments will need to be forceful in pursuing opportunities to support social protection, given the issue of aging populations in some DMCs and problems of inadequate employment in others. The Social Protection Thematic Group in ADB will also need to strengthen its capacity to support the region's social protection agenda.

## 6. Delivering on Development Finance Targets

ADB achieved record volumes of development finance during 2013–2016. It met targets for direct value-added cofinancing, public–private partnerships (PPPs), and the nonsovereign disbursement ratio. It also improved the efficiency of its sovereign disbursements, although not by enough to reach the targets. The highlights are as follows:

- (i) **Record approvals, disbursements, and cofinancing.** ADB approved \$17.5 billion in financing in 2016, disbursed \$12.5 billion, and attracted \$13.9 billion in cofinancing—all new highs.
- (ii) **Cofinancing target met.** ADB's strong focus on cofinancing helped boost direct value-added cofinancing in 2014–2016 to its highest level yet and 1 percentage point above the target of 70%. This meant that ADB augmented its own financing for operations by catalyzing an additional 70% for the DMCs from cofinanciers. However, cofinancing remains volatile from year to year.
- (iii) **Disbursement ratio improved.** Disbursements hit record levels in 2016, reflecting ADB's efforts to speed them up. The nonsovereign loan disbursement ratio continued a 4-year rise to 53.4% in 2016 from 47.7% in 2015, more than double the target of maintaining the original baseline of 24.4%. ADB's overall disbursement ratio for sovereign projects and results-based lending (RBL) improved to 18.2% but fell short of the 22.0% target for 2016. The ADF category ratio missed its target of 20% by only 20 basis points.
- (iv) **Public–private partnerships target surpassed.** ADB supported 58 project development transactions for PPPs completed during 2013–2016, surpassing the 3-year target of 50. The PPP leverage ratio of 8.3 for the period was above the 8.0 target.

Strategy 2020 and the midterm term review have set the bars high for development finance, however, and ADB must do more to reach them. The target for a one-to-one ratio between ADB approvals and catalyzed cofinancing by 2020 presents a special challenge. ADB's schedules and plans are inevitably contingent on its partners' decisions of what to cofinance, when, and for how much. Cofinancing volumes fluctuate even over rolling 3-year periods. Often a small number of projects accounts for a significant volume of cofinancing.

ADB has done well in terms of growing disbursement volumes. It is the sovereign project and RBL disbursement ratio that presents the challenge. The overall sovereign project and RBL disbursement ratio improved but missed the target in 2016, although the ADF-funded subset did so only marginally. Close study by ADB shows the main contributing factors include growth in annual approval volumes, lengthy average implementation periods, and the effects of loan cancellations.

Improvements in both volume and ratio in 2016 were due to steps taken during the year under the midterm review action plan. ADB streamlined its disbursement processes, and regional departments made concerted efforts to monitor project implementation progress closely and work quickly with executing and implementing agencies to resolve procurement and safeguards issues that often slow progress and disbursements down. ADB capacity-building support for executing and implementing agencies also helped. To build on the gains, ADB now has to reduce the times between approvals and first contract, make procurement processes more efficient, and shorten the average

implementation period of its operations. The President's Planning Directions set an operational sovereign project and RBL disbursement ratio target for regional departments for 2017 of 20.5%. This is ambitious but realistic, given the increasing approvals and young age of the ongoing portfolio.

To meet its goal for approvals, cofinancing, and disbursements, ADB must have strong growth, be faster, and yet still maintain the high quality of its operations and its strategic alignment.

## 7. Overcoming Hurdles to Deliver Results Faster

ADB knows it needs to bring its sovereign investment projects on line faster and deliver results more quickly. Completion delays, the cost overruns and scope changes that can result, and diminished success often follow a cascade of events that begin during design and then are compounded at each stage of the project cycle. ADB therefore can take—and is taking—steps during design, before approval, and in early implementation to put or reset operations on a path that will deliver their full outputs and outcome benefits on time and on budget.

**Pre-approval stage.** Preparing detailed designs for a project before it is approved (design readiness) is one way to help them start up more quickly. The percentage of infrastructure projects with detailed engineering designs or preliminary designs ready at approval increased to 75% in 2016 from 53% in 2012. Launching the bidding documents for projects before approval (procurement readiness) also jump-starts the implementation process. The share of infrastructure projects that were procurement-ready grew to 44% in 2016 from 14% in 2012. ADB has been helping DMC executing and implementing agencies learn how to meet its standards for procurement. This heads off the common slowdowns in the ADB review process, which itself is being streamlined through the mainstreaming of reforms. Under the 10-point midterm review procurement action plan, ADB delegated more authority on procurement matters to its regional departments and introduced post review of a sample of low-risk contracts after the awards to shorten the overall average procurement time. These design- and procurement-readiness actions will produce measurable improvements in contract awards in 1–2 years and in disbursements in 2–3 years.

The challenges that remain include the fact that at approval in 2016 54% of infrastructure operations lacked the detailed engineering designs that can smooth contract awards and disbursement when they are already prepared, and slow these processes down when they are not. By comparison, 69% of approved infrastructure operations had preliminary designs. To build more readiness into its operations, ADB needs to familiarize DMC governments with its requirements for taking advantage of pre-approval action. They include the use of ADB project design advance and technical assistance packages that are helping DMCs build in-house capacity for designing and managing projects; preparing engineering designs; and executing, supervising, and monitoring procurement and project implementation better so that problems that can hold up implementation are instead promptly resolved.



**Implementation stage.** Although the seeds of some issues are sown before approval, a project's effectiveness at completion can be greatly undermined by performance early in the implementation stage. Contract awards and the recruitment of consultants are often slow. A lack of detailed designs may be one reason, but long government approval procedures, national elections, and other changes in DMC government and agencies are also common. Slow contract awards lead to low disbursements and slow project progress in the early years. Along with designs that lack detail and prove substandard in practice, these problems can force reductions in project scope because costs have risen during the delays. An operation whose financing input does not deliver its full intended output results is neither fully effective, fully efficient, nor fully successful. Projects that need additional financing to meet their original results targets also have efficiency issues.

ADB's reforms in this area are taking effect. The time ADB takes to review and approve government bid evaluation reports leading to contract approvals of more than \$10 million shortened to 44 days in 2016 from 72 days in 2012. The average time from advertising the positions to mobilizing consultants dropped to 154 days in 2016 from 200 days in 2014. These performance gains will be reflected in faster contract awards in 1–2 years and faster disbursements in 2–3 years. Nevertheless, the time from approval to first contract remains too long, and this can have knock-on effects. In 2016, 57% of sovereign projects exceeded the 9-month target, and the end-to-end time for single-stage contracts over \$10 million remained unchanged at about 1 year.

**At completion.** Although pre-approval and implementation stage shortcomings still contribute to cost overruns and completion delays, the results indicate that they are becoming less common. About 78% of the operations approved during 2003–2005 were completed on budget. That had risen to 94% for those approved during 2009–2011. ADB's record on completion delays has improved dramatically. While 83% of projects approved during 2000–2001 were finished more than 1 year late, the rate dropped to 38% for those approved during 2008–2011. This is still a major problem, however. The average completion delay remains 1.8 years. Delayed completions mean delayed benefits for target populations and economies and reduced development effectiveness. The positive effects of ADB's successes in reducing cost overruns and delays should show up in its completed projects in 3–5 years.

**Effects on overall success rates.** Effectiveness and efficiency are two of the four equally weighted criteria currently used to determine a project's overall success rating. ADB performs very strongly on the third—the relevance of its operations to its strategy and DMC programs—but comparatively poorly on the fourth, sustainability. The ratings for both effectiveness and efficiency should benefit in the evaluations of future completed projects from the pre-approval and implementation stage reforms and actions that ADB and DMCs have been executing. This is because these measures are likely to improve contract award times, disbursement rates, on-budget and on-time performances, and full delivery of targeted results. The effect that improvements made today will have on the overall success rates for its completed projects, which rose from 61% in 2012 to 78% in 2016, should become clear in 7–9 years.

## 8. ADB's Budget and Staff

ADB needs to manage its staff and budget resources efficiently and effectively to deliver strategically aligned development finance and operations successfully, and the many reforms it has taken to do so during 2013–2016 are improving its performance.

ADB maintained its good record for allocating sufficient staff resources to the departments that undertake most of the tasks associated with designing and implementing high-quality projects during 2013–2016. It exceeded the 55% target by assigning 56% of its overall international and national staff to the regional departments and the Private Sector Operations Department, which collectively comprise its operations departments.

It is however devoting less of its resources than before to managing its portfolio. The portion of its overall operational expenses that went to portfolio management slipped from 56.9% in 2015 to 54.6% in 2016, below the 2016 target range of 62.0%–64.0%. This was partly the result of greater spending on pre-approval project processing as ADB scaled up operations, worked to build a stronger pipeline, and did more to ensure quality at entry. Approvals during the year exceeded the target number in the work program plan.

ADB has decentralized its operations to bring it closer to its clients and make it more responsive to their needs by empowering its resident missions. Progressively more of its portfolio management responsibilities and staff have been shifted out of ADB's headquarters and into its DMC field offices. ADB's resident missions were involved in administering four-fifths of ADB's sovereign operations in 2016, meeting the ADB-wide target and exceeding the one for the ADF subcategory. About 54% of ADB's staff in the regional departments worked in its resident missions in 2016, up from 49% in 2013.

Steps to streamline ADB's operations and bolster budget efficiency have included staff redeployments between departments, the retraining of staff in existing and new skills, and the introduction of a program for the early exit of staff members whose talents may be a better fit elsewhere. In 2014–2016, staff optimization brought estimated savings of about \$14.0 million. Travel cost reform savings were estimated at another \$4.8 million. ADB estimates its efficiency gains from information technology improvements and better contract, procurement, and vendor management practices at \$1.6 million over the same period. Other reforms enabled business units to be more flexible in using their budgets and more prompt in reallocating budget savings. As an incentive, it began to recognize departments with good budget planning and performance relative to their work programs.

ADB compares favorably with other multilateral development banks on the efficiency ratios of internal administrative expenses (IAE) to disbursements. The IAE ratio declined for the third consecutive year and has ended the results framework period below the target range after starting above it. The rising

share of policy-based lending in the overall disbursements and slowing IAE growth have contributed to the lower IAE ratio.

Using base case expectations for ADB's lending growth following the ADF-OCR merger in 2017, ADB's work program and budget framework for 2017-2019 projects that a net staffing increase of 6% will be needed. At the same time that ADB has raised its success rates and performances on cofinancing, disbursement, and other indicators, the IAE budget adequacy ratios and the resources dedicated to portfolio management have continued to drop and have not reached their 2016 targets. This reflects productivity growth to some extent, but such growth has limits. Depending on how these trends continue in 2017 and beyond, action may be required to forestall strain on ADB's resources.





# INTRODUCTION





# INTRODUCTION

1. The 2016 Development Effectiveness Review (DEfR) is the 10th annual performance report prepared by the Asian Development Bank (ADB) since it adopted its first corporate results framework in 2008 and the fourth under the 4-year corporate results framework for 2013–2016. The aim of the DEfR is to monitor and improve ADB’s performance in achieving the priorities of Strategy 2020, ADB’s long-term strategic framework for 2008–2020 and its midterm review. The DEfR assesses recent development progress in Asia and the Pacific and ADB’s development effectiveness to determine where ADB can do better.

## A. 2013–2016 Results Framework

2. ADB’s results framework forms the basis of the DEfR assessment. The framework covers ADB operations overall and the subset of ADB operations and countries that receive grants and/or concessional lending from the Asian Development Fund (ADF). The current results framework covers 2013–2016 and was updated in 2014 to reflect the recommendations of ADB’s midterm review of Strategy 2020.

3. The updated results framework has 91 results indicators, which are arranged in four levels and divided into two sections (Figure 1):

- (i) Section I comprises level 1, which tracks development progress in Asia and the Pacific to monitor the continued relevance of Strategy 2020. It does not assess ADB’s performance and instead reflects the collective development results in the region.
- (ii) Section II includes levels 2–4. It measures ADB’s performance in executing Strategy 2020 and the midterm review. Level 2 focuses on ADB’s contribution to development results through the success and delivery of the results of operations completed in the three most recent years. Level 3 tracks ADB’s operational management of new and ongoing operations, and level 4 examines the effectiveness of ADB’s performance in managing its internal resources and processes to support its operations effectively.

**Figure 1: Structure of ADB Results Framework**



ADB = Asian Development Bank.

Source: ADB Strategy, Policy and Review Department.

4. Due to the fact that 2016 is the final year of reporting under the current 2013–2016 corporate results framework, the 2016 DEfR takes stock of the progress made on the results reported in the 2013 DEfR, the first report to which this 4-year framework applied. The framework set final targets for 2016, and so the scorecard shows only green and red signals (rather than green, amber, and red signals) to indicate whether they were met. Performance on indicators with 2016 targets was expected to progress from the baseline value to attain these targets. Performance on indicators with annual targets should meet minimum and/or maximum threshold values set for each year during 2013–2016.

5. Appendixes 1–4 provide the names and categories of ADB's developing member countries (DMCs), country and operational performance in nine DMCs faced with fragile and conflict-affected situations, a summary of changes to data, and the sector and area distribution of ADB financing approved in 2016. The scorecards for each level, scoring methods, and standard explanatory data indicators are in the Annex in the pocket at the back of the report. The linked documents present the definitions for the results framework and standard explanatory data indicators. They also include a technical note on the DEfR rating system. These are available online (at <http://www.adb.org/Documents/LinkedDocs/?id=2016-DEFr>).

## B. Transitional Results Framework

6. ADB began a review of its corporate results framework in 2016 to extend the expiring 2013–2016 results framework and retain, revise, or replace its indicators and targets. The extension will serve as a transitional results framework for 2017–2020 as ADB moves from one long-term strategic framework to the next. ADB has begun preparing Strategy 2030, a new long-term strategy to succeed Strategy 2020 and ensure that ADB remains relevant and effective in meeting the needs of its DMCs until 2030. ADB will start a comprehensive review process in 2017 to prepare a new corporate results framework and align it with Strategy 2030. This corporate results framework will supersede the transitional 2017–2020 framework when ADB finalizes and adopts Strategy 2030.

7. ADB's experience with its corporate results framework since 2008 points to several ways in which the existing results indicators can be improved. Some are becoming less relevant to ADB's evolving operations, and ADB will consider modifying or replacing them. Scope exists for streamlining and consolidating other indicators for greater clarity and to strengthen their links with ADB's results and strategic objectives. ADB is also shifting toward measuring performance based on commitments rather than approvals. The transitional results framework and the Strategy 2030 framework that will replace it will report performance using commitments data.

## C. Taking Stock of ADB's Achievements in 2013–2016

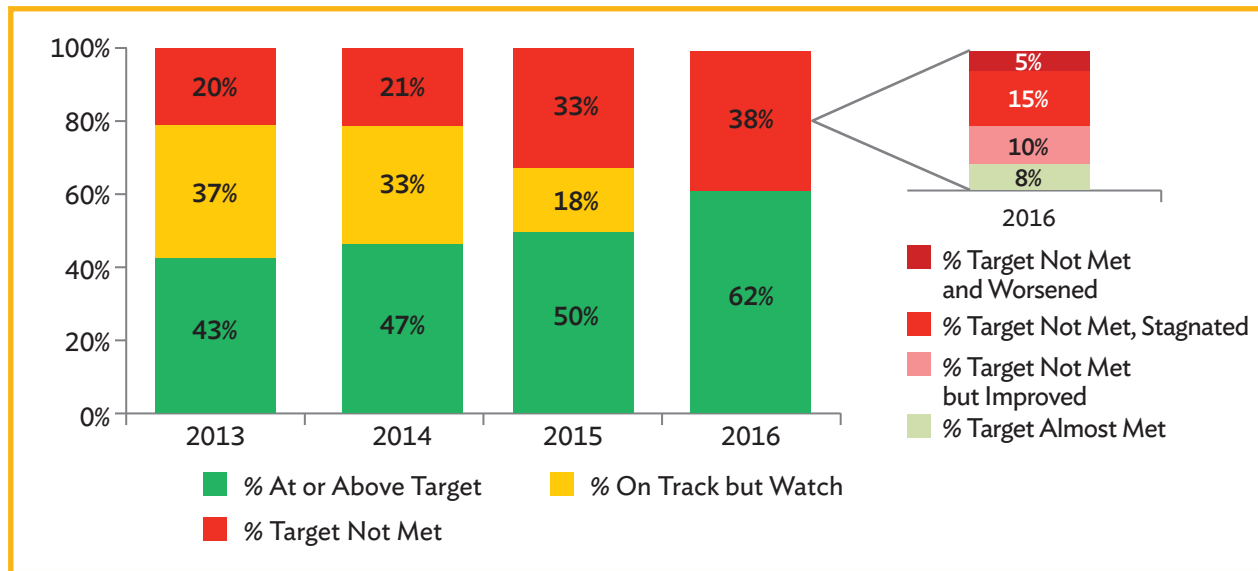
8. The wide range of reforms carried out under Strategy 2020 and the midterm review are working. ADB met or surpassed its 2016 targets on 62% of the level 2–4 indicators (Figure 2). Results for another 8% of the indicators were within 5% of the target values. ADB's improving annual performances during the 2013–2016 results framework period clearly demonstrate the progress it has achieved in terms of development effectiveness and the value of setting firm corporate targets.

9. Among the areas of improvement over the 4-year results framework period that stand out are the following:

- (i) Completed sovereign operations now deliver more gender equality results.
- (ii) Project success rates have increased.
- (iii) More ADB infrastructure projects are procurement-ready at approval.
- (iv) More development finance is approved, mobilized, and deployed in the DMCs—including public–private partnership (PPP) financing—and this is done more efficiently.
- (v) ADB has strengthened its strategic alignment.
- (vi) The share of its staff dedicated to operations remains strong.
- (vii) Resident missions are more empowered.



Figure 2: ADB Performance in 2016



ADB = Asian Development Bank.

Notes:

1. Indicators on core operational results under level 2 of the corporate results framework are not included in this analysis.
2. Percentages may not total 100% because of rounding.

Source: ADB Strategy, Policy and Review Department.

10. While targets were exceeded, met, or almost met for 70% of level 2–4 indicators, they were missed in 30%. Despite ADB’s performance being on an upward trajectory on 10% of indicators, targets were not met. Performances were below-target and stagnating or weakening on the remaining 20% of the indicators. The reforms started in some of these problem areas may need some time to show results. In others, ADB will need to strengthen its response or take new action.

11. The areas where ADB needs to make further improvements include

- (i) the financing for nonsovereign operations as a proportion of ordinary capital resources (OCR) approvals,
- (ii) the lengthy times from approval to first contract in sovereign projects ADB-wide and in the ADF subcategory,
- (iii) the number of ADF operations contributing to the social protection pillar of ADB’s inclusive growth strategic agenda,
- (iv) the underrepresentation of women on the international staff,
- (v) the long processing time for procurement contracts for ADF sovereign operations, and
- (vi) the percentage of completed nonsovereign operations rated *successful*.

A photograph of two young children, likely of Pacific descent, wearing light blue school uniforms. The child in the foreground is smiling broadly, showing their teeth, and has their arms around the child behind them. The child in the background is also smiling and looking slightly to the side. The image is set against a blue background that features a diagonal split.

# LEVEL 1

DEVELOPMENT  
PROGRESS IN ASIA  
AND THE PACIFIC



# LEVEL 1: DEVELOPMENT PROGRESS IN ASIA AND THE PACIFIC

## A. Overview

12. ADB tracks development events, progress, and challenges across Asia and the Pacific to keep its strategy and operations attuned to the region's needs and such global development initiatives as the Sustainable Development Goals (SDGs) (Box 1).<sup>1</sup> The DEfR does this through its level 1 indicators, which capture the performance of ADB's DMCs in their efforts to reduce income and non-income poverty; promote human development; and achieve other results related to better access to basic infrastructure and services, good governance, and environmental sustainability.

### Box 1: Monitoring Progress toward the Sustainable Development Goals

The 17 Sustainable Development Goals (SDGs) adopted in 2015 to succeed the Millennium Development Goals that expired in 2015 established a new framework for global cooperation and a development agenda that links people, planet, and prosperity.

The results management framework of the Asian Development Bank (ADB) is evolving to reflect the holistic SDG agenda and help ADB's developing member countries achieve the new goals. In 2016, ADB began linking any new project that targets poverty to the SDGs. These projects accounted for about 40% of the year's approvals. They were most often linked to SDGs in the areas of decent work and economic growth (SDG 8); infrastructure, industry, and innovation (SDG 9); climate change (SDG 13); and energy (SDG 7). Energy and transport operations dominated, but several projects covered more than one sector. Project distribution generally mirrored the regional makeup of ADB's overall portfolio.

ADB will refine its project classification systems to clarify the links between all of its projects and the SDG targets.

Source: ADB Strategy, Policy and Review Department.

## B. Growth and Access to Opportunities

### 1. Economic Growth

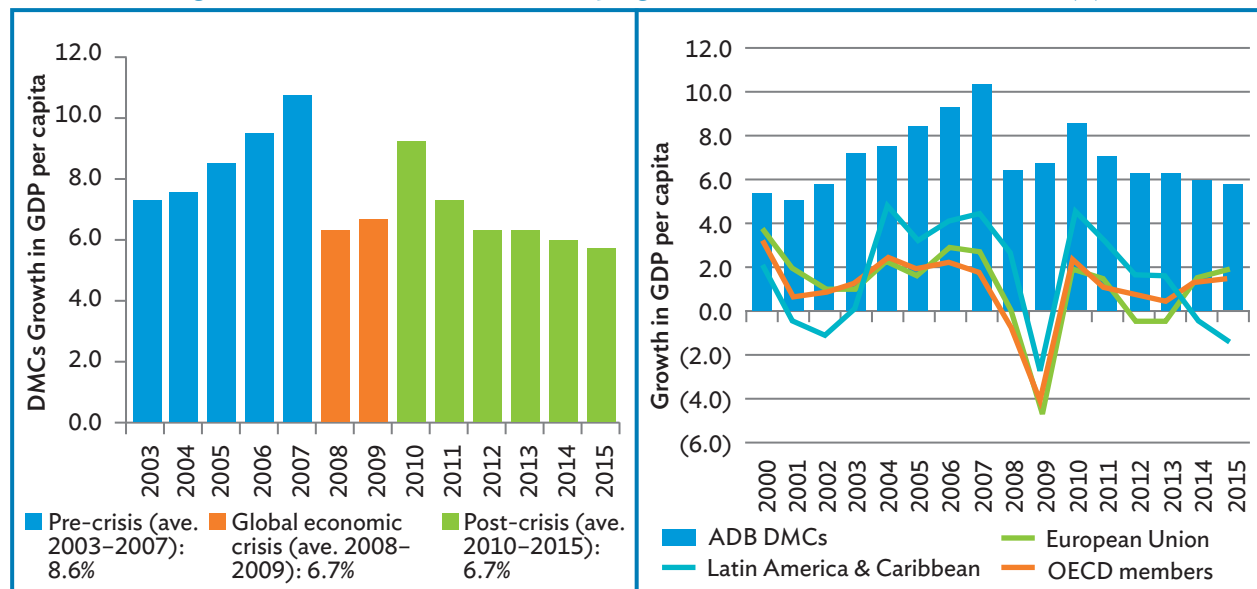
13. **Robust but easing.** Progress on the SDGs and ADB's mission of poverty reduction depends greatly on sustainable economic growth, and Asia and the Pacific has continued to outpace the rest of the world on this measure (Figure 3). Growth has slowed, however, both in the region overall and in 23 of ADB's 40 DMCs. The drop in the overall DMC **gross domestic product per capita growth rate**

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<sup>1</sup> Sustainable Development Goals: 17 Goals to Transform Our World. <http://www.un.org/sustainabledevelopment/development-agenda/>

from 6.0% in 2014 to 5.8% in 2015 was partly due to continued moderation in the economic expansion in the People's Republic of China (PRC).

**Figure 3: Growth in ADB's Developing Member Countries, 2003–2015 (%)**



ADB = Asian Development Bank, DMCs = developing member countries, GDP = gross domestic product, OECD = Organisation for Economic Co-operation and Development.

Source: World Bank. World Development Indicators online database.

<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed 14 March 2017).

## 2. Poverty

14. **Declining income poverty.** The region extended its remarkable long-term gains against extreme income poverty. The proportion of the **population living on less than \$1.90 per day** fell to 9% in 2013 from 12% in 2012 (Table 1), equivalent to 330 million people. It also made it possible that extreme poverty could be largely eradicated in the region by 2020 if the current trend is sustained.<sup>2</sup>

**Table 1: Extreme Poverty in ADB Developing Member Countries, 1990–2013**

Year	Number of Poor (million)		Poverty Incidence (%)		Share of World Poor (%)
	All ADB DMCs	ADF DMCs	All ADB DMCs	ADF DMCs	
1990	1,391	170	51.0	45.3	75.6
1993	1,348	165	47.0	41.2	72.9
1996	1,140	137	37.9	32.0	68.5
1999	1,143	145	36.4	32.1	67.6

<sup>2</sup> The international poverty line was set at \$1.90 per day by the World Bank in 2015 based on 2011 purchasing power parity. It replaced the previous line of \$1.25 per day based on 2005 purchasing power parity. The international poverty line reflects the average national poverty lines of the 15 poorest developing countries and is intended to reflect the minimum cost of basic needs. For more details, see World Bank. 2015. *Development Goals in an Era of Demographic Change: Global Monitoring Report 2015/2016*. Washington, DC.



**Table 1: Extreme Poverty in ADB Developing Member Countries, 1990–2013** (continued)

Year	Number of Poor (million)		Poverty Incidence (%)		Share of World Poor (%)
	All ADB DMCs	ADF DMCs	All ADB DMCs	ADF DMCs	
2002	1,036	160	31.8	33.5	65.3
2005	812	116	24.0	23.2	61.0
2008	709	91	20.3	17.4	58.8
2010	581	70	16.3	13.1	54.0
2011	467	62	13.0	11.4	49.3
2012	435	54	12.0	9.8	49.5
2013	330	50	9.0	8.9	43.0

ADB = Asian Development Bank, ADF = Asian Development Fund, DMCs = developing member countries.

Note: Based on the number of people living on less than \$1.90 a day in 2011 purchasing power parity.

Source: World Bank PovcalNet database. <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx> (accessed 10 January 2017).

15. **Mixed performance on non-income poverty.** Work to ease other dimensions of poverty has produced mixed results, and the SDGs set broader and more specific objectives to address these non-income aspects of deprivation. The issues include poor health outcomes, inadequate opportunities for education and jobs, and the diminished quality of life people must lead when they do not have enough access to basic infrastructure and services.

16. **Health targets missed.** Asia and the Pacific fell short of important health improvement benchmarks set for 2015 by the Millennium Development Goals (MDGs). The proportion of **underweight children under 5 years old** in ADB's DMCs had declined to 22.7% by 2013, but the region is unlikely to meet the MDG target of 16.3% when final 2015 data are in. At 36 per 1,000 live births in 2015, overall DMC **under-5 child mortality** had fallen from 43 per 1,000 in 2011 but missed the MDG objective of 31 per 1,000.<sup>3</sup> The **maternal mortality ratio** declined from 171 to 126 per 100,000 live births during 2009–2015, but fell short of the MDG target of 83 per 100,000. Improving child and maternal health results requires more well-trained health workers; better health education for mothers; and better and more easily available clean water, sanitation, and energy services.<sup>4</sup>

17. **Strong gender equity results in education.** Regional results for education indicators show great strides toward gender equality. The DMCs have already established gender parity in secondary

<sup>3</sup> The MDG target is for children under 5.

<sup>4</sup> Independent Evaluation Group of the World Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency. 2015. *Delivering the Millennium Development Goals to Reduce Maternal and Child Mortality—A Systematic Review of Impact Evaluation Evidence*. Washington, DC.

and tertiary education. Slightly more girls are completing lower secondary school now than boys. These gender gains helped boost the **gross lower secondary education graduation rate** during 2010–2014.

### 3. Inequality and Employment

18. **Uneven performance on inequality.** Income inequality fell in 11 DMCs during 2000–2014, but rose in 8 that account for 82% of the overall DMC population.<sup>5</sup> The number of countries with highly unequal income distribution fell to 10 from 12.<sup>6</sup> Nepal and Viet Nam made particularly good headway on narrowing their income gaps.

19. **Decent jobs ratio static.** Based on the latest data, the share of the region's **wage and salaried workers in total employment** was 29% in 2013, little changed from 2011. This indicates that the opportunities to escape poverty and benefit from overall growth provided by decent jobs and secure productive employment were not growing fast enough.

### 4. Enabling Environment

20. Good systems and capable institutions enable greater social and economic activity and allow more people to participate in the economy through entrepreneurship and enjoy the benefits of growth.

21. **Faster business start-ups.** Reforms have helped economies across the region cut back on the **time to start business** (Figure 4). ADB DMCs Kazakhstan, Indonesia, Georgia, and Pakistan (in that order) were among the 10 countries globally that reduced their business start-up times the most.<sup>7</sup>

22. **Growing use of finance services.** The number of **deposit accounts in financial institutions** per 1,000 adults measures how empowered a country's people are to make use of the financial services needed to engage in its economy and improve their incomes and lives. The ratio grew from 420 to 824 per 1,000 during 2010–2015 in the 27 DMCs that had data. The rate rose faster during 2014–2016 in the low-income and otherwise specially challenged DMCs that still qualified for grants and concessional lending from ADB's Asian Development Fund (ADF) than in the DMCs overall. This signaled growing potential for poverty reduction and inclusive growth.

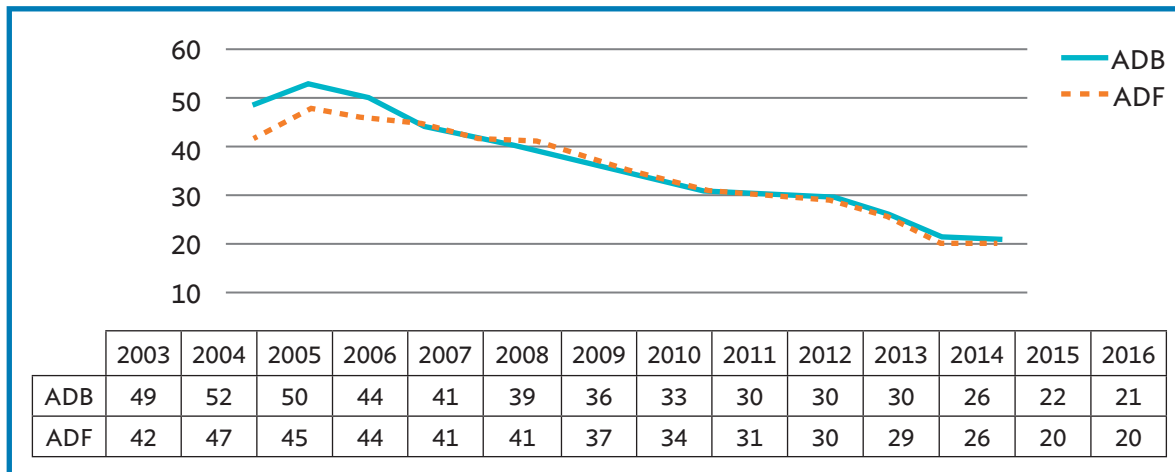
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<sup>5</sup> The eight countries are Armenia, Bhutan, the PRC, India, Indonesia, the Lao People's Democratic Republic, the Philippines, and Sri Lanka.

<sup>6</sup> This is based on the Gini coefficient, which measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. It is a ratio with values that vary from 0 (which reflects complete equality) to 1 (which indicates complete inequality). The Gini coefficient can also be expressed from 0 to 100. A Gini coefficient of more than 0.4 or 40 is generally considered to indicate high income inequality. The data for this indicator are from the World Bank PovcalNet database. <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx> (accessed 10 January 2017).

<sup>7</sup> World Bank. 2016. *Record Number of Economies Carried Out Business Reforms in Past Year: Doing Business*. Press release. 25 October. <http://www.worldbank.org/en/news/press-release/2016/10/25/record-number-of-economies-carried-out-business-reforms-in-past-year-doing-business>

**Figure 4: Days Taken to Start a Business in ADB's Developing Member Countries, 2003–2016**



ADB = Asian Development Bank, ADF = Asian Development Fund.

Source: World Bank. 2016. *Doing Business 2017: Equal Opportunity for All*. Washington, DC.

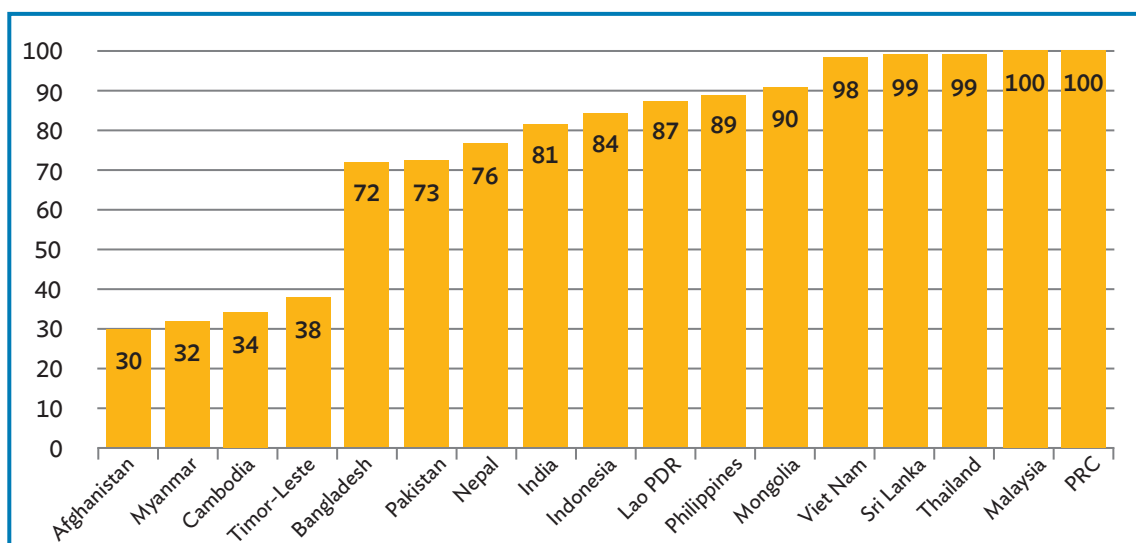
23. **Ongoing governance and public management challenges.** More needs to be done to help build good governance and improve public sector management (PSM) in the ADF DMCs. Their needs include more transparency and accountability, more efficient fiscal management, and institutions that are better able to ensure property rights and the rule of law. Strength or weakness in these areas helps shape national development outcomes. As a result, the DEfR monitors a **governance and PSM assessment** index that it bases on its annual assessments of ADF country performances. Although the 2016 indicator scores were lower for 14 of 26 DMCs, the drop in the overall index was partly due to graduation by Armenia and Georgia from eligibility for concessional lending on 1 January 2017. This meant that their comparatively strong showings were no longer included in the overall average.<sup>8</sup>

### C. Infrastructure Services

24. **Outstanding infrastructure gains, with rural and low-income country backlogs.** No other developing region has extended the reach of basic infrastructure services as widely as have ADB's DMCs. In 2016, for example, 87% of their people had electric power in their homes, including 96% of urban residents (Figure 5). The 485 million people not yet connected nonetheless made up more than two-fifths of the world total. As the DMCs work to close the electrification gap, they must also continue to expand the share of renewable and low-carbon energy infrastructure in power generation, and control consumption through energy efficiencies (para. 30). New breakthroughs and falling costs of the technology to do so should help.

<sup>8</sup> ADB conducts annual country performance assessments of DMCs that have access to the ADF. The DEfR tracks the governance and PSM index (indicator 18), which is an average of the scores on the quality of governance and PSM in these countries. The assessment tracks property rights and rule-based governance; the quality of budgetary and financial management; the efficiency of revenue mobilization; the quality of public administration; and transparency, accountability, and corruption in the public sector. Scores range from 1 to 6. The countries with the biggest reductions in scores were Papua New Guinea, Nauru, the Federated States of Micronesia, Mongolia, and Samoa, in that order.

Figure 5: Electrification Rates in Some ADB Developing Member Countries, 2016 (%)



ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China. Sources: International Energy Agency. World Energy Outlook 2016. <http://www.worldenergyoutlook.org/resources/energydevelopment/energyaccessdatabase/> (accessed 21 February 2017). Government of the People's Republic of Bangladesh. 2015. Seventh Five-Year Plan, FY2016–FY2020—Accelerating Growth, Empowering Citizens. [http://www.plancomm.gov.bd/wp-content/uploads/2015/11/7FYP\\_after-NEC\\_11\\_11\\_2015.pdf](http://www.plancomm.gov.bd/wp-content/uploads/2015/11/7FYP_after-NEC_11_11_2015.pdf) (accessed 13 March 2017).

25. **Roads improving, greater urban demand ahead.** The region had 19 kilometers (km) **paved road** for every 10,000 people in 2014, up from 16 km per 10,000 in 2009, but the ADF DMCs fell well below this overall average. Rapid urbanization across the region is driving up demand for better roads.

26. **Rural–urban gap in safe drinking water supply.** DMCs overall met the MDGs' 2015 target for access to improved drinking water, measured as the proportion of **population using an improved drinking water source**. However, 206 million people in rural areas and 60 million urban residents still do without. Urbanization has an effect here, too. Although coverage has expanded strongly in the DMC countryside, rapid population growth in ADF DMC cities and towns outpaced system expansions.

27. **Progress on huge challenge of basic sanitation.** Although the DMCs missed the MDG target for access to an improved sanitation facility, they made progress. The proportion of the **population using an improved sanitation facility** in rural areas rose from 45% of the population in 2010 to 49% in 2015, and in urban areas it rose from 75% to 78% in the same period. This basic service now needs to be extended to 1.5 billion more of the region's people.

## D. Regional Integration

28. **Intraregional trade up.** About half of the DMCs' total trade in 2015 was done with other DMCs or with the other (mainly developed) ADB members in Asia and the Pacific. Measured as

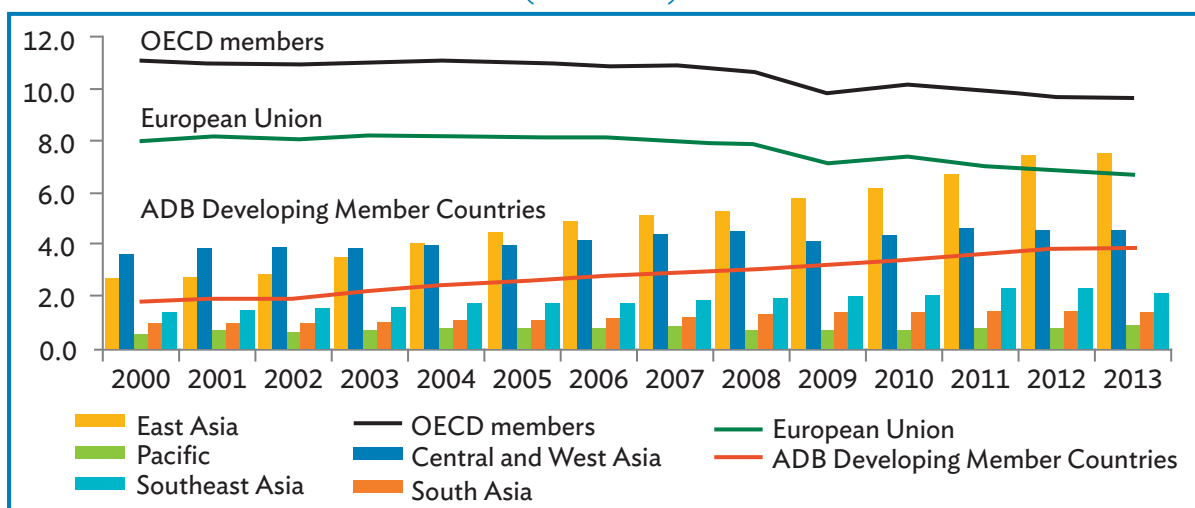
the share of **intraregional trade in total Asia and Pacific trade**, this was an indication of the DMCs' growing integration with the rest of the region. In terms of trade, the DMCs of Southeast Asia and the Pacific are the most integrated, and those of South Asia the least. East Asia trades more with the rest of the world than it does with the rest of the region.

## E. The Environment

29. **Forest cover spreading.** Forests remove and sequester carbon dioxide (CO<sub>2</sub>) from the atmosphere, and the region as a whole fulfilled the MDG objective of increasing forest cover to help offset global CO<sub>2</sub> emissions. The DMCs overall have gradually increased the percentage of their **land area covered by forests** from 22% in 2000 (when regional forest loss was first reversed) to 23% in 2015. Some of this trend can be attributed to afforestation efforts. In the ADF DMCs, there was a net loss of 26,400 square kilometers in 2010–2015, however.<sup>9</sup> There is a continued need to improve land use management and incentives to protect the region's forests and the ecosystem services they provide.

30. **Brakes applied on emissions growth.** **CO<sub>2</sub> emissions per capita** plateaued in the DMCs overall in 2012–2013 after a steady climb from 2000. Growth in these emissions has leveled off in many DMCs, and the rise in energy consumption fueled by the region's expanding economies and improving living standards has been partially balanced by greater energy efficiency and the use of cleaner fuels and technologies. The average CO<sub>2</sub> emissions per unit of gross domestic product in the DMCs dropped by 31% during 2000–2013. The region's average per capita CO<sub>2</sub> emissions rate remains far lower than those of the developed regions and the advanced economies of the Organisation for Economic Co-operation and Development as a group (Figure 6).

**Figure 6: Per Capita Carbon Dioxide Emissions by Global Regions, 2000–2013**  
(metric tons)



ADB = Asian Development Bank, OECD = Organisation for Economic Co-operation and Development.

Source: World Bank. World Development Indicators online database. <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed 9 February 2017).

<sup>9</sup> Cambodia, Myanmar, and Timor-Leste lost more than 3% of their forest cover.







## LEVEL 2

ADB'S  
CONTRIBUTIONS  
TO DEVELOPMENT  
RESULTS



## LEVEL 2: ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

### A. Overview

31. The Development Effectiveness Review (DEfR) reports each year on how well ADB's recently completed operations were implemented and whether they delivered the results envisaged when they were designed. ADB uses four criteria to judge the extent of an operation's overall success after it is completed—relevance, effectiveness, efficiency, and sustainability.<sup>10</sup> When an operation ends, staff from ADB's operations departments review and rate it on these criteria and its overall success in a project or program completion report (PCR). To maintain the integrity of its performance evaluations, the final ratings are determined by ADB's Independent Evaluation Department (IED), which reviews about four in five PCRs in validation reports or, less frequently, project or program performance evaluation reports.<sup>11</sup> The initial PCR assessments by operations departments are sometimes upgraded or downgraded by IED. The DEfR scorecard for overall success and the four subcriteria are based on these final IED ratings.

32. Seven level 2 indicators look at the ratings by IED for recently completed operations (section B). They reflect the collective performance of past ADB country strategies and assistance programs, as well as of completed individual operations. These include sovereign operations—i.e., projects and programs with ADB financing guaranteed by DMCs—and nonsovereign operations, which mostly aim to achieve development results via the private sector and generally have no government loan guarantees.

33. The 22 output and outcome indicators in section C determine the extent to which projects completed during 2016 actually delivered on intended core operational results targets (e.g., length of water pipes installed, number of students availing of better schools and education, number of microfinance borrowers reached).<sup>12</sup> They deal separately with each of ADB's five core areas of operation: infrastructure, environment, regional cooperation and integration (RCI), finance sector development, and education.

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<sup>10</sup> The assessment of nonsovereign operations is based on development results, ADB additionality, ADB investment profitability, and ADB work quality. Independent Evaluation Department (IED). 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports for Nonsovereign Operations*. Manila: ADB.

<sup>11</sup> Of the 400 PCRs circulated during reporting years 2011–2016, 324 (81%) have been validated by IED. Starting in reporting year 2017, IED will validate 100% of PCRs.

<sup>12</sup> ADB uses 23 output and outcome indicators in the core operational results section of level 2. PCR and extended annual review reports issued in 2016 contained data on planned and achieved results for 22 indicators.

## B. Quality at Completion

### 1. Country Strategies and Assistance Programs

34. Of 14 **country strategies and assistance programs** evaluated by IED in 2014–2016, 10 were rated *successful*. Despite a 7-percentage-point improvement in the success rate from 64% in 2013–2015, the 80% target for 2016 was missed. Scores for this indicator are volatile given that only a few country strategies and programs are completed each year.

35. **Energy, environmental, transport, and private sector success.** Four energy projects completed under ADB's successful country program in the People's Republic of China (PRC) during 2006–2013 improved environmental sustainability.<sup>13</sup> An energy efficiency program produced major power savings in the industrial and commercial sectors of Guangdong Province and prevented 642,206 tons in annual CO<sub>2</sub> emissions by cutting coal consumption. Eight completed road and railway transport operations improved national networks and links with neighboring DMCs in Central and Southeast Asia. They opened up new opportunities for economic growth, jobs, and easier access to basic social services in remote, less-developed parts of the country and reduced congestion, vehicle emissions, and travel times in cities. Nonsovereign operations grew under the program. Outputs included the development of structures that have enabled greater private sector financing of clean energy, clean water, and small and medium-sized enterprise (SME) undertakings. These reforms may become models in the PRC of how to add value to development programs by involving the private sector.

36. **Gas and electricity advances in Bangladesh.** ADB's 2011–2015 country partnership strategy for Bangladesh focused on raising the DMC's average growth rate and building on the steady 20-year record of poverty reduction it had achieved in the face of many obstacles.<sup>14</sup> Rated *successful*, the strategy was aligned with the government's current five-year plan in six sectors. Among other things, operations improved basic services and built gas transmission and power generation and transmission infrastructure capacity. The goal to boost the national electrification rate from 47% in 2009 to 65% by 2015 was met. One project raised the proportion of households connected to a local water supply system from about one-third to three-quarters.<sup>15</sup>

### 2. Sovereign Operations

37. Of 141 ADB **sovereign operations** evaluated by IED during the 3-year report period covered by the 2016 DEfR, 77% were rated *successful* or *highly successful* (para. 31).<sup>16</sup> This overall success

<sup>13</sup> IED. 2015. *Country Assistance Program Evaluation: People's Republic of China*. Manila: ADB.

<sup>14</sup> IED. 2016. *Country Partnership Strategy Final Review Validation: Bangladesh, 2011–2015*. Manila: ADB.

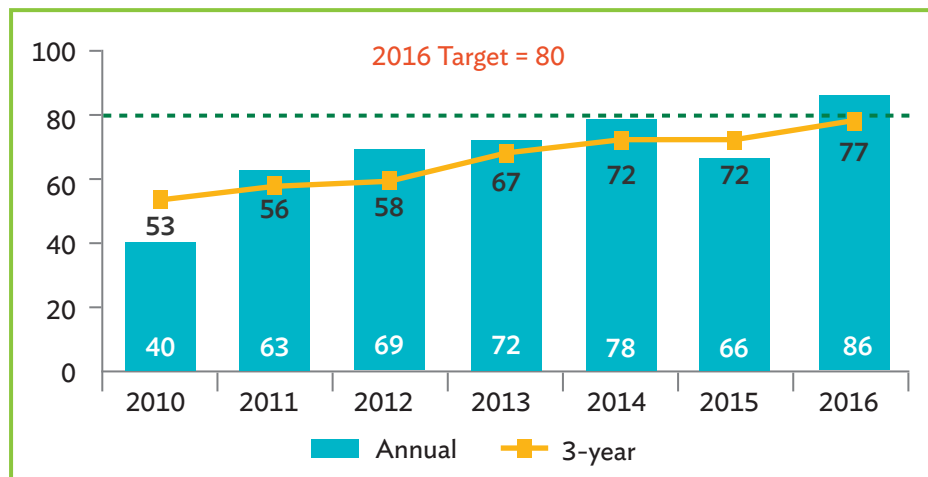
<sup>15</sup> ADB. 2016. *Completion Report: Secondary Towns Water Supply and Sanitation Sector Project in Bangladesh*. Manila. More than 48,000 households gained access to safe water through household connections or public safe water points.

<sup>16</sup> The DEfR scorecard covers rolling 3-year periods (pp. 6–7). Due to the time needed from the preparation of a PCR and for IED to prepare its validation report, the reporting years for level 2 Quality at Completion indicators (1–7) are 1 July–30 June, e.g., the 2016 reporting year ends on 30 June 2016. The results for indicators 1–7 shown for 2014–2016 are based on documents circulated during 1 July 2013–30 June 2016.



rate included both ADB's stand-alone projects and its policy-based operations and was a marked improvement on the results for the previous reporting periods (Figure 7).

**Figure 7: Success Rates of Completed ADB Sovereign Operations, 2008–2016 (%)**



ADB = Asian Development Bank.

Notes:

1. The reporting year is based on the circulation dates of project and program completion reports (PCRs) and ends on 30 June, e.g., the 2016 reporting year is 1 July 2015–30 June 2016.
2. The success rates are based on ratings by ADB's Independent Evaluation Department in PCR validation reports or project performance evaluation reports.

Sources: ADB PCRs issued in reporting years 2008–2016, PCR validation reports, and project performance evaluation reports.

38. **New high annual sovereign operations success rate.** The annual success rate of ADB's sovereign operations was the highest ever in 2016, up 20 percentage points to 86% from 66% in 2015 and improved from the previous best of 78% in 2014. Transport and finance operations accounted for 42% of the operations rated *successful* during the year. Performance has improved in both sectors over the 2014–2016 period. The success rate in transport operations surged to 94% in 2016 from 42% in 2015 based on better results in its roads subsector. All four policy-based finance operations were rated *successful* in 2016, lifting the sector's success rate to 75% from 60% in 2015. ADB has taken steps to strengthen the program and project design and implementation of its finance sector operations, but many of the operations approved since these measures were instituted are still ongoing. The effects on the sector success rate will only be reflected in future DEFRs after they are completed and evaluated. ADB approved a review of its financial sector operational plan in February 2017.<sup>17</sup>

#### a. Success of Sovereign Projects

39. **Overall success targets almost reached.** The success rates of ADB's **sovereign projects** overall and the ADF-financed subset both rose to 78% in the current 3-year report period, significantly

<sup>17</sup> ADB. 2017. *Review of 2011 Financial Sector Operational Plan*. Manila.

bettering the 68% for ADB and 64% for the ADF segment in 2011–2013 and just short of the 80% target for 2016.

40. **Sector targets often met or exceeded.** Projects in 5 of ADB's 10 operations sectors met or surpassed the 80% target—education (100%), energy (93%), health (83%), public sector management (PSM) (100%), and industry and trade (100%) (Table 2).<sup>18</sup> The performances in education, PSM, and energy have improved in each report period since 2011–2013. The transport sector success rate has rebounded by 12 percentage points from the prior period to 70%.

**Table 2: Success Rates of ADB Sovereign Projects by Sector, 2011–2016**

Sector	2011–2013		2012–2014		2013–2015		2014–2016	
	Total Projects (number)	Successful or Highly Successful (% of total)	Total Projects (number)	Successful or Highly Successful (% of total)	Total Projects (number)	Successful or Highly Successful (% of total)	Total Projects (number)	Successful or Highly Successful (% of total)
Agriculture, natural resources, and rural development	41	76	29	79	27	74	21	71
Education	18	50	17	65	14	86	14	100
Energy	18	67	14	79	13	85	14	93
Finance	14	43	13	54	8	50	8	50
Health	6	100	9	89	12	83	12	83
Information and communication technology	3	100	2	100	1	100	0	
Industry and trade	6	67	7	86	5	100	4	100
Public sector management	9	56	7	71	7	86	4	100
Transport	44	75	42	71	38	58	40	70
Water and other urban infrastructure and services	26	58	16	69	13	77	12	67
<b>Total</b>	<b>161</b>	<b>68</b>	<b>136</b>	<b>74</b>	<b>121</b>	<b>74</b>	<b>116</b>	<b>78</b>

ADB = Asian Development Bank.

Notes:

1. The reporting year is based on the circulation dates of project or program completion reports (PCRs) and ends on 30 June, e.g., 2014–2016 refers to 1 July 2013–30 June 2016.
2. The success rates are based on ratings by ADB's Independent Evaluation Department in PCR validation reports or project performance evaluation reports.
3. Validated PCRs for investment projects in sector development programs and tranches of multitranches financing facilities are also counted.
4. An operation may be involved in more than one sector. If so, it will be counted as one in each of the primary and relevant sectors. The total success rate does not involve double counting.

Sources: ADB PCRs, PCR validation reports, and project performance evaluation reports.

<sup>18</sup> The public sector management and trade and industry sectors involved only four projects each.

41. **Education success rates rapidly improving.** The success rates of education projects improved consistently from 50% in 2011–2013, 65% in 2012–2014, 86% in 2013–2015, to 100% in 2014–2016 period. The increase was driven by success in two subsectors—technical and vocational education and training (TVET) and secondary education. The success rate of TVET projects, which accounted for a quarter of education projects, improved from 0% in 2011–2013, 40% in 2012–2014, 67% in 2013–2015, to 100% in 2014–2016. Secondary education projects, which accounted for another 25% of education projects, improved from 50% in 2011–2013 to 100% in 2014–2016.

42. **Some success rates stagnated.** Despite success rates reaching new heights in 2014–2016, some sectors did not follow this trend. In the agriculture, natural resources, and rural development sector, success rates were slightly lower than in 2013–2015. This was due to lower-than-average performance in the agricultural production, irrigation, and rural water supply subsectors. Projects in the water and other urban infrastructure and services sector performed well on relevance and effectiveness, but they consistently underperformed on efficiency and sustainability. Only 50% of projects in this sector were rated *likely sustainable* in 2014–2016.

43. **Readiness among attributes of success.** Sovereign projects that were successful were generally ready for implementation before approval and had other operational advantages. Their executing and implementing agencies had strong project management and procurement abilities, and sound engineering and detailed project designs were prepared. The DMCs involved provided counterpart funds on time and in full, ensured that procurement was efficient, and made certain that contractors performed well. ADB and the DMCs' project implementation units monitored and supervised implementation closely.

44. **Head start in Uzbekistan.** Advance action proved its worth in a road project in Uzbekistan.<sup>19</sup> When ADB was sure the project was ready to start, it allowed up to 20% of the loan amount to be used for retroactive financing. This meant that one civil works package and the services of a program management unit director and staff could be procured well before the loan was formally approved. ADB guided the procurement document preparation. Its detailed feedback and recommendations improved project planning, the management of contracts and safeguards, road asset management systems, and community development programs. The project had tripled cross-border truck travel and quintupled annual average daily traffic on the road from pre-operation levels by the time of its completion. Trade between Uzbekistan and its Central Asian neighbors rose as a result.

45. **Problems built in from the start.** In almost 9 in 10 cases, projects later rated *less than successful* or *unsuccessful* were not properly prepared and bore the seeds of future problems from the start. Of the 39 projects with these ratings in 2013–2016, 34 suffered from design flaws, overly ambitious scopes

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<sup>19</sup> ADB. 2015. *Completion Report: Central Asia Regional Economic Cooperation Corridor 2 Road Investment Program (Tranche 1) in Uzbekistan*. Manila; IED. 2016. *Validation Report: Central Asia Regional Economic Cooperation Corridor 2 Road Investment Program (Tranche 1) in Uzbekistan*. Manila: ADB.

and targets, or complex implementation arrangements (Table 3). Inappropriate engineering designs in two-thirds of the 39 forced revisions later that delayed the bidding process and the civil works. In more than half of the underperforming operations, the executing and/or implementing agencies lacked the technical and staff capacity to properly manage and supervise the project. Implementing agencies were sometimes unfamiliar with ADB's procurement procedures and safeguard policies and not sufficiently diligent in preparing monitoring and evaluation reports or addressing implementation issues. In one instance, the detailed engineering design for a water treatment plant project was prepared without fully considering the needs and requirements for land acquisition and getting administrative permits.<sup>20</sup> The resulting delays diminished the project outcome.

**Table 3: Reasons for Less than Successful or Unsuccessful Ratings in ADB Sovereign Projects, 2013–2016**

Reasons Cited	Projects Affected (%)
1. Project design flaws or inappropriate engineering design	87
2. Slow procurement and poor performance by contractors	67
3. Inadequate project management and procurement capacity in government	56
4. Delayed government or ADB approvals, including lengthy country and ADB procedures	41
5. Insufficient project monitoring and supervision	36
6. Land acquisition and resettlement issues	23
7. Insufficient or delayed counterpart funds	23

ADB = Asian Development Bank.

Notes:

1. The percentages reflect the number of underperforming sovereign projects whose project or program completion reports (PCRs), PCR validation reports, or project performance evaluation reports cited a particular problem as a reason for its overall rating of *less than successful* or *unsuccessful*. A PCR or PCR validation report may cite more than one reason.
2. Analysis is based on PCRs reviewed by the Independent Evaluation Department. The PCRs were circulated during reporting years 2013–2016.

Sources: ADB PCRs, PCR validation reports, and project performance evaluation reports; and ADB Strategy, Policy and Review Department.

### b. On-Budget and On-Time Completion of Sovereign Projects

46. **Budgets often met, but completions often delayed.** Of 116 sovereign projects covered in this report period, 78% delivered their outputs within budget. Only 38% finished early or within 1 year of the target date. As has been the case since 2010, most experienced delays of some nature and length. Timely completions have nonetheless become more frequent in ADB's more recent operations.

47. **Keys to on-budget performance.** On-budget performance was due in many cases to sound cost estimates at the design stage, cost-efficient equipment and civil works procurement, and effective

<sup>20</sup> ADB. 2015. *Completion Report: Wuhan Wastewater and Stormwater Management Project in the People's Republic of China*. Manila; IED. 2016. *Validation Report: Wuhan Wastewater and Stormwater Management Project in the People's Republic of China*. Manila: ADB.

budget monitoring during implementation. An agriculture operation in Nepal greatly undershot its subproject budget while exceeding the community infrastructure output targets for building farm-to-market roads, small-scale irrigation systems, and market and collection trading centers for high-value crops.<sup>21</sup>

48. **Budget misses often due to delays.** The 26 projects that ran into cost overruns had to reduce their outputs or get additional financing.<sup>22</sup> In many cases, implementation delays postponed civil works or procurement of goods, materials, and labor to dates by which input prices and land acquisition and resettlement costs had risen beyond the original estimates.

49. **Implementation times off-target.** Most projects again suffered from start-up and implementation delays. The average planned project duration was 5.1 years, the actual 6.9. The average lag for the projects completed more than 1 year late was even longer at 2.7 years.

50. **Procurement, design change, safeguard processing frequently to blame.** The long delays were most often caused by drawn-out procurement stages for construction works and consultants (Table 4). Design changes were often an issue. Long government loan approval processes, deficiencies in DMC project management capabilities, and obstacles to the timely preparation and implementation of safeguards and resettlement plans were others. Slow recruitment of consultants and a shift in infrastructure design delayed completion of flood protection structures in one project by 2.5 years.<sup>23</sup> In addition, the government needed extra time to complete its lengthy land acquisition and compensation claim settlement procedures. Nonetheless, consultant and contractor performance was good, and the operation was successful in delivering its outputs and giving the project towns a flood-free living environment.

**Table 4: Reasons for Delays in ADB Sovereign Projects, 2013–2016**

Reasons Cited	Projects Affected (%)
<b>Start-Up</b>	
1. Slow consultant recruitment and mobilization	40
2. Lack of familiarity with ADB procedures; lengthy domestic procedures	31
3. Slow establishment of project implementation units; inadequate capacity of project management staff	31
4. Slow disbursement of counterpart funds	19
<b>Implementation</b>	
1. Delays in procurement of construction works	50
2. Changes in project design and scope of implementation	40

<sup>21</sup> ADB. 2015. *Completion Report: Commercial Agriculture Development Project in Nepal*. Manila; IED. 2016. *Validation Report: Commercial Agriculture Development Project in Nepal*. Manila: ADB.

<sup>22</sup> Of these 26 projects (22% of the total 116 completed), 20 reduced outputs, and 6 were given additional ADB financing.

<sup>23</sup> ADB. 2015. *Completion Report: Secondary Towns Integrated Flood Protection Project (Phase 2) in Bangladesh*. Manila; IED. 2016. *Validation Report: Secondary Towns Integrated Flood Protection Project (Phase 2) in Bangladesh*. Manila: ADB.



**Table 4: Reasons for Delays in ADB Sovereign Projects, 2013–2016 (continued)**

Reasons Cited	Projects Affected (%)
3. Poor performance of contractors and consultants	25
4. Land acquisition and resettlement issues	27
5. Other factors (security and political conditions)	10

ADB = Asian Development Bank.

Notes:

1. The percentages indicate the proportion of 48 sovereign projects that incurred delays of more than 2 years and cited these reasons for the delays in their completion or validation reports. These reports may cite more than one reason.

2. The project completion reports (PCRs) were issued during reporting years 2013–2016.

Sources: ADB PCRs; PCR validation reports; project performance evaluation reports; and ADB Strategy, Policy and Review Department.

51. **Pattern improving.** ADB's operations are finishing in a timely fashion more frequently than in the past. A larger share of the projects approved during 2008–2011 were completed within 1 year or less of their scheduled dates than of those from 2000–2007. This is due to more efficient project preparation and readiness and sounder project monitoring and supervision.

52. **Benefits of a strong executing agency.** The completion of a planned 6-year project to develop 264 km of railway in the People's Republic of China (PRC) 4 months ahead of schedule was due in part to good preliminary and engineering designs and partly to a strong, proactive executing agency.<sup>24</sup> The agency did a good job of supervising earthworks, track construction, and the installation of telecommunications and electrification equipment. Its careful collaboration with local government units on land acquisition helped stave off potential adverse project impacts on communities early on.

### c. Policy-Based Operations

53. **Success rates steadily rising.** The success rate for ADB's **policy-based operations** has risen steadily under the current results framework from the 61% recorded for 2011–2013 to 76% in the 2014–2016 report period (Table 5). The ADF-funded operations, which accounted for 76% of ADB's policy-based financing, met the 80% success target for the first time.

54. **Strength in seven sectors.** The ADB-wide performance was up in almost all sectors, and seven scored 100% success rates in 2014–2016: agriculture and natural resources, education, energy, industry and trade, information and communication technology, transport, and water and other urban infrastructure and services. The rate in the health sector was down to only 50% from 75% in 2011–2013.

<sup>24</sup> ADB. 2015. *Completion Report: Chongqing–Lichuan Railway Development Project in the People's Republic of China*. Manila.

Table 5: Success Rates of ADB Sovereign Policy-Based Operations by Sector, 2011–2016

Sector	2011–2013		2012–2014		2013–2015		2014–2016	
	Total Policy-Based Operations (number)	Successful or Highly Successful (% of total)	Total Policy-Based Operations (number)	Successful or Highly Successful (% of total)	Total Policy-Based Operations (number)	Successful or Highly Successful (% of total)	Total Policy-Based Operations (number)	Successful or Highly Successful (% of total)
Agriculture, natural resources, and rural development	0		1	100	1	100	1	100
Education	3	67	5	100	5	100	5	100
Energy	3	33	1	100	1	100	1	100
Finance	11	45	11	45	9	56	11	73
Health	4	75	2	100	3	33	4	50
Information and communication technology	0		1	100	1	100	1	100
Industry and trade	3	67	4	75	1	100	1	100
Public sector management	17	76	15	80	17	76	19	79
Transport	2	100	1	100	1	100	1	100
Water and other urban infrastructure and services	1	0	1	100	1	100	1	100
<b>Total</b>	<b>36</b>	<b>61</b>	<b>31</b>	<b>68</b>	<b>29</b>	<b>69</b>	<b>33</b>	<b>76</b>

ADB = Asian Development Bank.

Notes:

1. The reporting year is based on the circulation dates of program completion reports (PCRs) and ends on 30 June, e.g., 2014–2016 refers to 1 July 2013–30 June 2016.
2. The success rates are based on ratings by ADB's Independent Evaluation Department in PCR validation reports and project performance evaluation reports.
3. An operation may be involved in more than one sector. If so, it will be counted as one in each of the primary and relevant sectors. The total success rate does not involve double counting.

Sources: ADB PCRs, PCR validation reports, and project performance evaluation reports.

55. Most policy-based operations were in PSM and finance. In 2014–2016, the PSM success rate was 79%, up from the 76% in the previous period and in 2011–2013. The finance sector broke a streak of subpar performances in the past three report periods to register a success rate of 73% in 2014–2016. The eight successful policy-based operations in the finance sector covered insurance and contractual savings, finance sector development, money and capital markets, and infrastructure finance and investment funds.

56. **Making use of an important reform tool.** Success in policy-based operations shows that ADB is performing well in one of its most important roles—helping DMCs strengthen government institutions and develop staff capacity for better public financial management, budgeting of public resources, and macroeconomic planning. Policy-based operations do this by tying ADB financing to the prior achievement of specific policy changes. Two-thirds of successful policy-based operations made effective use of capacity or advisory technical assistance (TA) packages in implementing their program activities. The operations that worked best were anchored solidly on country development plans and designed carefully to bring about clear-cut, achievable policy actions that demonstrated a government’s commitment to reforms.<sup>25</sup>

57. **Finance sector reformed in Bangladesh.** A successful policy-based operation in Bangladesh profited from an associated TA grant in supporting a capital market development and reform program after a stock market crash in December 2010.<sup>26</sup> The TA helped upgrade the enforcement abilities of the Bangladesh Securities and Exchange Commission; expedite the adjudication of enforcement actions taken; and improve the regulation, governance, and operation of stock exchanges. The policy-based operation helped with the fundamental institutional, legal, and policy reforms that subsequently restored market confidence, expanded the market instruments available, and built a base for future finance sector expansion.

58. **Reforms to strengthen primary health care for local people.** Government policy actions under an ADB sector development operation in the Lao People’s Democratic Republic (Lao PDR) improved the planning, financing, and quality of primary health care in the country. Health services were made more available to the poor, women, children, and ethnic groups in eight provinces.<sup>27</sup> Implemented alongside a project grant, the policy-based program systematized the required central government primary health care funding for the country’s provinces and districts and improved the planning and financing processes at the provincial level. This decentralization provided the budgets needed to operate and maintain health facilities, replenish drug kits, and provide grant incentives for staff to work in remote areas.

#### d. Sustainability of Operations

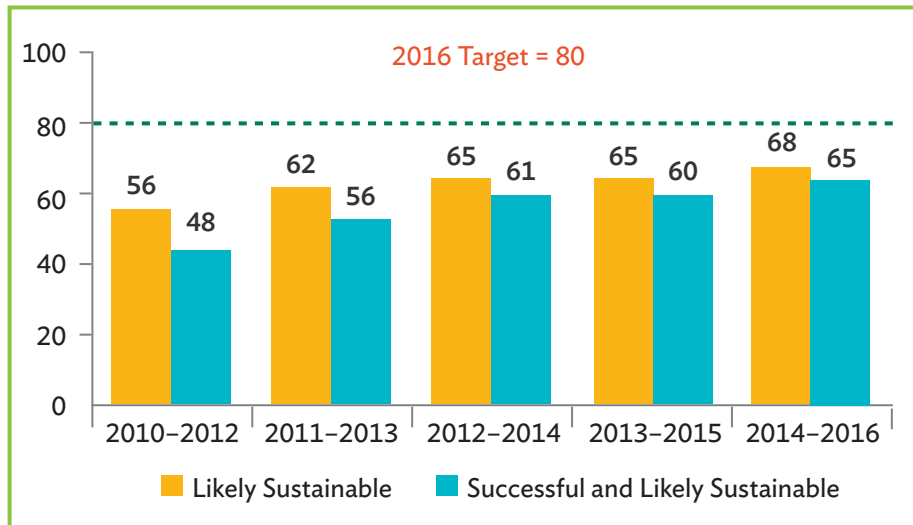
59. **Ground being gained in making benefits last.** The share of completed ADB operations rated *successful* and *likely sustainable* was 65% in 2014–2016, up from 60% in 2013–2015 and 17 percentage points higher than the 2010–2012 baseline of 48% (Figure 8). The rate for the ADF subcategory rose 4 percentage points to 60% from the previous report and from 42% in 2010–2012.

<sup>25</sup> IED is assessing the effectiveness of ADB’s policy-based lending instruments. The study aims to determine what has worked and what has not. Scheduled for completion in 2017, the study will propose changes to improve the use and design of these instruments.

<sup>26</sup> ADB. 2015. *Completion Report: Second Capital Market Development Program in Bangladesh*. Manila; IED. 2016. *Validation Report: Second Capital Market Development Program in Bangladesh*. Manila: ADB.

<sup>27</sup> ADB. 2015. *Completion Report: Health Sector Development Program in the Lao People’s Democratic Republic*. Manila; IED. 2016. *Validation Report: Health Sector Development Program in the Lao People’s Democratic Republic*. Manila: ADB.

Figure 8: ADB Sovereign Operations Rated Likely Sustainable, 2010–2016 (%)



ADB = Asian Development Bank.

Notes:

1. The reporting year is based on the circulation dates of project or program completion report (PCRs) and ends on 30 June, e.g., 2014–2016 refers to 1 July 2013–30 June 2016.
2. The ratings are based on PCR validation reports or project performance evaluation reports.

Sources: ADB PCRs issued during reporting years 2010–2016, PCR validation reports, and project performance evaluation reports.

60. **Sector sustainability performances mixed.** Education and energy operations have done particularly well on the sustainability criterion. The share of *successful* and *likely sustainable* education operations more than doubled from 45% in 2011–2013 to 100% in 2014–2016. The rate for energy rose from 58% to meet the 80% target for 2016. Despite some improvements over the 4-year results framework period, the rates for finance (61%) and water and other urban infrastructure and services (46%) fell well short of these performances. Operations in the health (64%), agriculture and natural resources (64%), and transport (53%) sectors struggled with sustainability. Their rates in 2014–2016 were lower than in 2011–2013.

61. **Institutional reform a crucial step.** Institutional strength is critical to achieving sustainability, and reforms in Viet Nam are creating the institutional conditions needed for the infrastructure, services, and outcome of a power transmission operation in Viet Nam to last.<sup>28</sup> The government transformed the project executing agency into an independent market-based institution and strengthened its project management, implementation, and operation and maintenance (O&M) capabilities. It also raised retail electricity prices and launched a competitive power generation and retail electricity market. This bolstered the operator's financial sustainability. Funding will now be available for the proper O&M needed to make certain that the 722 km ADB-supported transmission system continues to deliver an improved power supply in the country's north.

<sup>28</sup> ADB. 2016. *Completion Report: Northern Power Transmission Expansion Sector Project in Viet Nam*. Manila; IED. 2016. *Validation Report: Northern Power Transmission Expansion Sector Project in Viet Nam*. Manila: ADB.

62. **Government ownership and funding needed.** Without reliable and adequate post-completion funding, an operation's long-term sustainability is always in doubt. A strong government commitment makes it highly likely that the Government of Cambodia will not only sustain the school networks, secondary school curricula improvements, and training of teachers and school principals under an ADB education operation, but also build on these outputs.<sup>29</sup> The government increased the secondary education budget in 2016 and is financing the project's scholarship component, which has benefited 4,000 students from remote and disadvantaged areas. The operation's alignment with a strategic government plan to expand secondary education was a strong point in terms of likely sustainability, and the DMC is working with ADB and other development partners to raise additional financing for the O&M of secondary schools and their educational training and resource centers.

63. **Core transport and water sector issues studied.** ADB has conducted a study of sustainability in road transport and water-related operations.<sup>30</sup> Transport (53%) and water (46%) are the two sectors with the smallest shares of operations rated both *successful* and *likely sustainable* in the current report period. The study has identified six main problem areas needing attention from ADB and the DMCs if the results on the sustainability criterion are to improve substantially (Box 2).<sup>31</sup> The six problems that tended to lead to poor O&M and thus to poor asset and benefit sustainability were insufficient financing, inadequate asset management, limited human resource capabilities, inappropriate design and poor construction, weak institutions, and weak commitment by important actors to the change needed to make sustainability possible.

### Box 2: A Closer Look at the Sustainability of ADB Sovereign Operations

The Asian Development Bank (ADB) helps its developing member countries (DMCs) reduce poverty and raise living standards mostly through infrastructure operations. Sustainability concerns what happens after ADB completes its projects and programs. This is when the assets and systems developed in close collaboration by ADB and a DMC and its agencies become the full responsibility of the DMC owners and operators.

In terms of development effectiveness, the issue of sustainability boils down to two questions about what ADB calls its operations' outputs and outcomes. The outputs are what the operation delivered at completion—hard infrastructure such as the roads built, for example, and such soft infrastructure as systems developed and skills provided to ensure that the assets will be cared for with proper operation and maintenance (O&M) afterward. The outcome involves the immediate and direct socioeconomic benefits that will accrue from these outputs— increased use of markets, schools and clinics, for instance, and the resulting better incomes, life quality, and health.

<sup>29</sup> ADB. 2016. *Completion Report: Enhancing Education Quality Project in Cambodia*. Manila; IED. 2016. *Validation Report: Enhancing Education Quality Project in Cambodia*. Manila: ADB.

<sup>30</sup> ADB. ADB Reflects. Draft. Manila. ADB undertook the study in 2015 and 2016 .

<sup>31</sup> Project sustainability must be improved in all sectors, but ADB recognizes that the challenge is particularly great in transport and water operations. Of 108 operations rated *successful*, 17 (16%) were rated *less than likely sustainable*. More than half of these were in the transport (6) and water and other urban infrastructure and services sectors (3).



### Box 2: A Closer Look at the Sustainability of ADB Sovereign Operations (continued)

ADB asks two questions when determining sustainability. Will the outputs (such as new roads) be fully useful for as long as intended (and paid for by the investment), or will they deteriorate before they should? Will the outcome in terms of the immediate socioeconomic benefits achieved through these outputs last or fade away?

Successive ADB development effectiveness reviews show that sustainability issues affect about one in three ADB sovereign operations. ADB has worked hard to lift this subpar performance. Steps have included help for DMCs in needed reforms, capability and system building, and the often difficult task of developing adequate reliable funding for critical post-completion O&M. These efforts have not always produced the desired results, and low sustainability ratings have been a drag on ADB's rising overall operational success rates. For this reason, ADB has undertaken a study to analyze the complex causes of the low sustainability ratings in its sovereign operations and propose solutions to improve them. The study's findings, lessons, and suggestions for improvements are scheduled for publication by June 2017.

The study focused on road transport and water operations, sectors where sustainability ratings are lower than other sectors. The study team consulted with experts and project officers in ADB's transport and water sector groups and conducted desk research of 86 ongoing and completed ADB projects. It visited 10 projects completed during 2004–2014 in five DMCs for on-the-ground inspections of ADB-financed infrastructure and research on DMC approaches to the sustainability of these assets and the operational outcomes. Discussions with officials from government and implementing agencies delved into the policies, practices, funding flows, and country contexts that have a major impact on the vital issue of sound post-completion O&M.

Poor O&M, leading to the premature physical and performance deterioration of infrastructure, was found to be the main obstacle to better sustainability. O&M itself was undermined by six main problems: insufficient finance and funding, inadequate asset management, inadequate capacity, inappropriate design and poor quality construction, weak institutions and governance, and limited awareness of issues and weak commitment to change.

The study showed that ADB and the DMCs have made good progress on improving sustainability. ADB is learning from completed operations and adjusting its preparation and implementation practices to home in on the underlying issues it has identified. The closer attention and updated approaches to these issues in the designs of ongoing operations promise further improvements ahead.

ADB's ratings on the likelihood of sustainability when an operation ends inevitably involve prediction. The economic life of infrastructure is usually at least 20 years and sometimes up to 50. Much can change over such periods and even sooner in terms of O&M funding arrangements, government policies, and even governments themselves. The study's field missions found that the sustainability situation on the ground several years after completion was often more positive than the operation's initial sustainability evaluation indicated. This was especially true when it came to adequate O&M funding. Although the sources and means of raising such funding remain matters of concern, strong commitments from local and national government agencies have ensured that most assets delivered by the 10 projects studied in the field have been properly operated and maintained. This includes one that was rated *less than likely sustainable* by two evaluations. All 10 operations were delivering significant benefits to the project communities.

Source: ADB Strategy, Policy and Review Department.

64. **Plans, management, better capacity, and more flexibility needed.** The study reinforced the need for technically sound road maintenance planning and to establish reliable maintenance funding flows in whatever way works best in a DMC. This will require ADB to help DMCs institutionalize sector-wide road asset management and collect the information on road network conditions needed to make these systems effective. ADB needs to promote the use of country systems in the design, procurement, and safeguard aspects of road sector development. Operators need to retain skilled, trained staff. The study shows that ADB should consider more pragmatic approaches to the funding of the O&M of water supply and sanitation facilities. This should include the use of government subsidies along with user charges and the increased revenues and savings when an ADB intervention helps an operator reduce nonrevenue water.<sup>32</sup> ADB will consider the study findings to determine measures for improving the sustainability of operations in the transport and water sectors.

### 3. Nonsovereign Operations

65. **Overall rate weighed down by finance operations.** The success rate of **nonsovereign operations** improved slightly from the previous report period to 69% from 67% but missed the 80% target for 2016 (Figure 9).<sup>33</sup> The 13 infrastructure operations reviewed during 2014–2016 had a success rate of 85%, but poor performance by finance operations has held the overall nonsovereign rate down. Finance accounted for two-thirds of the 45 operations in 2014–2016 and had a success rate of 63%, up 8 percentage points from the previous 3-year period. The two other nonsovereign operations in this report period were a *successful* education project and an *unsuccessful* health operation.<sup>34</sup>

66. Among the successful nonsovereign infrastructure operations was an energy loan project in India that demonstrated the commercial viability of a 40-megawatt solar power plant. It helped the country avoid emissions of 172,721 tons of CO<sub>2</sub> during 2012–2014.<sup>35</sup> The private power generation developer has complied with standards set by the United Nations Framework Convention on Climate Change. The firm's experienced team of engineers, contractors, and procurement and construction staff were one reason for the operation's success. In addition, the operator's planning was detailed, and its consultation with the state government and the local population was productive.

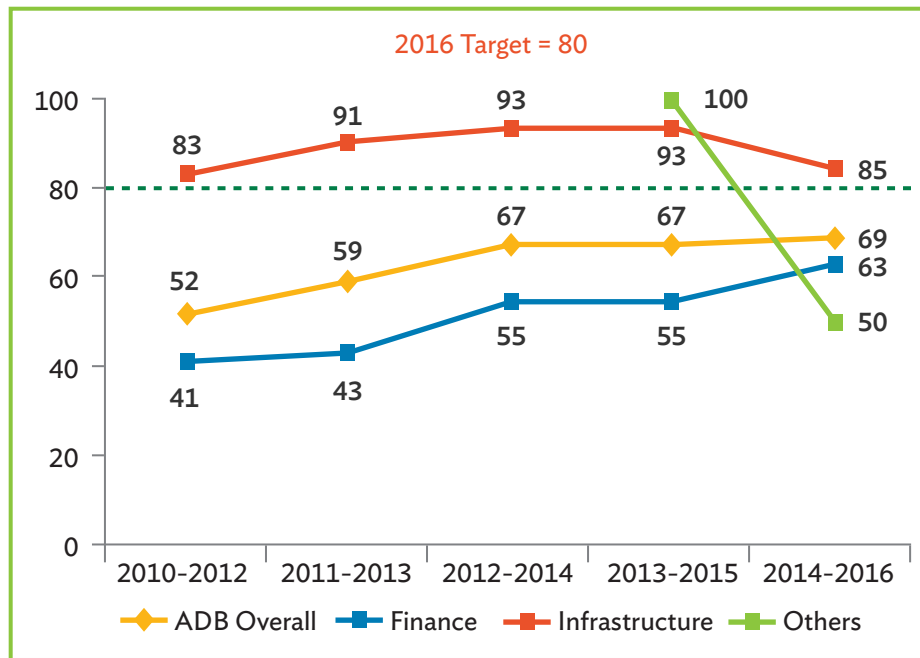
<sup>32</sup> One of the main concerns in the pursuit of sustainability in water operations is the financial viability of projects. An IED study includes detailed analysis of the sustainability of water operations. IED. 2015. *2015 Annual Evaluation Review*. Manila: ADB.

<sup>33</sup> Of the 45 nonsovereign operations reviewed during reporting years 2014–2016, 9 were approved before 2004.

<sup>34</sup> The 2014–2016 reporting period included three nonsovereign operations without extended annual review reports (1 health and 2 finance operations). All three were rated *unsuccessful* by IED. In 2016, IED prepared one extended annual review report validation report for each of the two participating institutions that participated separately under one finance project.

<sup>35</sup> ADB. 2015. *Extended Annual Review Report: Dahanu Solar Power Project in India*. Manila; IED. 2016. *Performance Evaluation Report: Dahanu Solar Power Project in India*. Manila: ADB.

Figure 9: Success Rates of Completed ADB Nonsovereign Operations, 2010–2016 (%)



ADB = Asian Development Bank.

Notes:

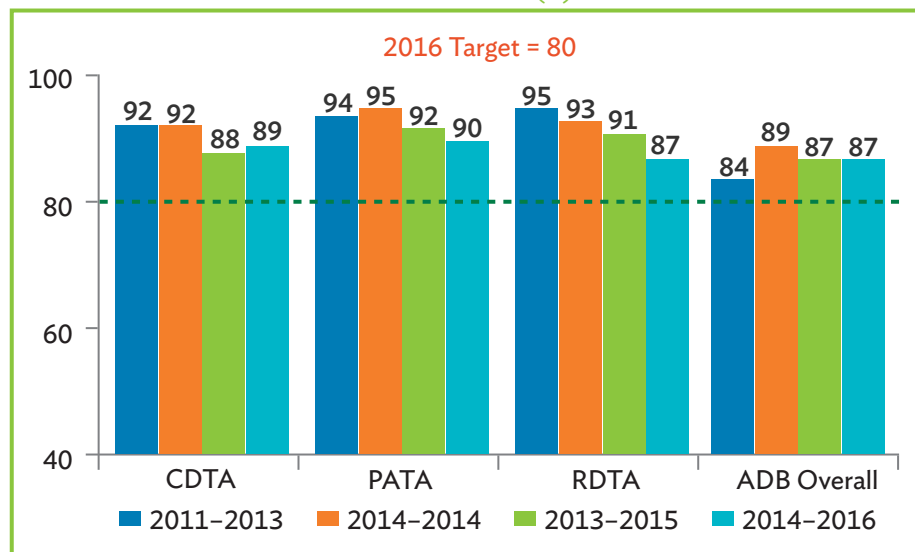
1. The reporting year is based on the circulation dates of extended annual review reports (XARRs) and ends on 30 June. For example, 2014–2016 refers to 1 July 2013–30 June 2016.
  2. The success rates are based on the ratings by the Independent Evaluation Department.
  3. The sector distribution of operations is based on the project classification system. “Infrastructure” includes operations in the transport, energy, and water and other urban infrastructure and services sectors. “Others” includes education and health sectors.
- Sources: ADB XARRs issued during reporting years 2010–2016, XARR validation reports, and project performance evaluation reports.

#### 4. Technical Assistance

67. ADB has consistently surpassed the TA performance target of 80%. The overall ADB success rate rose from 84% in 2011–2013 to 87% for this report period and from 85% to 87% for the ADF subset. TA project success rates exceeded the 80% target in all TA types (Figure 10).<sup>36</sup>

<sup>36</sup> In August 2016, ADB simplified the classification of TA projects. The new TA classification includes two types: (i) transaction TA, and (ii) knowledge and support TA. Under the previous classification, TA projects were grouped into (i) project preparatory TA, (ii) policy advisory TA, (iii) capacity building TA, and (iv) research and development TA. Under the new TA classification system, a TA project that directly benefits an ADB-financed project or helps develop a public–private partnership (PPP) project will be categorized as transaction TA. All other TA projects will be classified as knowledge and support TA.

**Figure 10: Completed Technical Assistance Projects Rated Successful by Type, 2011–2016 (%)**



ADB = Asian Development Bank, CDTA = capacity development technical assistance, PATA = policy and advisory technical assistance, RDTA = research and development technical assistance.

Notes:

1. The reporting year for technical assistance (TA) completion reports is 1 July–30 June. For example, 2014–2016 refers to 1 July 2013–30 June 2016.
2. The latest TA success rates were derived from 526 TA completion reports (excluding project preparatory TA projects) issued during 2014–2016. These projects were approved during 2002–2014.

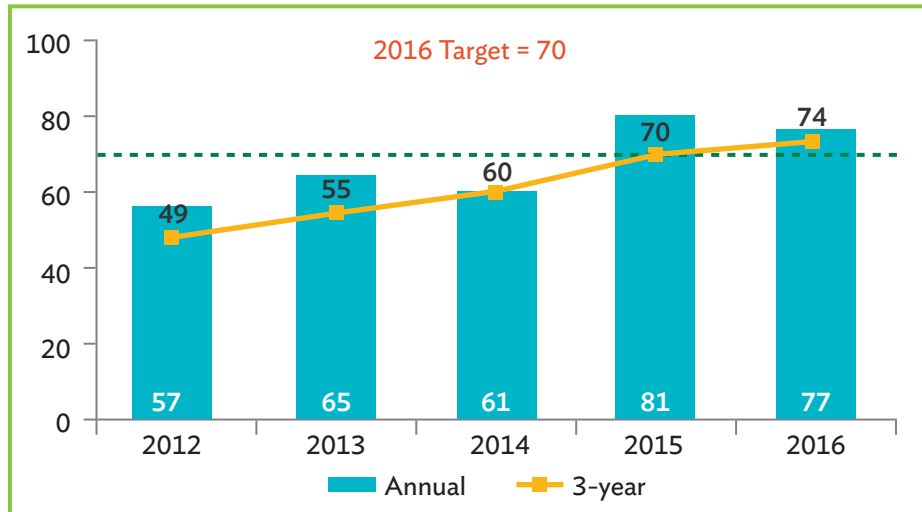
Sources: ADB TA completion reports issued during reporting years 2011–2016; and ADB Strategy, Policy and Review Department.

## 5. Gender Equality Results

68. **Gender target met again.** The rate of completed sovereign operations delivering their intended **gender equality results** rose from 60% in the reporting years 2012–2014 to 70% in 2013–2015 and 74% in this report period. The 2016 corporate target of 70% was achieved for the second year running (Figure 11). ADF operations performed slightly better at 76% in 2014–2016.

69. Successful gender-themed projects boosted the incomes of female farmers, helped enroll thousands of ethnic and disadvantaged girls in schools, kept girls from abandoning secondary education, and provided women with basic health and maternity care services. Many projects opened the way for women to get loans for enterprises and gain employment and an improved water supply. Some helped equip women with adequate knowledge of their rights to access the justice system, registered joint gender-equitable ownership in land certificates, and led to the appointment of women to the national governance boards of state-owned enterprises through reserved quotas (Box 3).

**Figure 11: Completed Operations that Delivered Intended Gender Equality Results, 2010–2016 (%)**



Notes:

1. The totals shown are based on the numbers of completed sovereign operations that were categorized as gender equity theme or effective gender mainstreaming by the Asian Development Bank (ADB) and achieved the gender equality results targeted by their gender action plans and project and program design and monitoring frameworks.
2. The reporting year is based on the circulation dates of project and/or program completion reports (PCRs) and ends on 30 June, e.g., 2016 refers to 1 July 2015–30 June 2016.

Sources: ADB PCRs issued during reporting years 2010–2016, and Sustainable Development and Climate Change Department.

### Box 3: Achieving Gender Equality and Empowerment of Women

The Gender Equality and Empowerment of Women Project in Nepal is unique for the Asian Development Bank (ADB) for being the only purely “gender loan” taken out by a developing member country and with a targeted gender equity theme. Its unique nature reflected the many layers of gender, ethnic, social, and poverty disadvantage that the women of Nepal face. The project’s multipronged design recognized that progress needed to occur on several gender equality fronts at the same time. It tackled the legal, social, and economic facets of gender discrimination simultaneously.

About 71,200 households in small communities benefited from the development of basic infrastructure that helped to reduce the time women spent each day on menial tasks by one-fifth. More than 60% were from groups that were disadvantaged due to their ethnicity or caste, including 23% from the Dalit caste who have suffered historically from entrenched social discrimination. Almost 51,500 women gained microfinance and legal services that improved their economic prospects and legal rights. About 8,600 became members of user committees that managed and supervised the infrastructure civil works. The project also provided 1,400 female wage laborers with tools and equipment to upgrade their working conditions.

More than half of the 12,100 women given microenterprise training set up their own businesses, boosting their incomes by an average of 80%. More than 3,700 women were granted citizenship certificates, and 1,700 were given marriage registration documents they had previously lacked. The 1,300 women who underwent legal training served on community dispute resolution committees and engaged in paralegal work, which raised both their individual status and the overall attitudes toward women in their communities.

Source: ADB. 2015. *Completion Report: Gender Equality and Empowerment of Women Project in Nepal*. Manila.



## 6. Impact Evaluation Studies

70. **Rigorous results assessments continued.** ADB completed 11 technically rigorous **impact evaluation studies** during the current 2013–2016 corporate results framework period to analyze empirical evidence on what works and does not work in its development interventions.<sup>37</sup> Three were published in 2016, one of which took an experimental approach, and 8 more began during the year and were added to the 20 already ongoing.

71. **Lives of the urban poor improved.** One study completed in 2016 showed that an operation in the Philippines had bettered the lives of people in poor and underserved urban communities.<sup>38</sup> Residents in the targeted areas are now able to spend more on their families, households, and themselves, the result of the operation's microfinance, skills training, and pay-for-work schemes. The communities still faced other problems, however, with most residents complaining about poor waste collection, electricity, and water services and local security and peace and order conditions. To address such issues in similar future projects, the study recommended that ADB designs expand multisector partnerships, include community development and innovation programs, and provide for the training of residents in community development and social entrepreneurship.

72. **Studies published on the web.** To raise awareness of the impacts of ADB's projects, ADB has launched a web portal featuring ongoing and completed impact evaluation studies. The portal features the studies funded by two ADB TA projects approved in 2010 and 2013.<sup>39</sup> The TA projects are also building awareness, developing capacity, and effecting knowledge transfer between the DMCs themselves and between ADB and the DMCs through conferences and training workshops on impact evaluation.

## C. Results in Strategy 2020 Core Operational Areas Achieved

73. Level 2 of the ADB results framework has 23 output and outcome indicators to determine the extent to which completed projects delivered on their results targets in ADB's core areas of operations. Of 61 PCRs and extended annual review reports circulated in 2016, 80% covering 42 sovereign and 7 nonsovereign operations provided data on the targeted and ultimately achieved results for 22 indicators.<sup>40</sup>

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<sup>37</sup> Until 2006, impact evaluations in ADB were based on desk reviews of project documents, analysis of project benefit monitoring and evaluation data, short field visits to project sites, project economic analysis, and/or small sample surveys of beneficiary households. They have been more rigorous since 2007 and are now based on identification of valid comparison groups (using the concept of counterfactuals), large sample surveys, and the application of appropriate quantitative analytical methods, supplemented by qualitative analysis.

<sup>38</sup> ADB. 2016. *Project Evaluation Study: Final Report on Promoting Partnerships and Innovations on Poor and Underserved Communities in the Philippines*. Manila.

<sup>39</sup> ADB. 2010. *Technical Assistance for Implementing Impact Evaluation at ADB*. Manila; ADB. 2013. *Technical Assistance Cluster for Developing Impact Evaluation Methodologies, Approaches, and Capacities in Selected Developing Member Countries*. Manila. <https://www.adb.org/data/implementing-impact-evaluation-at-ADB>

<sup>40</sup> Unlike other sections of this report, the section on level 2 results does not discuss all the indicators for core operational results.

74. The core operational results achievement rates earned a rating of *good* for the ADB operations completed in 2016 overall and for the ADF-funded subset. The ADB-wide results were satisfactory for 17 of their 22 indicators—i.e., they met or surpassed 85% of the intended annual targets. The same was true for 13 of the 18 ADF indicators. Operations overall fell short of the 85% level for some energy, water, and education indicators.<sup>41</sup>

75. ADB has sustained the *good* rating for both its operations overall and those funded by the ADF through all four DEFRs during the 2013–2016 results framework period. It achieved satisfactory results in all the core operational results indicators in transport and finance throughout the period.

76. **Energy.** Results for 2016 were satisfactory in four of five energy-related indicators. Seven energy operations reduced greenhouse gas emissions by 1.95 million tons of CO<sub>2</sub> equivalent per year in Bangladesh, the People's Republic of China (PRC), Pakistan, and Thailand. Three operations helped connect 490,000 households to electricity and installed the equivalent of 990 megawatts of power generation capacity. The three included a sustainable power sector program in Bangladesh that improved living conditions for 461,000 households by providing them with a reliable electricity supply.<sup>42</sup> Hospitals, schools, and other social services facilities in the project areas also gained this access. ADB's first nonsovereign program-based lending in the PRC strengthened ADB's Sustainable Transport Initiative and the country's ongoing efforts to expand clean transport.<sup>43</sup> It added 1,860 clean fuel buses, reduced greenhouse gas emissions by 488,250 tons per year, and gave bus operators in less-developed parts of the western provinces better access to finance.

77. **Transport.** The 18 sector operations delivered satisfactory results in four of five transport indicators.<sup>44</sup> Transport operations built or upgraded 6,400 km of roads for communities across the region, mostly in rural areas, and made it easier for people to connect with health care and education services and chances for better livelihoods. A project that built or upgraded 1,743 km of roads in two of India's states has cut the travel times of rural residents by 75% and made public transport services twice as frequent each day.<sup>45</sup> Some monthly incomes have risen by 80%, and more farmers use the roads to sell produce at markets. Women provided 1 in 5 of the 390,000 person-months of local labor during construction.

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<sup>41</sup> The 85% mark was not reached by overall ADB operations on the indicators for length of distribution lines installed or upgraded, number of households with improved sanitation, improved wastewater treatment capacity, number of students benefiting from new or improved educational facilities, and number of students educated and trained under improved quality assurance systems. Please refer to the scorecard in the Annex for the details of achieved results for level 2 indicators.

<sup>42</sup> ADB. 2016. *Completion Report: Sustainable Power Sector Development Program in Bangladesh*. Manila.

<sup>43</sup> ADB. 2016. *Extended Annual Review Report: Clean Bus Leasing Program (Far East Horizon Limited) in the People's Republic of China*. Manila.

<sup>44</sup> No urban rail or bus mass transit system was built or upgraded under the completed operations covered by the current corporate results framework. However, some operations approved during 2008–2016 are expected to deliver this output beginning 2017 and thus provide results data for the fifth transport indicator.

<sup>45</sup> ADB. 2016. *Completion Report: Rural Roads Sector II Investment Program in India*. Manila.

78. **Water.** The 14 ADB operations in the water sector achieved satisfactory results for three of five water indicators. Water projects provided almost 1.9 million households with access to clean water in Bangladesh, Fiji, India, Mongolia, Sri Lanka, and Uzbekistan by installing or upgrading 5,600 km of water supply pipes. Sanitation was improved for 256,000 households. Rehabilitated wastewater treatment plants will eliminate the discharge of up to 100,000 cubic meters a day of polluted water into the living environments of local communities.

79. **Health gains in urban India.** More than 1 million households in four cities will have a better-quality water supply available longer each day after an operation in India helped install 2,450 km of new water supply pipelines.<sup>46</sup> Water pressure is stronger now, and the availability of piped water has eased the domestic workloads for both women and men in the project communities and freed up more of each day for earning income. Waterborne diseases and household medical expenses declined, and students are now absent from school on average only 4.5 days a year compared with 13.0 days before the operation began. Annual workdays lost to illness due to waterborne diseases have halved.

80. **Crop production up after flood protection and irrigation works.** ADB operations built up resilience to flooding and raised land productivity and socioeconomic benefits through flood protection works and irrigation and drainage structure rehabilitation on 2.4 million hectares of mostly agricultural land. An emergency project in Pakistan rebuilt and rehabilitated flood-damaged provincial irrigation facilities servicing more than 2 million hectares of flood-prone farmland. After completion, production of such major crops as sugarcane and rice was higher than the pre-flood levels.<sup>47</sup>

81. **Finance.** The results achieved by six operations, including a river basin development project in the Lao People's Democratic Republic (Lao PDR), were satisfactory on all three finance-related indicators. A finance program in Nepal helped the Small Farmers Development Bank institute reforms. About 143,000 households in rural hill and mountain areas of the country had received additional microfinance services by 2016 as a result—nearly five times the original results target of 30,000.<sup>48</sup> A plan to enhance the bank's viability and outreach had been implemented by 2013. The operation created 75 credit cooperatives. Of the new borrowers, 63% were women.

82. **Education.** Although ADB's education operations met or exceeded the satisfactory output target levels during 2013–2015, they did so for only one of three indicators in 2016 (the number of teachers trained with quality or competency standards). This was due to weaknesses in the design of some education projects, including overly ambitious goals.

83. **Enrollment by girls up, their dropout rate down.** The results of seven ADB operations in the education sector in 2016 included new or improved school classrooms, libraries, and laboratory buildings

<sup>46</sup> ADB. 2016. *Completion Report: Urban Water Supply and Environmental Improvement in Madhya Pradesh Project in India*. Manila.

<sup>47</sup> ADB. 2016. *Completion Report: Flood Emergency Reconstruction Project in Pakistan*. Manila.

<sup>48</sup> ADB. 2016. *Completion Report: Rural Finance Sector Development Cluster Program (Subprogram 2) in Nepal*. Manila.

and equipment for more than 930,000 students in Cambodia, Indonesia, Nepal, Samoa, Sri Lanka, and Viet Nam. A project in Viet Nam built 820 classrooms for 37,000 students, more than half of whom were members of the country's ethnic minorities.<sup>49</sup> Kitchens and separate female and male toilets were provided to encourage more girls to enroll and stay in schools. The dropout rate for female students more than halved over a 7-year period. Net enrollment rate in the 103 disadvantaged districts targeted rose from 76% to 82% by the end of the 2014 school year.

84. **Teaching and learning upgraded in Sri Lanka.** An education project in Sri Lanka helped elevate the quality of teaching and learning in secondary and tertiary education as part of a government reform strategy.<sup>50</sup> A new competency-based curriculum was introduced in secondary schools to improve instruction and the evaluation of student performance. About 19,400 teachers were trained in the new methods, which included the use of information and communication technology in several subjects. Seven in 10 of those trained were women.

85. **Jobs found, skill needs filled in Cambodia.** An operation in Cambodia helped five technical and vocational education and training (TVET) centers match the skills they were providing their students to the current demand in the country's labor market and industries.<sup>51</sup> The project upgraded the centers from provincial to regional status. The number of TVET graduates with diplomas and certificates rose by 44% over 6 years, and the number of women graduating from formal TVET courses was up 23% after 7 years.

86. **Regional cooperation and integration.** ADB's results for the two indicators related to regional cooperation and integration (RCI) were satisfactory due to an energy operation and two road projects. One built provincial roads in Cambodia and the Lao PDR and helped expand cross-border cargo traffic in the Greater Mekong Subregion to almost 1.3 million tons annually.<sup>52</sup> India is selling 3,500 gigawatt-hours of surplus electricity annually to Bangladesh after completion of the electrical grid interconnection project in the energy sector. Households and businesses in Bangladesh are benefiting from low-cost electricity, and ADB has approved a second project to double the interconnection capacity and meet the country's growing demand for power.<sup>53</sup>

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<sup>49</sup> ADB. 2016. *Completion Report: Lower Secondary Education for the Most Disadvantaged Regions Project in Viet Nam*. Manila.

<sup>50</sup> ADB. 2016. *Completion Report: Education for Knowledge Society Project in Sri Lanka*. Manila.

<sup>51</sup> ADB. 2016. *Completion Report: Strengthening Technical and Vocational Education and Training Project in Cambodia*. Manila.

<sup>52</sup> ADB. 2016. *Completion Report: Greater Mekong Subregion: Cambodia Northwest Provincial Road Improvement Project in Cambodia*. Manila; ADB. 2016. *Completion Report: Northern Greater Mekong Subregion Transport Network Improvement Project in the Lao People's Democratic Republic*. Manila.

<sup>53</sup> ADB. 2016. *Completion Report: Bangladesh–India Electrical Grid Interconnection Project in Bangladesh*. Manila; ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the People's Republic of Bangladesh for the SASEC (South Asia Subregional Economic Cooperation) Second Bangladesh–India Electrical Grid Interconnection Project*. Manila.







# LEVEL 3

ADB'S OPERATIONAL  
MANAGEMENT



## LEVEL 3: ADB'S OPERATIONAL MANAGEMENT

### A. Overview

87. To raise its success rates and deliver maximum benefits to its DMCs, ADB must determine how well it is managing its newly approved and ongoing operations. The 30 level 3 indicators monitor the quality of these operations at entry and during implementation. Level 3 indicators also measure the disbursements of ADB's approved financing to see how quickly this finance is mobilized and transferred. The speed with which this is done combines with the quality of implementation to determine how soon and to what extent the development benefits can be realized. Performance on the indicators for ADB's mobilization of cofinancing and public-private partnerships (PPPs) shows whether it is meeting its targets for leveraging additional financial support for DMCs to augment its own. To reach the development goals that ADB has set for itself, ADB must align its operations with the agendas determined by Strategy 2020 and the Strategy 2020 midterm review. Level 3 indicators measure this alignment as well.

### B. Operations Satisfactorily Implemented

88. **Strong satisfactory trend continued.** ADB exceeded the annual 85% target for the share of its **sovereign operations rated satisfactory** during implementation, achieving 95% for operations overall and 96% for the ADF subset.<sup>54</sup> The 99% **satisfactory rating for ongoing nonsovereign operations** was 4 percentage points higher than the annual target.<sup>55</sup> ADB has exceeded the target for all these indicators throughout the current results framework period.

89. **Start-up time still an issue.** Project start-up remained a challenge in most sovereign operations. The average length of **time from approval to first contract in sovereign operations** was largely stagnant for the third year in a row. It shortened a little from 15.1 months in 2015 to 14.4 in 2016 but was still 60% longer than the target of 9.0 months (Figure 12). The gap for ADF operations, which shared that target, widened from 15.0 to 16.2 months. Looking at the average time based on commitments rather than approvals, the average time to first contract in 2016 was 11.6 months for ADB operations overall (2.8 months shorter than time from approval) and 14.0 months for ADF operations (2.2 months shorter).<sup>56</sup>

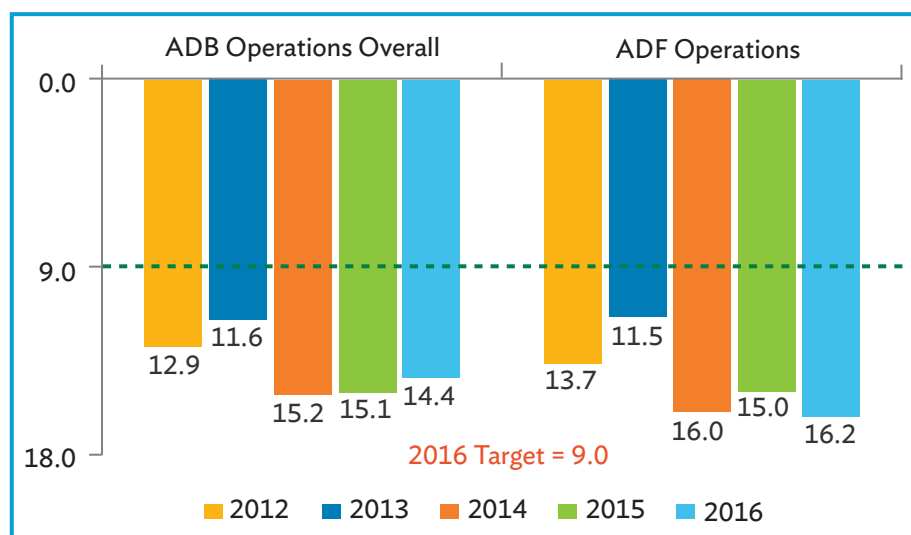
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<sup>54</sup> The high rating for sovereign operations is partly the product of a binary performance monitoring system used in some of the evaluation dimensions. The system indicates only whether operations encounter technical, financial management, or safeguard performance problems. It does not measure the severity of these problems.

<sup>55</sup> ADB's requirement that 95% of its operations overall not involve serious credit risk provides a high floor for achieving this target.

<sup>56</sup> Starting in 2017, ADB will report this start-up time based on the time of commitments rather than of approvals. The commitment point comes when loans and/or grants are signed by the DMC. This usually takes place several months after the operation has been approved by the Board. This change will also be reflected in ADB's transitional results framework (para. 7).

Figure 12: Average Time from ADB Approval to First Contract Award (months)



ADB = Asian Development Bank, ADF = Asian Development Fund.  
Source: ADB Operations Services and Financial Management Department.

90. **Older, slower projects still affecting results.** Scores for the time-to-first-contract indicator are based on projects with first contracts awards in 2016, but some of these operations were approved as far back as 2011–2014 and might not have fully benefited from ADB’s strenuous efforts under the midterm review action plan to streamline business processes, improve project readiness, and reduce implementation delays.<sup>57</sup> For example, the strong procurement readiness performance in 2016 (para. 96) is not fully reflected in the 2016 results for this indicator but should have an impact in future years.

91. **Changing contract mix.** About 39% of the 76 first contracts awarded in 2016 were for consultancies (Table 6). Construction or civil works contracts followed with 33%. First contracts in these two categories were signed in about 13 months after approval, compared with the 16 months for goods contracts (13% of the total) and 22 months for turnkey contracts (14%). The times diminished for all these contract types during 2015–2016, with the turnkey contract average falling the most (by almost 4 months). This showed that improved procurement and design readiness was beginning to have a positive impact (para. 97). However, the effect of these time reductions was mostly offset by the growth in the percentage of the awards held by turnkey contracts from 4% in 2015 to 14% in 2016. Turnkey contracts are complex and take almost twice as long to process as consulting contracts do. This and the expansion in their share of overall contract procurement meant that the overall average time to the first award was shortened only slightly.

92. **Action taken on procurement bottlenecks.** Along with project readiness, slow procurement has been a major factor in the long periods needed for contract approvals. ADB took several steps during 2013–2016 to remove procurement bottlenecks. They included streamlining the procurement

<sup>57</sup> ADB. 2014. *Midterm Review of Strategy 2020 Action Plan*. Manila.

processes and building capacity for procurement at ADB and in DMC executing and implementing agencies.

**Table 6: Types and Shares of First Contracts, 2015–2016**

Contract Type	Average Months		% of Total Contracts		Number of Contracts	
	2015	2016	2015	2016	2015	2016
Consulting services	13.7	10.8	52	39	48	30
Construction	14.5	14.5	28	33	26	25
Turnkey	26.3	22.3	4	14	4	11
Goods	17.3	15.9	16	13	15	10
<b>All Types</b>	<b>15.1</b>	<b>14.4</b>	<b>100</b>	<b>100</b>	<b>93</b>	<b>76</b>

Source: Asian Development Bank Operations Services and Financial Management Department.

93. **Efficiency gained from procurement reforms.** Increasing the Procurement Committee threshold to \$40 million generated important efficiency improvements, while maintaining careful oversight. This was part of the 10-point procurement action plan under the Strategy 2020 midterm review. In addition, ADB has completed the first eight of country risk assessments designed under an ADB reform to determine the level of ADB procurement supervision needed in specific operations and the scope for delegating some of the responsibilities to DMCs. Currently, 5 are under review, and 20 more are to be carried out.<sup>58</sup> Five projects in four DMCs have adopted an approach that allows the review of a substantial sample of low-risk contracts after they have been awarded rather than before.<sup>59</sup> This is expected to reduce procurement periods. So is the posting of six senior staff members from the Operations Services and Financial Management Department to six resident missions and subregional offices and of others now providing dedicated support for procurement in the front offices of the Central and West Asia, Pacific, South Asia, and Southeast Asia departments. ADB is working on a second phase of major procurement reforms that will include a new procurement policy along with procedures and guidelines (Box 5).

94. **Coming benefits of better readiness.** ADB's efforts to enhance readiness in operations, including design readiness and thus readiness for procurement, are already showing positive results (paras. 96–97). The measures taken include greater use by ADB of readiness filters, the project design facility, the multitranches financing facility modality, and technical assistance (TA), as well as lending and additional financing. It will take a while for improved readiness to show full results by shortening average times from approval to first contract, but ADB's performance in this area can be expected to continue to improve.

<sup>58</sup> ADB will undertake procurement risk assessments for Afghanistan, the People's Republic of China (PRC), the Cook Islands, India (involving the states of Karnataka and Rajasthan and the National Highways Authority of India), Kazakhstan, Kiribati, the Marshall Islands, the Federated States of Micronesia, Mongolia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Uzbekistan, and Vanuatu.

<sup>59</sup> These countries are Cambodia, India, Indonesia, and Sri Lanka.

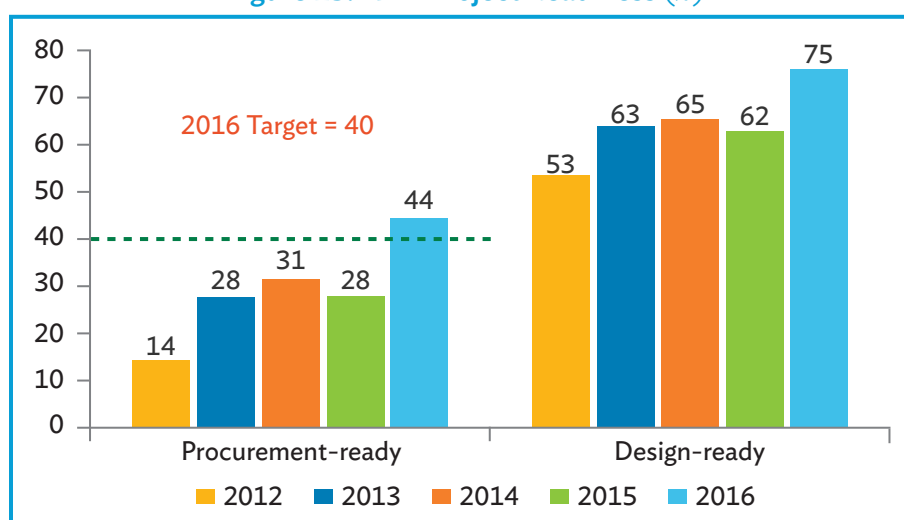


## C. High-Quality Country Strategies and Operations Prepared

95. ADB did not conduct its biennial **quality-at-entry** assessment in 2016, and no results were available on this set of indicators for this report. The one quality-at-entry assessment conducted during the current results framework period was in 2014. Consequently, these indicators are not scored.

96. **Procurement readiness improved.** The share of sovereign **infrastructure projects that were procurement-ready** rose to 44% in 2016 from 28% in 2015, exceeding the 40% target for the first time (Figure 13). The proportion of sovereign infrastructure projects that were design-ready increased to 75% after slipping to 62% in 2015.<sup>60</sup>

Figure 13: ADB Project Readiness (%)



ADB = Asian Development Bank.

Source: ADB regional departments and resident missions.

97. **Continued regional department efforts.** These improvements are the products of continuous efforts by ADB's regional departments. This has included strong emphasis on readiness at project concept paper stage and selection of projects that have some preliminary readiness. The departments have used the multitranche financing facility modality to undertake detailed engineering design and build government agency capabilities before loan approval and project start-up for subsequent tranches. They have developed a substantial lending standby list from which Management can select the projects most ready for approval. The implementation of finely tuned project readiness compliance rules has also helped.

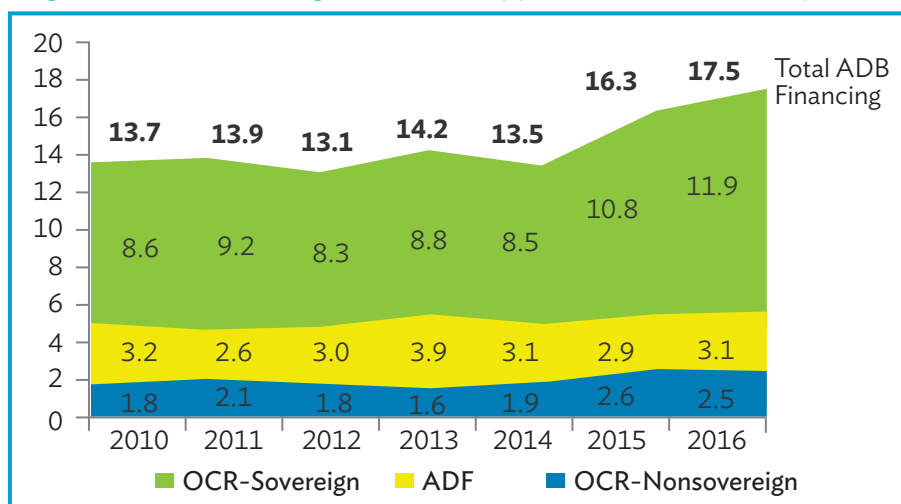
<sup>60</sup> Procurement-ready infrastructure projects are defined as those in which bid documents for engaging contractors for a major construction or goods contract were launched before project approval. Design-ready infrastructure operations have completed one of two steps before approval. They have either completed detailed engineering designs suitable for preparing and launching bidding documents for major construction or goods contracts, or they have completed preliminary design and specifications suitable for preparing and launching bidding documents for construction contracts that involve detailed design and/or turnkey or engineering procurement and construction contracts.

## D. Development Finance Mobilized and Transferred

### 1. Approvals

98. ADB approved \$17.5 billion in financing in 2016, up more than \$1.0 billion from the previous year, mostly due to an increase in sovereign ordinary capital resources (OCR) approvals (Figure 14). Sovereign operations accounted for 86%, comprising \$11.4 billion in project financing, \$3.0 billion in policy-based lending (PBL), and \$0.5 billion of results-based lending (RBL).<sup>61</sup> Of the 145 approvals, 119 were for sovereign operations, and 26 were for nonsovereign operations. The sovereign operations included five project design advances.

Figure 14: ADB Lending and Grants Approved in 2010–2016 (\$ billion)



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

Note: Approvals include loans and grants but exclude technical assistance.

Source: ADB Strategy, Policy and Review Department.

### 2. Disbursement

99. **Ratios up.** The combined **sovereign project and RBL disbursement ratio** rose to 18.2% in 2016 from 17.1% in 2015. This fell short of the 22.0% target for 2016 but was an increase over the 17.6% in 2012 taken as the baseline for the current corporate results framework. At 19.8% in 2016, up from 17.1% the year before, the ratio for the ADF subset just missed the 20.0% 2016 target. The **disbursement ratio for nonsovereign loans** rose to 53.4% from 47.7% in 2015, more than double the target of 24.4%.

<sup>61</sup> This includes a sovereign partial credit guarantee of \$500 million for the Shah Deniz Gas Field Expansion Project in Azerbaijan. (ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Partial Credit Guarantee Shah Deniz Gas Field Expansion Project in Azerbaijan*. Manila.)

100. **Record disbursement volume.** ADB's disbursements rose marginally from the previous high of \$12.34 billion in 2015 to \$12.48 billion (Table 7).<sup>62</sup> This broke down into \$10.74 billion for sovereign loans and grants and \$1.74 billion for nonsovereign loans, equity investments, and debt security. The sovereign disbursement slip from \$10.77 billion in 2015 was due to a drop of \$794 million (20%) in PBL disbursements that offset a solid increase of \$758 million (11%) in disbursements for projects and RBL. The \$3.11 billion in PBL disbursements was lower than a record 2015 amount but well above the long-term PBL disbursement range of \$1 billion–\$2 billion.

**Table 7: ADB Disbursement Amounts and Ratios, 2012–2016**

ADB Operations Overall										
Item	Disbursement Ratio (%)					Disbursement Amount (\$ million)				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
<b>Sovereign loans and grants<sup>a</sup></b>	22.6	20.3	22.0	25.7	24.6	8,030	7,729	8,912	10,773	10,737
Projects and RBL	17.6	17.8	18.3	17.1	18.2	6,042	6,510	7,171	6,869	7,627
Policy-based lending	168.0	77.0	135.7	211.9	179.9	1,988	1,219	1,742	3,904	3,110
<b>Nonsovereign loans, equity investments, and debt security</b>						665	974	1,279	1,567	1,743
Nonsovereign loans	24.4	36.1	36.5	47.7	53.4	553	807	1,088	1,444	1,516
Equity investments <sup>b</sup>	22.1	35.3	37.3	26.0	18.0	112	167	190	123	79
Debt security <sup>c</sup>					100.0					148
<b>Total</b>						<b>8,695</b>	<b>8,703</b>	<b>10,191</b>	<b>12,340</b>	<b>12,480</b>
ADF Operations										
Projects and RBL	16.9	17.2	16.5	17.1	19.8	1,576	1,744	1,814	1,863	2,140
Policy-based lending	71.4	151.1	183.2	213.5	115.2	243	807	819	688	350
<b>Total</b>	<b>18.9</b>	<b>23.9</b>	<b>23.0</b>	<b>22.7</b>	<b>22.4</b>	<b>1,818</b>	<b>2,551</b>	<b>2,632</b>	<b>2,550</b>	<b>2,490</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, RBL = results-based lending.

<sup>a</sup> Excludes disbursements for special funds and cofinanced grants fully administered by ADB, which were \$258.5 million in 2016.

<sup>b</sup> Includes both sovereign and nonsovereign equity disbursements, and debt security disbursements of \$6 million in 2014.

<sup>c</sup> Debt securities include ADB's financial assistance to developing member countries made through subscriptions to an entity's debt instruments, such as bonds and debentures issued for purpose of financing development projects.

Source: ADB Controller's Department.

101. **Growth in nonsovereign loans, equity investments, and debt security disbursements.** Disbursements for nonsovereign loans, equity, and debt security grew by 11% to \$1.74 billion. The increase was driven by \$148 million in debt security disbursements, the first significant disbursements of this type. ADB provided equivalent debt financing to support the conversion of Janalakshmi Financial Services into a finance bank from India's largest nonbank financial company focusing on

<sup>62</sup> The figure excludes disbursements for special funds and cofinanced grants fully administered by ADB, which were \$258.5 million in 2016.

microfinance lending.<sup>63</sup> The financing will allow it to expand its microfinance and small and medium-sized enterprise (SME) loan portfolios.

102. **Top five disbursing developing member countries.** Bangladesh, the People's Republic of China (PRC), India, Pakistan, and Viet Nam accounted for 66% of all sovereign project and RBL disbursements in 2016. Of these top five DMCs by volume, India accounted for a record \$1.38 billion, with a disbursement ratio of 18.2%. It was followed by the PRC (\$1.31 billion, and a disbursement ratio of 19.7%) and Pakistan (\$838 million, 19.6%). Bangladesh had the highest disbursement ratio of the top five (23.4%) with disbursements of \$823 million. This was due to a concerted effort by the staff of ADB's South Asia Department, including the Bangladesh Resident Mission, to pursue potential disbursements and advance actions, realize additional disbursements from 2016 contract awards through timely mobilization of advances, and execute loan savings effectively. Viet Nam had the lowest ratio of the five (13.8%) with disbursement of \$707 million, partly because of government limits on disbursements from projects funded by official development assistance. The overall improvement in the sovereign project and RBL disbursement performance during 2016 was achieved through concentrated efforts by regional departments. Close monitoring of project implementation progress, strong collaboration between project team leaders and executing and implementing agencies in promptly resolving implementation issues related to procurement and safeguards, and focus on strengthening the capacity of executing agencies were all contributing factors.

103. **Disbursement target difficult to achieve.** A detailed analysis, including simulations, has shown that three factors had a strong influence on the sovereign projects and RBL disbursement ratios during 2010–2016: (i) the disbursement S-curve, which is directly related to the length of the project implementation period; (ii) the annual growth in ADB approvals; and (iii) loan cancellations. Due to the fact that sovereign project and RBL approvals rose by 28% during 2014–2016, the ambitious 22% disbursement ratio target could have only been achieved if average implementation periods had shortened to 5–6 years and produced a shorter S-curve in turn. The actual average 2014–2016 implementation period was about 6.9 years. A reduction in the cancellation amounts, which were \$1,023 million in 2016, would also have been needed (or at least more timely cancellations). The President's Planning Directions set an operational sovereign project and RBL disbursement ratio target for regional departments for 2017 of 20.5%.<sup>64</sup> This is ambitious but realistic, given the increasing approvals and young age of the ongoing portfolio.

104. **Action to streamline procurement continuing.** Steps taken under ADB's midterm review action plan aim to improve the overall disbursement processing time, help meet disbursement targets, and increase the disbursement ratio. ADB introduced the Client Portal for Disbursements, a secure web-based system that enables borrowers and executing and implementing agencies of ADB sovereign loan and grant projects to prepare, submit, and track withdrawal applications online. About

<sup>63</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Debt Financing to Janalakshmi Financial Services Private Limited in India*. Manila.

<sup>64</sup> ADB. 2017. *Planning Directions for 2017 and Preparation of Work Program and Budget Framework 2018–2020*. Manila.

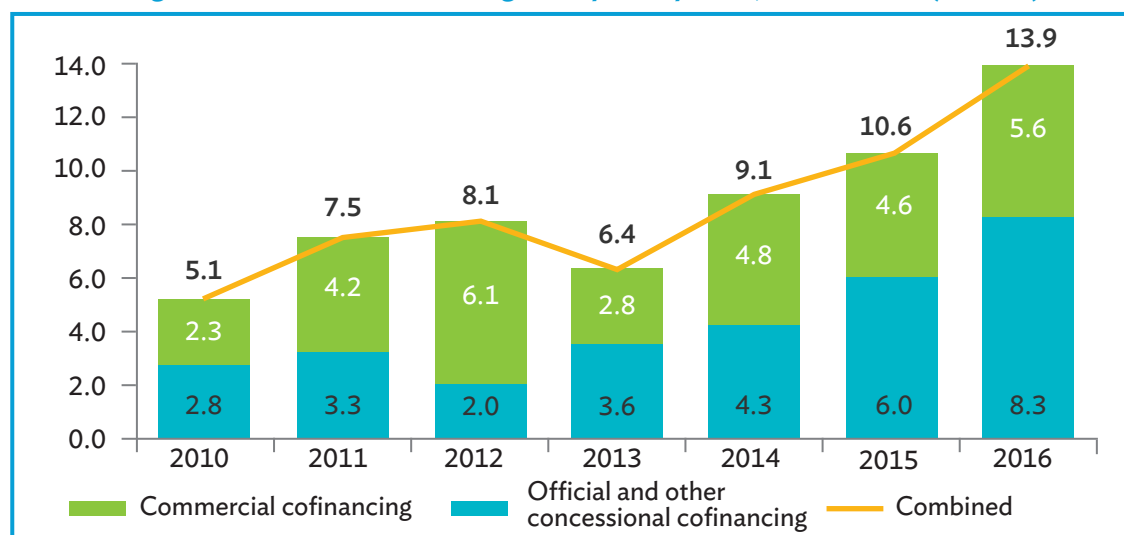
1,300 applications have been submitted online so far, and this shortened the average disbursement processing time by over 3 days in 2016, which represented a 39% reduction in the processing time from 2015. Further improvements are expected as more DMCs and executing agencies are given access to the system during 2017 and 2018. ADB has also streamlined guidelines and procedures to expedite disbursements. One example is the removal of a ceiling for statement of expenditures when the executing agency has adequate capacity. ADB has made its loan and grant financial information services systems more user-friendly for disbursement processing and is now modernizing disbursement systems to accommodate its operational growth.

### 3. Direct Value-Added Cofinancing

105. **New high reached and target met.** ADB catalyzed a record amount of **direct value-added cofinancing** in 2014–2016 to augment its own financing and help DMCs meet their development needs. The total increased by 29% to a record \$33.6 billion during this 3-year report period from the \$26.1 billion in 2013–2015. This was equivalent to 71% of total ADB financing approved during the period, surpassing the 2016 target of 70%.<sup>65</sup>

106. **Both official and commercial totals up.** ADB mobilized a record \$13.9 billion in official and commercial cofinancing for 90 projects in 2016 (Figure 15). The total was equal to 80% of the financing ADB approved itself during the year, up from 65% in 2015. Official cofinancing rose by \$2.3 billion (38%) to a new high of \$8.3 billion. Commercial cofinancing was up by \$1.0 billion (23%) to \$5.6 billion. Development partners committed \$859 million to trust funds and global funding initiatives for ADB-administered projects in 2016. ADB also mobilized \$148 million in cofinancing for 102 TA projects.

Figure 15: Annual Cofinancing Catalyzed by ADB, 2010–2016 (\$ billion)



ADB = Asian Development Bank

Note: Estimates exclude cofinancing for technical assistance projects.

Sources: ADB Office of Cofinancing Operations and Private Sector Operations Department.

<sup>65</sup> Cofinancing for technical assistance projects is not included in the aggregate estimates.



107. **One-to-one 2020 target challenging.** Direct value-added cofinancing levels have been volatile year to year and are greatly affected by large amounts of cofinancing for one or two projects. Current trends are therefore not reliable indicators of future performance. To achieve the very ambitious Strategy 2020 target of \$1 of cofinancing for every \$1 in ADB financing, ADB must step up its efforts in this area even further.

108. **Major cofinanced education reform in Nepal.** ADB financing of \$120 million leveraged \$316 million in cofinancing in Nepal's education sector from eight development partners—the governments of Australia, Finland, Japan, and Norway; the European Union; the Global Partnership for Education Fund; UNICEF; and the World Bank.<sup>66</sup> Their cofinancing and an ADB results-based loan and TA grant approved in 2016 will support a major government reform push to make quality education available more widely and equitably. The operation will benefit 6.3 million students, 153,200 teachers, and more than 34,000 schools.

109. **New cofinancing frameworks.** Cofinancing frameworks help ADB leverage finance for DMCs and enable it to work closely and in harmony with its partners on development outcomes in sectors and geographical areas where they share priorities. During 2016, ADB signed new framework cofinancing arrangements with Agence Française de Développement, the Eurasian Development Bank, and the Organization of the Petroleum Exporting Countries Fund for International Development. Total commitments under these frameworks reached \$3.1 billion for operations in six different sectors: energy; education; health; transport; public sector management; and agriculture, natural resources, and rural development.

110. ADB and the Swedish International Development Cooperation Agency signed an agreement for an innovative risk-transfer mechanism under which the agency will guarantee up to \$155 million of five ADB sovereign loans. These mechanisms allow ADB to increase its lending operations.

#### 4. Public–Private Partnerships

111. **Target reached for public–private partnership transactions.** Public–private partnerships (PPPs) expand ADB's development reach and effectiveness. PPPs are contractual arrangements between governments and private sector parties, usually to deliver infrastructure or services. They include publicly financed service contracts, management contracts, and concessions, with a mix of public and private financing or private financing on its own. A total of 58 **development transactions for PPPs** that ADB has supported reached commercial close during 2013–2016, surpassing the target of 50. ADB helped formulate 18 PPP development transactions in 2016. Most of the PPP transactions ADB supported during 2013–2016 were in Bangladesh, India, and the Philippines.

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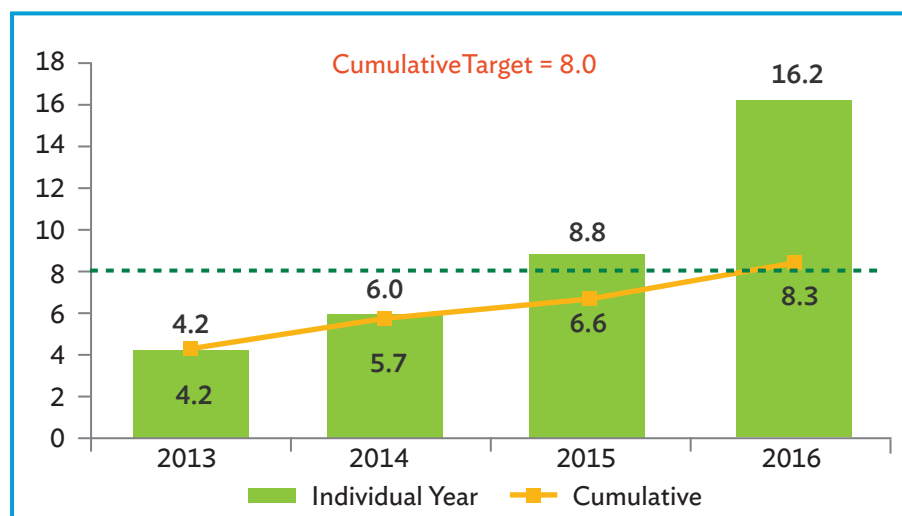
<sup>66</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Technical Assistance Grant to Nepal for the Supporting School Sector Development Plan*. Manila.

112. **Concession contracts predominant.** The 18 transactions in 2016 involved 12 concession contracts, 5 service contracts, and 1 management contract. During the 2013–2016 results framework period, ADB supported 11 concession contracts through its project development facility, and 17 were signed using ADB onlending. When a sound legal and institutional framework is in place, the project development facility and onlending are highly effective in accelerating the development of infrastructure through PPP schemes.

113. **Public–private infrastructure financing in Bangladesh.** Under the Second Public–Private Infrastructure Development Facility approved in 2013 for Bangladesh, the government will provide financing to a development company for relending to help carry out medium-sized and large infrastructure subprojects sponsored and led by the private sector.<sup>67</sup> By providing long-term debt financing and catalyzing private sector participation and commercial financing for these projects, the facility will reduce the pressure on the public budget to meet some of these infrastructure needs and help rural people and SMEs in off-grid areas gain an environment-friendly electricity supply. Two subprojects approved in 2016 will build power plants that will sell the electricity they generate to the Bangladesh Power Development Board under a 15-year purchase agreement.

114. **Ratio target achieved.** The 8.3 **cumulative PPP leverage ratio** for 2013–2016 exceeded the cumulative target of 8.0 for the period. The ratio rose from 8.8 in 2015 to 16.2 in 2016, which meant that every \$1.00 of ADB’s financing during the year generated \$15.20 in PPP-related financing (Figure 16). The results are based on PPP projects that have reached financial close and have ADB nonsovereign financing and/or ADB financial support through sovereign operations. This includes financing or TA projects provided for onlending and project preparation facilities.

**Figure 16: ADB’s Public–Private Partnership Leverage Ratio, 2013–2016**



ADB = Asian Development Bank.  
Source: ADB Office of Public–Private Partnership.

<sup>67</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the People’s Republic of Bangladesh for the Second Public–Private Infrastructure Development Facility*. Manila.

115. **High leverage ratio in infrastructure subprojects.** ADB's support has helped subprojects reach financial closure in India through an ongoing multitranche financing facility to support the government-established India Infrastructure Financing Company.<sup>68</sup> The ADB facility enabled overleveraged subproject developers to obtain additional debt without having to raise more equity. In 2016, the facility supported four subprojects, including two involving solar power. ADB financing of \$45.4 million helped catalyze \$961 million in private sector investment, delivering a leverage ratio of 21.2.

116. **Telecommunications breakthrough in Myanmar.** An ADB loan approved in 2015 to a private company in Myanmar will help roll out a nationwide greenfield network that will provide more than 90% of the country's population with telecommunications access.<sup>69</sup> The network leapfrogs several generations of mobile technology by ensuring greater speed and capacity for data transfer. It will enable mobile broadband internet, e-mail, and enriched mobile applications, as well as conventional voice and text services. This breakthrough in communications should vastly improve opportunities for business and trade, strengthen public health and education, and help reduce urban–rural disparities in the country. The project, which has a gender equity theme, is expected to provide women with new roles in the telecommunications industry and use a custom-designed app to provide support for pregnant women.

117. **Building a base for public–private partnerships.** ADB will continue to help its DMCs adopt the PPP modality to increase private sector participation in infrastructure. This will be done through support for the DMCs' capacity development efforts, legal and institutional reforms, and project preparation activities. ADB will provide and catalyze the long-term financing that is critical to infrastructure development.

## E. ADB Operations Focused on Strategic Agendas and Core Operational Areas

### 1. Inclusive Economic Growth

118. The results framework does not set overall ADB targets for the first two pillars of the inclusive economic growth agenda—**growth and creation of jobs and opportunities** (pillar 1), and **inclusive**

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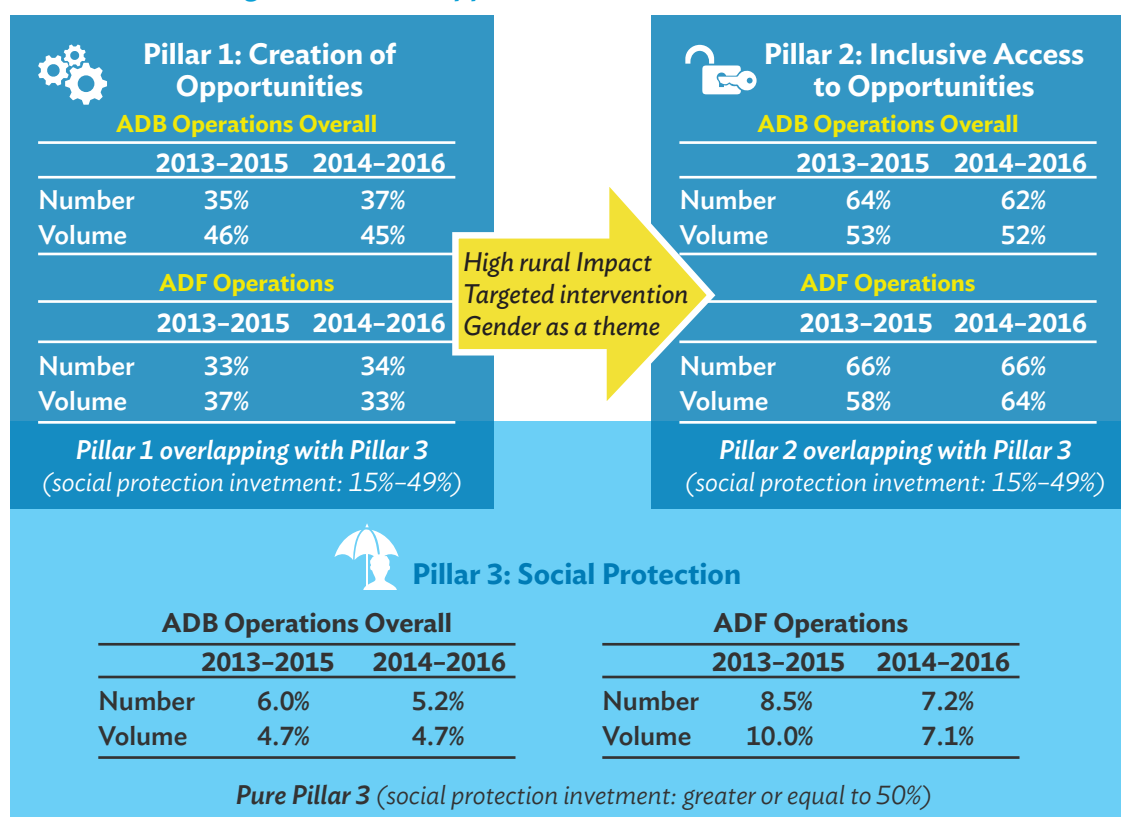
<sup>68</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to India for the Accelerating Infrastructure Investment Facility in India*. Manila.

<sup>69</sup> ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to Ooredoo Myanmar Limited for the Nationwide Telecommunications Project in Myanmar*. Manila.

**access to jobs and opportunities** (pillar 2).<sup>70</sup> This is because ADB's support for this agenda is determined by the country context and DMC requirements. ADB does, however, target the share of approved operations that support the third pillar—**social protection**—which should be above the 2010–2012 baseline level.<sup>71</sup>

119. **Progress on pillars 1 and 2.** The share of operations supporting pillar 1 increased during 2014–2016 for both ADB operations as a whole (from 35% in 2013–2015 to 37%) and the ADF subset (from 33% to 34%). The pillar 2 ADB-wide share decreased from 64% to 62%. The ADF ratio was unchanged at 66% (Figure 17).

**Figure 17: ADB Support for Inclusive Economic Growth**



ADB = Asian Development Bank, ADF = Asian Development Fund.  
Source: ADB Strategy, Policy and Review Department.

<sup>70</sup> Under Strategy 2020, ADB classifies individual operations under the three pillars of inclusive economic growth, based on the proportion of the ADB investment that supports development subsectors that themselves support one or more of the three pillars. Pillar 1 operations contribute to high sustainable growth (e.g., through support for tertiary education or private sector investment). Pillar 2 operations help members of society access opportunities created by growth (e.g., through support for irrigation or secondary education). Pillar 3 operations strengthen policies, programs, and schemes in the areas of social assistance, social insurance and welfare, labor market policies and programs, and disaster risk management (e.g., through support for technical and vocational education training and health insurance). Projects in which the investment in technical and vocational education training is half or more of the total ADB investment are considered to support pillar 3 exclusively. When the share is 15%–49%, projects are considered to support pillar 3 and pillar 2 or pillar 1, depending on whether the other subsectors being supported by the projects support pillar 2 or 1. ADB. 2014. *Project Classification System—Final Report*. Manila; and ADB. 2012. *Review of ADB's Results Framework*. Manila.

<sup>71</sup> As part of the validation of active and closed portfolios with respect to the implementation of ADB's revised project classification systems, the eOperations system was enhanced to more accurately classify operations under the three pillars of inclusive economic growth.

120. **Social protection targets: one met, one not.** The share of ADB's overall approved operations that supported social protection slipped to 5.2% in 2014–2016 from 6.0% in 2013–2015 but remained above the targeted minimum 4.8% baseline. There were 20 such operations during this report period. The ADF subcategory fell below its 8.0% baseline to only 7.2% in 2014–2016, with the number of project approvals dropping to 12 in 2014–2016 from 14 in 2013–2015.

121. **Health care and education for the poor.** Stand-alone social protection projects approved in 2016 included \$400 million in additional financing for a project in the Philippines that is extending the reach of the country's conditional cash transfer program.<sup>72</sup> The program provides grants to poor families if they send their children to school and visit health centers. The aim is for more poor families and women to benefit from the country's education and health services.

122. **Strengthening ADB's support for social protection.** Through its Social Protection Thematic Group, ADB is working to strengthen its capacity to support the social protection agenda. The group has been conducting a leadership course for DMC officials and staff since 2014 on social protection concepts, the role of social protection in reducing poverty and vulnerability, and options based on past experience for the design of effective social protection programs. The executive training program, a component of ADB's Social Protection Operational Plan, 2014–2020, allows ADB staff to interact and confer with their DMC counterparts on social protection opportunities.<sup>73</sup> ADB expects that 8% of its operations will support social protection during 2017–2019 in terms of both financing and the number of projects approved.<sup>74</sup> Increasing the share of social protection operations will require additional work and planning by regional departments to strengthen the pipeline, particularly in ADF DMCs. Regional departments will need to be forceful in pursuing opportunities to support social protection, given the issue of aging populations in some DMCs and problems of inadequate employment in others. The Social Protection Thematic Group in ADB will also need to strengthen its capacity to support the region's social protection agenda.

123. **Infrastructure provided in lagging areas.** More than 46% of ADB's infrastructure projects approved during 2014–2016 seek to improve conditions in **lagging areas**. The trend over the 4-year corporate results framework period shows a continuing decline in the share of operations in these areas. In 2016, ADB approved the Solar Power Development Project, which will replace expensive-to-operate diesel generators in Solomon Islands with solar-powered units.<sup>75</sup> While almost two-thirds of the country's people are connected to electricity in the capital Honiara, the rate in the rest of the country is 6%. In five of the nine provinces, it drops to below 4%. When the project is completed, the cost of electricity is expected to decline by about 20% to \$0.41 per kilowatt-hour, increasing affordability.

<sup>72</sup> ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing and Technical Assistance Grant to the Republic of the Philippines for the Social Protection Support Project*. Manila.

<sup>73</sup> ADB. 2013. *Social Protection Operational Plan, 2014–2020*. Manila.

<sup>74</sup> ADB. 2016. *Work Program and Budget Framework, 2017–2019*. Manila.

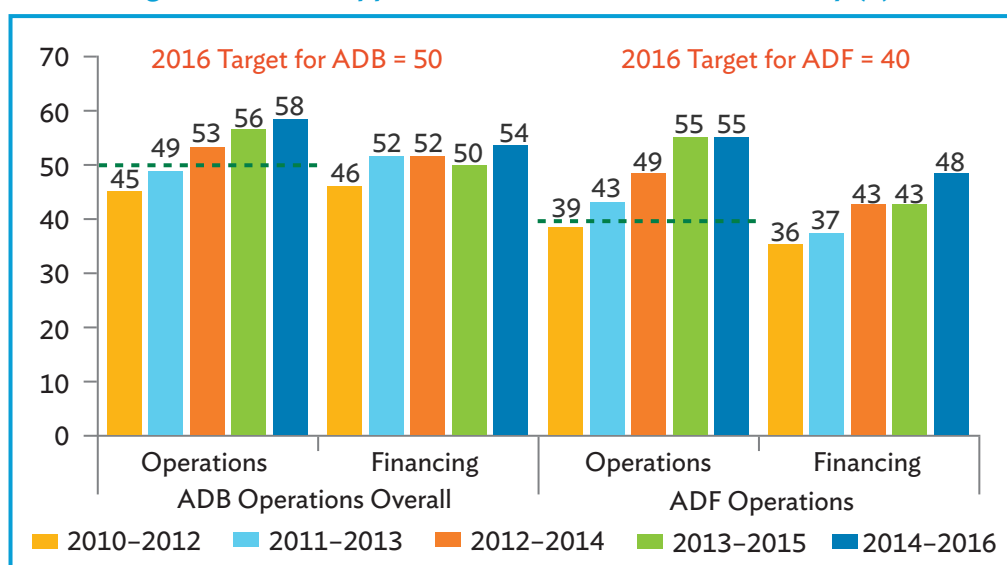
<sup>75</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of a Grant to Solomon Islands for the Solar Power Development Project*. Manila.

124. **Microfinance a tool for inclusion.** ADB approved eight new operations to support **inclusive business** in 2016, including three that will give marginalized people a chance to benefit from microfinance. One operation will establish a network of correspondent institutions in less-developed states in India to provide banking products and services to the poor, women, and other groups often unable to avail of them.<sup>76</sup> These institutions may be local grocery stores or other small businesses, which will enable the privately owned IndusInd Bank to offer services in semi-urban and other underbanked areas without the usual high overhead of operating a full banking office.

## 2. Environmental Sustainability, Climate Change, and Disaster Risk Management

125. **Targets still surpassed.** The shares of operations ADB-wide and in the ADF subcategory remained above their indicator targets for supporting **environmental sustainability** in 2014–2016 (Figure 18). The ratio for ADB overall has risen to 58% from the baseline of 45% in 2010–2012. It reached the 50% target in 2012–2014. The ADF rate was steady at 55%, 15 percentage points higher than the 40% target and up from a baseline of 39%.

Figure 18: ADB Support for Environmental Sustainability (%)



ADB = Asian Development Bank, ADF = Asian Development Fund.  
Source: ADB Strategy, Policy and Review Department.

126. **Green innovation for metropolitan region.** Several projects with environmental sustainability components introduced innovative approaches. One was a \$500 million project that will establish a dedicated green financing platform to improve air quality in the Greater Beijing–Tianjin–Hebei

<sup>76</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to IndusInd Bank Limited for Supporting Access to Finance for Women in Less-Developed States*. Manila.



region of the People's Republic of China (PRC).<sup>77</sup> The platform will leverage financing and scale up investments in green and pollution-reduction schemes in the energy, transport, and agriculture sectors. The project will also bring in international expertise and advanced technologies to help the region's industries become more energy efficient and reduce their carbon and other emissions.

127. **Efficiency lifted, emissions cut.** The 13 sovereign and 8 nonsovereign energy sector operations that had **clean energy** components in 2016 involved total investments of \$2.54 billion. Of this, \$1.74 billion (69%) went to renewable energy projects and \$0.80 billion toward energy efficiency. ADF sources contributed 5% (\$116 million), while ordinary capital resources (OCR) provided the bulk of funding at 79% (about \$2.00 billion). Bilateral funding, the Climate Technology Fund, and the Global Environment Facility provided 17% (\$424 million). These investments will help cut annual greenhouse gas emissions by 13.5 million tons of CO<sub>2</sub> equivalent, generate 2.0 gigawatts of new capacity from renewable energy sources, and save 4.7 terawatt-hours of electricity a year.

128. **Rooftop solar power in Thailand.** Two nonsovereign operations approved in 2016 will help install and operate solar photovoltaic power systems on rooftops or other parts of commercial and/or industrial buildings in Thailand with no up-front cost to the host companies.<sup>78</sup> These projects have the potential to add 200 megawatts of solar power capacity and further the country's long-term goals to develop alternative energy sources and boost the share of renewable energy used for power generation. The resulting emission reductions are expected to be about 134,000 tons of CO<sub>2</sub> equivalent per year.

129. **Working toward the 2020 clean energy target.** To work toward its new target of \$3.0 billion of clean energy investments a year by 2020, ADB will focus in 2017 on helping DMCs achieve a sustainable energy mix by considering the cost trends of different energy sources, applying new and advanced technologies in project design, and developing innovative business models and financing instruments that create markets for clean energy.

130. **Growth planned for urban transport and railway operations.** To help reduce emissions, ADB's 2010 Sustainable Transport Initiative Operational Plan set targets for **urban transport and railways** financing for 2020—30% of overall transport finance for urban transport and 25% for railways.<sup>79</sup> In 2016, \$732 million or about 18% of total transport financing was approved for six urban transport and three railway projects, with the two subsectors accounting for 9% each. This included ADB's largest-ever commitment to the railway subsector, a \$1.5 billion multitranches financing facility to build a

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<sup>77</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Air Quality Improvement in the Greater Beijing-Tianjin-Hebei Region—China National Investment and Guaranty Corporation's Green Financing Platform Project*. Manila.

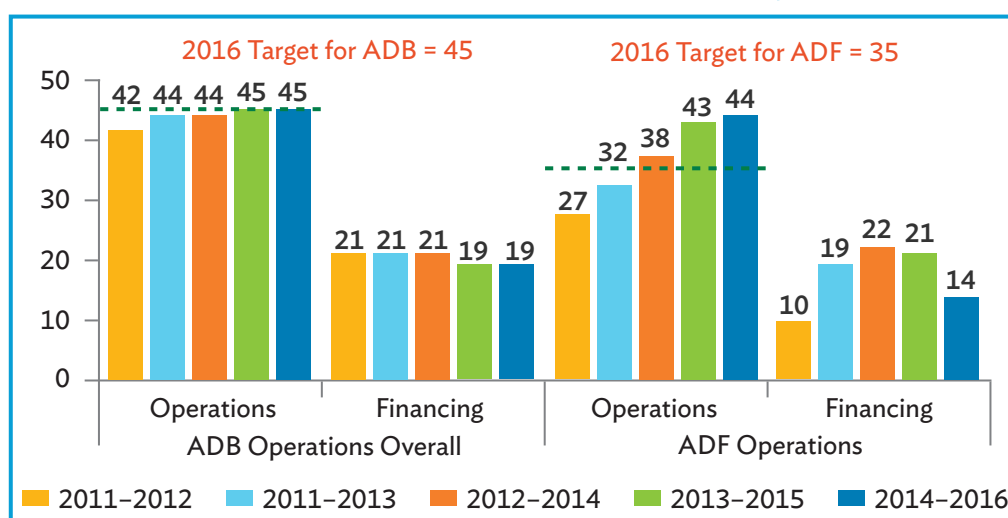
<sup>78</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Thai-Sunseap Asset Company Limited for the Grid-Parity Rooftop Solar Project in Thailand*. Manila; ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Stumpf Energy Solutions (Thailand) and Stumpf Energy Tranche B for the Distributed Commercial Solar Power Project in Thailand*. Manila.

<sup>79</sup> ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

102 km dual-gauge railway line in southeast Bangladesh.<sup>80</sup> The project will operate 10 passenger trains daily and transport 2.9 million passengers annually by 2024.

131. **Climate change operations target achieved.** ADB operations supporting **climate change mitigation and/or adaptation** met the target for 2014–2016, maintaining a 45% share of ADB operations overall, up from the baseline of 42% in 2011–2012. At 44% and up from the baseline of 27%, ADF operations surpassed the target share of 35% for the third time (Figure 19). The share of its overall financing that goes to climate change adaptation and/or mitigation projects, monitored using joint approaches developed by the multilateral development banks, remained steady during 2014–2016 at 19% for ADB overall and decreased to 14% for ADF subset.

**Figure 19: ADB Support for Climate Change Mitigation and/or Adaptation (%)**



ADB = Asian Development Bank, ADF = Asian Development Fund.

Source: ADB Strategy, Policy and Review Department.

132. **Multiple climate change approaches.** Climate investments in 2016 included projects supporting clean energy (renewable energy and energy efficiency), sustainable transport, climate-resilient infrastructure, climate-smart agriculture, and climate risk and disaster risk management. The design of a bridge to be built in India under a \$500 million operation approved during the year incorporates a climate adaptation measure to help minimize the effect of extreme rainfall on the flow patterns of the Ganges River.<sup>81</sup>

133. **Record financing for mitigation and adaptation.** ADB financing reached new highs of \$2.6 billion for climate change mitigation and \$1.1 billion for adaptation in 2016. This is in line with its

<sup>80</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility and Technical Assistance Grant to the People's Republic of Bangladesh for the South Asia Subregional Economic Cooperation Chittagong–Cox's Bazar Railway Project, Phase 1*. Manila.

<sup>81</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to India for the Bihar New Ganga Bridge Project*. Manila.

commitment to lift this annual financing to \$6 billion by 2020—\$4 billion for mitigation and \$2 billion for adaptation. Climate finance from external funds reached more than \$640 million during the year.

134. **Climate project bond a first.** The first single-project climate bond in Asia and the Pacific, issued by ADB in 2016, will help finance the ongoing operation and maintenance of the Tiwi-MakBan geothermal energy facilities in the Philippines. The bond will raise the local currency equivalent of \$225.0 million, to be augmented by a direct ADB local currency loan equivalent to \$37.7 million.<sup>82</sup>

135. **Rise in support for disaster risk management.** ADB approved an average of \$4.98 billion in 2014–2016 for projects related to **disaster risk management**. They reduced disaster risks directly, integrated disaster resilience measures, or supported disaster response. The financing increased from an average of \$4.72 billion in 2013–2015.

136. **New disaster contingency loan.** ADB extended its first disaster contingent credit loan in 2016. The \$10 million credit will provide rapid support to the Cook Islands to fast-track early recovery efforts and help reduce the social and economic impacts in the immediate wake of any future disaster.<sup>83</sup> A \$200 million loan was approved to help Pakistan finance a new national disaster risk management fund, another first for ADB.<sup>84</sup>

137. **Rapid response fund.** The Asia Pacific Disaster Response Fund (APDRF) has provided valuable immediate assistance to ADB DMCs impacted by disasters, including \$9.20 million in 2016. A \$2 million APDRF grant went to help Fiji deal with severe damage in the wake of tropical cyclone Winston.<sup>85</sup> ADB also provided the government with a \$50 million emergency assistance loan for short-term financing of disaster-recovery reconstruction programs, including school rehabilitation and housing assistance.<sup>86</sup> Other APDRF grants helped governments respond to summer drought and heavy winter snow in Mongolia, droughts in the Marshall Islands and Viet Nam, and flooding and landslides in Sri Lanka.

138. **More disaster support for poorest countries.** During the 2017–2020 ADF period, donors have agreed to allocate up to \$200 million in grants to concessional-assistance-only countries for disaster risk reduction. Additional concessional OCR lending of up to \$224 million will be made available to eligible DMCs to help reduce disaster risks. The ADF donors have also agreed to regularize the piloted ADF Disaster Response Facility for concessional-assistance-only countries, starting during this ADF period. This will enhance ADB's capacity to respond quickly to natural disasters in the region's poorest countries.

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<sup>82</sup> ADB. 2016. ADB Backs First Climate Bond in Asia in Landmark \$225 Million Philippines Deal. News release. 29 February.

<sup>83</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to the Cook Islands for the Disaster Resilience Program*. Manila.

<sup>84</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loans, Technical Assistance Grant, and Administration of Grant to the Islamic Republic of Pakistan for the National Disaster Risk Management Fund*. Manila.

<sup>85</sup> ADB. 2016. ADB to Provide \$2 Million Emergency Assistance to Fiji After Cyclone Winston. News release. 23 February.

<sup>86</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Fiji for the Emergency Assistance for Recovery from Tropical Cyclone Winston*. Manila.

### 3. Regional Cooperation and Integration

139. **Strong commitment to regional integration.** ADB has continually demonstrated strong, steady commitment to promoting **regional cooperation and integration** (RCI). RCI's share in the number of ADB operations surpassed the 25% target for 2014–2016, reaching 26%. It has trended upward from the 2010–2012 baseline of 21%. RCI also rose as a share of total ADB financing from 22% in 2010–2012 to 27% in the current report period. RCI's share in operation numbers in the ADF subcategory has remained above the 25% target throughout this period, starting at 27% and reaching 31% in 2014–2016. The share of ADF financing has also increased, from 32% in 2010–2012 to 35% in 2014–2016.

140. **Leveraging development partner support in Central Asia.** About 35% of total RCI financing in 2016 (\$1.9 billion) went to Central and West Asia, mostly for transport and energy projects. ADB's RCI projects in support of the Central Asia Regional Economic Cooperation (CAREC) program's undertakings have leveraged resources. From 2014 to 2016, the share of development partner cofinancing in these operations more than doubled from 18% to 42%. This demonstrated the growing interest of new partners in Central Asia and the expanding role of ADB and the CAREC program in providing a platform for new investments in the region.<sup>87</sup> After the midterm review of their CAREC 2020 framework, CAREC members decided in October 2016 to develop a new long-term strategy to respond to changing regional and global economic and social conditions.<sup>88</sup> The member countries will consider expanding the program's agenda selectively while keeping national strategies and the priorities of development partners in mind.

141. **Building East Asia–Central Asia links.** RCI investment in East Asia in 2016 was \$307 million. ADB approved a \$27 million project to improve Mongolia's border services.<sup>89</sup> The operation is part of a series of regional projects under the CAREC trade facilitation program to modernize border crossing points and develop single windows in borrowing countries in coordination with neighboring countries along the CAREC transport corridors.

142. **Surge in South Asia.** RCI financing in South Asia increased almost tenfold from 2015 to \$1.4 billion in 2016. It accounted for more than 26% of all ADB's RCI financing. Over 70% went to the transport sector. ADB approved a multitranche financing facility of \$500 million for its first integrated economic corridor program.<sup>90</sup> It will help enhance growth and competitiveness by improving the management, physical infrastructure, and institutional capacities and human resources along a major industrial corridor in southeast India.

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<sup>87</sup> In October 2016, Georgia joined CAREC as the 11th member.

<sup>88</sup> ADB. 2016. *CAREC 2020 Midterm Review*. Manila.

<sup>89</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Regional Improvement of Border Services Project*. Manila.

<sup>90</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility, Policy-Based Loan, Technical Assistance Grant, and Administration of Grant to India for the Visakhapatnam–Chennai Industrial Corridor Development Program*. Manila.

143. **Broader South Asian horizons.** ADB helped the South Asia Subregional Economic Cooperation member countries prepare an operational plan for 2016–2025.<sup>91</sup> The plan looks beyond intraregional cooperation toward developing links with Southeast Asia and East Asia for greater transport, trade, and energy cooperation and to introduce economic corridor development between subregions as an area of focus.

144. **Institution building in the Pacific.** RCI financing in the Pacific quadrupled from 2015 to \$266 million in 2016 as ADB sustained its backing of regional institutions. Tranche 2 of a higher education investment program will help the University of the South Pacific expand its campus in Solomon Islands.<sup>92</sup> This builds on earlier ADB financing to open the university's new campus in Kiribati in 2015.

145. **Cooperation on health in Southeast Asia.** Four Southeast Asia RCI projects worth \$524 million were approved in 2016, all in the Greater Mekong Subregion, where health is a growing area of regional cooperation. One operation will help Cambodia, the Lao People's Democratic Republic (Lao PDR), Myanmar, and Viet Nam cooperate on communicable disease control in border areas and strengthen national and international health security.<sup>93</sup> An operation approved in 2016 will help the provinces in Viet Nam bordering on Cambodia and the Lao PDR improve transport connectivity and safety; facilitate transport and trade; promote inclusive, community-based tourism; and strengthen their capacity for more strategic investment planning and efficient project management.<sup>94</sup>

146. **Subregional private sector collaboration in the flower business.** ADB's private sector operations contributed about \$1 billion in RCI financing through energy, agriculture, and finance projects. A \$20 million nonsovereign loan was approved to expand flower businesses in the PRC and Viet Nam, and establish a flower business in Indonesia and a vegetable farming enterprise in Viet Nam.<sup>95</sup> The project will support RCI in three ways. It will increase foreign direct investments in the three DMCs involved. It will encourage the transfer of high-end, climate-controlled greenhouse technology and know-how from well-established operations in Viet Nam to the PRC and Indonesia. It will also boost exports of high-value crops from Indonesia and Viet Nam to other ADB regional members, such as Australia; Japan; the Republic of Korea; New Zealand; and Taipei, China.

147. **Ventures into second-generation operations and innovative areas.** ADB continued to accelerate its operations in second-generation or innovative RCI areas. Innovative RCI projects, which are described in detail in ADB's RCI operational plan for 2016–2020, involve emerging RCI sectors and subsectors.<sup>96</sup> These include railways and ports that are parts of economic corridors, as well as

<sup>91</sup> ADB. 2016. *South Asia Subregional Economic Cooperation Operational Plan 2016–2025*. Manila.

<sup>92</sup> ADB. 2016. *Project Data Sheet: Higher Education in the Pacific Investment Program—Tranche 2*. Manila.

<sup>93</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Grant to the Kingdom of Cambodia, the Lao People's Democratic Republic, the Republic of the Union of Myanmar, and the Socialist Republic of Viet Nam for the Greater Mekong Subregion Health Security Project*. Manila.

<sup>94</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Support to Border Areas Development Project*. Manila.

<sup>95</sup> ADB. 2016. *FAST Report: Loans to Agripacific Holdings and Kunming Hasfarm Flowers for the High-Value Horticulture Development Project in Viet Nam, the People's Republic of China, and Indonesia*. Manila.

<sup>96</sup> ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020: Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific*. Manila.



environment and health operations that support regional public goods. They also cover RCI between subregions and nonsovereign RCI, particularly in the areas of infrastructure connectivity, cross-border energy trade, urban special economic zones, and agricultural trade logistics. In 2014–2016, 45 ADB operations, including 30 financed by the ADF, qualified as second-generation or innovative RCI undertakings, up from 30 in the previous report period. ADB approved 139 technical assistance (TA) projects in these RCI areas in the current report period.

#### 4. Strategy 2020 Operational Areas

148. The share of **financing for Strategy 2020 core operational areas** remained above the annual target of 80% throughout the 2013–2016 corporate results framework period. It dropped to 85% in 2016 from 90% in 2015. Financing for the core areas grew from \$12.2 billion in 2010–2012 to \$13.8 billion in 2014–2016.

149. **Infrastructure dominant.** Infrastructure accounted for 60.6% of ADB operations in 2016, down 4 percentage points from the previous year. The largest infrastructure amounts went to energy (\$4.5 billion) and transport (\$4.1 billion), with transport up by more than \$1 billion from 2015 and back at the levels achieved during 2012–2014. The share of ADB financing that went to industry and trade grew from 0.5% in 2015 to 5.1% in 2016.

150. **Education target affected by delays.** **Financing for education** increased to 4.4% from 3.6% in 2015 but missed the 2016 target range of 4.7%–10.0%. This was due to a delay in the approval of four projects scheduled for the year that would have added \$730 million to the total and pushed education's share to 8.3%. One approval was postponed until 2017 due to a change in government leadership and delays in appointing officials for the proposed executing agency and implementing agencies. This highlights the need for sector-specific standby program systems and more frequent consultation with the governments through resident mission sector specialists. ADB financing for education rose 32% from \$586 million in 2015 to \$771 million, and the number of projects approved was up to 10 from 8. The pipeline indicates that education sector operations will be around \$1.05 billion in 2017 or 5.6% of overall approvals, which would put education on course to reach the target set by the midterm review of Strategy 2020.

151. **Bulk of financing in Southeast Asia.** Education financing was concentrated in Southeast Asia (69%) and South Asia (29%). Nearly half of the financing supported education sector development components, 60% of which had social protection initiatives. Most of these investments aim to help formulate education sector policy and reforms, develop and restructure systems, and provide teachers with professional development and training. The remainder was shared by support for secondary education (23%) and technical and vocational education and training (TVET) (20%). Investment in TVET equips people with skills that an economy needs to grow and diversify and allows them to obtain better jobs. TVET's share of overall financing in this sector is expected to grow to about 50% in 2016–2018.



152. **Steps to expand education support.** ADB's Education Sector Group is helping to build the education sector lending volume to meet coming targets for a 6%–10% share in overall operations. This includes support for project concepts and designs. The goal is to develop good practices for education operations and look for new ideas and pilot projects that can be scaled up. The group is involved in strengthening peer review to make operations more relevant and effective. It is helping to create greater collaboration on education between ADB's sector operations and through the establishment of an education financing partnership facility to leverage financing, technical support, and innovative inputs.

153. **Health objective achieved.** ADB met the 2016 objective for supporting **health**, albeit at the lower end of the 1.5%–5.0% target range for share of overall financing. The 2.0% achieved was slightly lower than in the previous year. The number of operations was unchanged from 2015 but dropped from 2.7% to 2.2% as a portion of ADB's increased total approvals.

154. **Focus on child and maternal health.** Southeast Asia's DMCs receive the bulk of ADB's investments in health. The \$175 million health component of a multisector project in the Philippines approved in 2016 will help finance conditional health grants to poor families to improve maternal and child health (footnote 72). The program aims to increase the use of prenatal and postnatal care by pregnant women and the incidence of deliveries at health facilities, as well as regular visits by children 5 years of age or younger to health centers for immunization and the monitoring of their growth. Greater investments in the health and education of children are expected to reduce poverty over the long term.

155. **Emphasis on infrastructure.** In line with Strategy 2020, ADB's help for DMC efforts to improve health has been channeled through infrastructure projects. For example, one component of a \$60 million project loan under the water and other urban infrastructure and services sector is responding to the emergence of chronic kidney disease in four provinces in Sri Lanka by improving water supply systems.<sup>97</sup> Unsafe drinking water is one of the main causes of the disease. By the end of 2019, the project will have laid 800 km of water distribution pipes and provided new water connections for 40,000 households in the affected areas.

156. **ADB health sector staffing up.** ADB has been adding to its health sector staff and expertise. Hiring more health specialists and ramping up the technical skills of the staff working in the sector will be critical as it moves to expand support for health and potentially build a larger project pipeline. The staff growth that has already occurred and the expected further expansion in staff numbers and know-how are needed to fulfill the operational plan for health for 2015–2020, expand policy dialogue with DMCs, and meet their growing demand for ADB-financed health projects.<sup>98</sup>

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<sup>97</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing to the Democratic Socialist Republic of Sri Lanka for the Local Government Enhancement Sector Project*. Manila.

<sup>98</sup> ADB. 2015. *Health in Asia and the Pacific: A Focused Approach to Address the Health Needs of ADB Developing Member Countries, Operational Plan for Health, 2015–2020*. Manila.

157. **Food security investments growing.** ADB's **food security** investments rose to \$2.3 billion in 2016, making the annual average for this report period \$2.1 billion. Investment growth was particularly high in agriculture and natural resources and in nonsovereign operations in agribusiness value chain development. The sovereign sector lending went entirely to building climate resilience and making water and land resource management more efficient. Outside of agriculture and natural resources activities, food security was pursued through transport, trade facilitation, and logistics investments to generate market access and through projects to give smallholder farmers the financial services they need to engage in agribusiness. These operations fit into ADB's multisector approach to helping DMCs achieve food security by upgrading entire agricultural value chains.

158. **Support for food self-sufficiency in Afghanistan.** An ADB grant operation approved during the year will help tackle poor food security and improve water management in Afghanistan by expanding irrigation and the use of water at the farm, system, and river basin levels.<sup>99</sup> Unreliable irrigation has been the main reason the country's crop yields are below the world average. Cofinanced by the European Union, the project will make the country more self-sufficient in food, provide domestic wheat to replace current imports, and help expand exports of high-value products such as fruits and nuts. An innovative investment in Indonesia approved in 2016 aims to preempt potential risks to the country's food security by improving flood resilience and flood management in several river basins.<sup>100</sup>

## F. ADB Operations Promote Drivers of Change

159. Strategy 2020 identifies five drivers of change—private sector development and operations, good governance and capacity development, gender mainstreaming, knowledge solutions, and partnerships. Emphasis on each is vital to ADB's pursuit of its three strategic agendas.

### 1. Private Sector Development and Operations

160. The share of ADB **operations supporting private sector development and operations** stood at 56% during this report period, surpassing the target by 16 percentage points. The rate for the ADF category rose to 47% from 41% in the preceding period, again surpassing the 40% target. This ratio has increased in each of the four DEfRs during the current results framework period.

161. **Supporting private sector development through sovereign and nonsovereign operations.** More than half of these operations and the overall financing involved are in the finance, energy, and transport sectors. In Azerbaijan, ADB is supporting two oil and gas operations—one sovereign and

<sup>99</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant to the Islamic Republic of Afghanistan for the Panj–Amu River Basin Sector Project*. Manila.

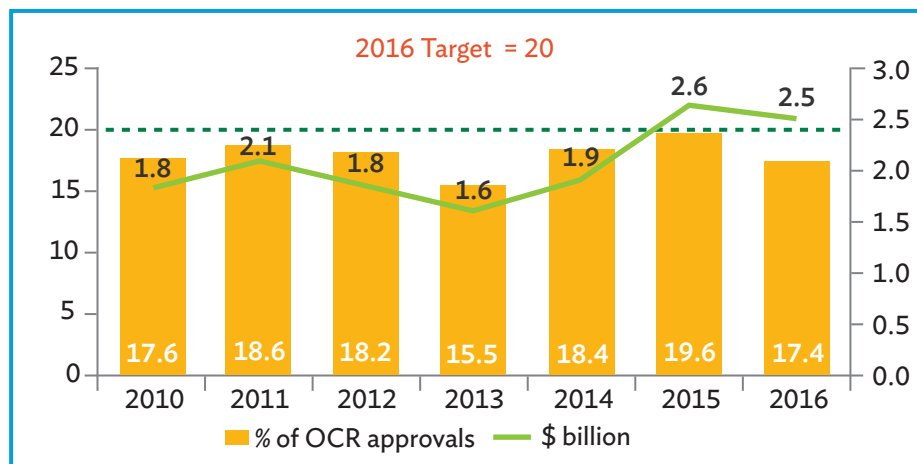
<sup>100</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Flood Management in Selected River Basins Sector Project*. Manila.

one nonsovereign—with total investments of \$1 billion.<sup>101</sup> The sovereign operation credit guarantee will increase annual gas production capacity in the country's Shah Deniz field from 9.8 billion cubic meters to 26 billion cubic meters by 2022. The nonsovereign operation partly finances the Southern Gas Corridor company's share of the capital expenditure for the Shah Deniz Gas Field Expansion Project. ADB determined this company to be an experienced operator that conducts high-quality project preparatory work. The project has good potential for generating local employment.

162. **Sovereign and nonsovereign operations working together.** A \$123 million sovereign loan approved in 2016 to the government-owned Metropolitan Waterworks and Sewerage System in the Philippines will help rehabilitate the aging Angat water transmission system that provides more than 95% of the water supply for the country's capital region.<sup>102</sup> The construction of a fourth parallel tunnel aims to reduce the risk of a total loss of water supply. Although the raw water supply system is government-owned, distribution in Metro Manila was privatized in 1997. Such projects demonstrate how operations financed through ADB's public and private sector windows can work together to produce development results.

163. **Private sector operations financing down.** Private sector operations accounted for 17.4% of all approved OCR financing in 2016, but the total fell and the share was short of the 20% target (Figure 20). The number of nonsovereign operations rose to 26 from 24. The total financing involved slipped by \$0.1 billion from 2015 to \$2.5 billion. This, combined with the increase in overall OCR approvals from \$13.4 billion to \$14.4 billion in 2016, brought the operations' share in total OCR financing down from 19.6% in 2015.

Figure 20: ADB Annual Financing for Private Sector Operations, 2010–2016



ADB = Asian Development Bank, OCR = ordinary capital resources.  
Source: ADB Strategy, Policy and Review Department.

<sup>101</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Southern Gas Corridor CJSC for the Shah Deniz Gas Field Expansion Project in Azerbaijan*. Manila; ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Partial Credit Guarantee for the Shah Deniz Gas Field Expansion Project in Azerbaijan*. Manila.

<sup>102</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines for the Angat Water Transmission Improvement Project*. Manila.

164. **Safer food, and environmental and employment benefits.** One of the nonsovereign loans approved in 2016 went to a company in the PRC to promote modern dairy farming methods intended to improve both product safety and environmental sustainability.<sup>103</sup> The project has three capital expenditure components that deal separately with the environment, food safety, and farm expansion. It is designed to upgrade waste treatment facilities, add to the number of existing dairy quality control laboratories, and improve animal productivity. The technology it will support will help create and preserve jobs in the rural dairy industry in the PRC's poorest provinces.

165. **Faster growth needed.** The 2017 President's Planning Directions project an increase in the share of nonsovereign operations financing to 24.1% by 2020, but that will be short of the Strategy 2020 target of 25% by 2020 (footnote 64). The ambitious 2020 target means that nonsovereign operations must be increased at a higher rate than the overall OCR approvals. From 2012 to 2016, OCR financing increased by 42%, while nonsovereign operation financing increased by 36%, missing the 2016 target. To reach the 2020 target, nonsovereign operations would have to increase by 66% between 2016 and 2020, while OCR operations are projected to increase by 15% during the same period. ADB would need to scale up nonsovereign operation growth to a pace greater than that expected for OCR and overall approvals, and increase the number of staff involved accordingly.

166. **Actions taken to spur increase.** The investment decisions of the Private Sector Operations Department (PSOD) are informed by lessons from past thematic evaluations and completed operations and built on best practices identified in ADB's peer institutions working with the private sector. PSOD seeks opportunities to improve processing and supervision of projects to enhance the development effectiveness of ADB's private sector interventions. Such learning and self-reflection are critical, given the expectation that private sector operations will contribute 25% of ADB's approvals by 2020. A new nonsovereign operational framework will be introduced during 2017 and will provide a path to expand ADB private sector operations. ADB is expanding PSOD's staff resources to ensure sufficient capacity to continue to grow the nonsovereign operations portfolio and meet the ambitious target.

167. **Actions taken to step up operations.** Among the actions ADB has taken to step up support for private sector operations is the introduction of an economic capital planning model to allocate resources to nonsovereign operations better and make the planning process more flexible. To speed up small project processing, it has streamlined the concept review and approval procedures for loans of up to \$20 million and for equity investments of \$10 million or less.

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<sup>103</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Inner Mongolia Saikexing Breeding and Biotechnology Group for the Sustainable Dairy Farming and Milk Safety Project in the People's Republic of China*. Manila.

## 2. Governance and Capacity Development Operations

168. **Targets exceeded.** The annual ADB-wide share of **governance and/or capacity development** operations was up to 72% from 65% for the year before in terms of number. The target for the results framework period was to exceed the baseline of 57%. The share of financing rose from 66% to 71%. The ADF subcategory rate in terms of number of operations continued its steady 4-year rise to 88% from a 69% baseline.

169. **Strong performances by policy and program operations.** Sectors with policy- and program-focused operations generally gave more attention to governance and capacity development than operations in the infrastructure sectors. In 2014–2016, the sector shares were 90% or above for education, health, industry and trade, and public sector management; 70%–89% for agriculture, natural resources and rural development, transport, and water; and less than 70% for energy, finance, and information and communication technology.

170. **Rising support for public sector management.** In 2016, ADB approved close to \$2.0 billion for public sector management operations, which constitute one of its main instruments for improving governance and institutional performance in DMCs. This was the highest annual total since the 2008–2009 global financial crisis.

171. **Search for reforms and results.** A governance and capacity development program approved in 2016 will seek to help Indonesia accomplish game-changing reforms and innovations that can make government spending on public services and infrastructure fiscally sustainable.<sup>104</sup> It is ADB's first policy-based operation to align program results with the Sustainable Development Goals (SDGs) and targets. In Timor-Leste, an ADB TA project aims to help the country meet the requirements for its priority regional integration objective of membership in the Association of Southeast Asian Nations.<sup>105</sup> The project will include training and capacity development programs for government officials and support for communications, outreach, and information sharing with the private sector and civil society.

172. **Transport capacity development in Afghanistan.** ADB is working with the Government of Afghanistan and other development partners to set up and build the capacity needed for long-term operations of a sustainable road maintenance system for the country's major highways.<sup>106</sup> The goal is to expand and improve the quality of Afghanistan's roads and ensure that they are properly maintained so that the benefits will last.

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<sup>104</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of Indonesia for the Fiscal and Public Expenditure Management Program*. Manila.

<sup>105</sup> ADB. 2016. *Technical Assistance Report: Capacity for Regional Economic Integration for the Democratic Republic of Timor-Leste*. Manila.

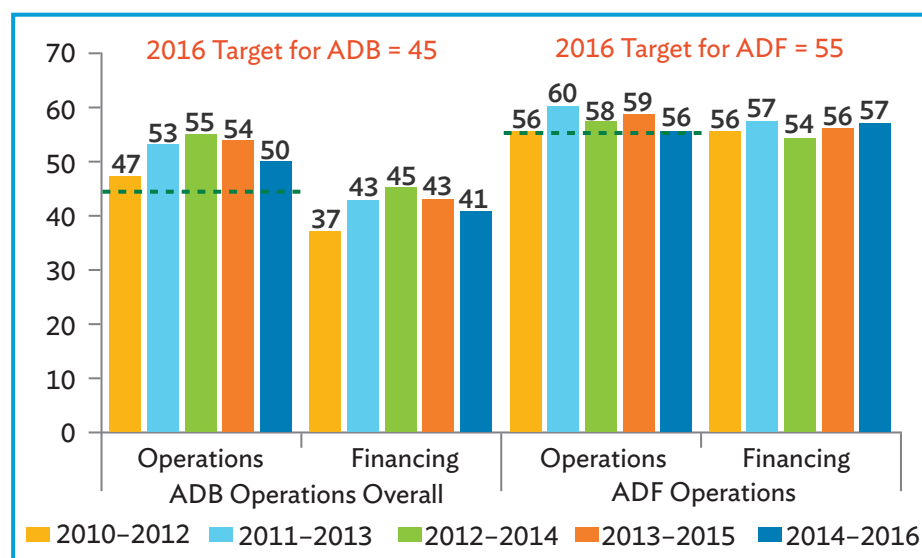
<sup>106</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Islamic Republic of Afghanistan for the Road Asset Management Project*. Manila.

173. **Refocusing ADB's approach.** In 2016, ADB's Governance Thematic Group released a pivotal strategy paper on refocusing ADB's approach to public sector management, governance, and capacity development to give more attention to institutional performance in DMCs.<sup>107</sup> The paper aims to inform the preparation of ADB's long-term strategy for engaging with DMCs until 2030 and future sector or thematic operational plans.

### 3. Gender Mainstreaming

174. **Steady above-target 3-year performances.** Through the current results framework period, ADB has consistently surpassed the targets for the share of approved sovereign projects that support **gender mainstreaming**. The ADB-wide share in this report period was 50%, exceeding the 45% target. The ADF subcategory rate was 1 percentage point higher than the 55% target (Figure 21).

Figure 21: ADB Support for Gender Mainstreaming (%)



ADB = Asian Development Bank, ADF = Asian Development Fund.  
Source: ADB Strategy, Policy and Review Department.

175. **Year-to-year decline.** In year-to-year terms, the share of these operations dropped by 7 percentage points in 2015–2016. This was due mainly to lower contributions than in earlier years by three infrastructure sectors—transport, water and other urban infrastructure and services, and other infrastructure. Except for information and communication technology, all operational sectors included projects that supported gender mainstreaming. Increases in education and finance projects were not enough to offset the declines in the three important infrastructure sectors.

176. **Designs improved.** In addition to increasing the number of operations with a gender equity theme from 6% in 2015 to 9% in 2016, ADB developed more gender-inclusive project designs. A results-based program to restore and maintain road, wharf, and other transport infrastructure in

<sup>107</sup> ADB 2016. *Better Performing Institutions in ADB Developing Member Countries: Positioning ADB's Approach to Public Sector Management and Institutional Performance*. Manila.



Solomon Islands mandates explicit gender-responsive features.<sup>108</sup> They include resting and waiting areas, safe access to water, and laundry facilities. Other actions require the establishment of market areas along roads for businesses run by women, the employment of women contractors for labor-based road maintenance, awareness raising and training on sexual harassment for local police and transport operators, and the collection of sex-disaggregated data for all project activities.

177. **Jobs for women in male-dominated areas.** Gender mainstreaming categories were assigned most frequently to operations in Southeast Asia. A project to help Myanmar strengthen its education and skills base and boost youth employment aims to increase the number of students with certified job-ready skills employed in a related area within 3 months of graduation.<sup>109</sup> This includes the addition of 5,000 female students in skilled job areas now dominated by males. The project will conduct social marketing campaigns to enlist the support of employers in achieving this goal.

178. **New studies, publications, and learning.** ADB is supporting the global gender equality movement and the gender objectives of the 2030 Agenda for Sustainable Development. It signed a memorandum of understanding with UN Women in 2016 on joint production of a study on gender equality and the SDGs in Asia and the Pacific. ADB published thematic gender analysis reports in 2016 on inclusive business, labor markets, leadership, and climate change.<sup>110</sup> Its support for implementation of the gender action plans in its operations has helped build knowledge, good practices, and gender mainstreaming in DMC ministries and agencies. It has conducted related training modules in seven countries, as well as sector and theme-specific gender lateral learning in the areas of energy, climate change, and women's leadership. This training is expected to influence ADB pipeline project designs.

#### 4. Knowledge Solutions

179. **Knowledge downloads sustained.** Downloads of **web-distributed knowledge solutions** rose to 558,000 in 2016 from 550,000 the year before and 296,000 in the baseline year of 2012. ADB achieved its target of increasing the number of downloads each year throughout the current corporate results framework period.

180. The products downloaded most often in 2016 included *Key Indicators for Asia and the Pacific 2015*, *ADB Annual Report 2015*, *Key Indicators for Asia and the Pacific 2016*, and *Asian Development*

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<sup>108</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to Solomon Islands for the Sustainable Transport Infrastructure Improvement Program*. Manila.

<sup>109</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Union of Myanmar for the Equipping Youth for Employment Project*. Manila.

<sup>110</sup> ADB. 2016. *How Inclusive is Inclusive Business for Women? Examples from Asia and Latin America*. Manila; ADB. 2016. *Bangladesh Looking Beyond Garments—Employment Diagnostic Study*. Manila; ADB. 2016. *Gender Equality Results Case Study—Nepal Gender Equality and Empowerment of Women Project*. Manila; ADB. 2016. *Nature-Based Solutions for Building Resilience in Towns and Cities—Case Studies from the Greater Mekong Subregion*. Manila.

*Outlook 2016: Asia's Potential Growth* (Box 4). ADB's followers and engagement on the three major corporate social media channels continued to expand. Twitter followers surpassed the 100,000 landmark and Facebook page likes expanded steadily, particularly for ADB@50 and videos. Engagement on Facebook expanded sevenfold, and video views for the year hit 4.4 million. ADB continued to show steady growth in followers on LinkedIn, and engagement increased by 51%.

#### Box 4: Shaping Knowledge Work to Client Demands

Asian Development Bank (ADB) knowledge management efforts aim to make its information, data, lessons, analysis, and insights available for clients in its developing member countries (DMCs) and for its own staff. This knowledge helps people and institutions make better decisions, implement better projects, and adopt effective innovation.

ADB conducted a survey in 2015 to learn which ADB knowledge from the adb.org website its clients used most and found most important. The findings were based on the top tasks served by ADB website visits. They showed that DMC users are mainly interested in the learning opportunities that ADB's knowledge base and activities provide. DMC respondents visited the site most frequently for e-learning and training and to keep up with lessons learned; obtain data; conduct economic research; consult publications and case studies; gain ADB policy and technical advice; and collaborate with peers and ADB experts.

The survey results are helping ADB prioritize its knowledge work and guiding its choices in creating new content. They also show ADB how it can deliver data in the ways that clients most prefer. ADB has been experimenting with short knowledge-sharing articles that highlight specific areas of analysis from longer publications. This gives users an alternative to downloading the entire document. The approach has had initial success. Several brief articles posted on the website that summarized core analysis from the 2016 Asian Development Outlook drew more than 500,000 visits, compared with 16,000 downloads of the publication's full 300-page pdf.

ADB launched a proof-of-concept knowledge-sharing website called Development Asia in mid-2016. The site contains dozens of easy-to-produce and easy-to-read case studies, policy briefs, backgrounders and basic fact pieces, insights, e-learning courses, and summaries produced by the Knowledge Sharing and Services Center in collaboration with several ADB sector and thematic groups and regional departments. The initial response from the users tested has been promising.

To identify strengths, weaknesses, and ways to improve, ADB undertook the Most Admired Knowledge Enterprise Survey in 2016 to determine its staff's assessment of how well ADB transforms knowledge into shareholder value. Based on the responses, the staff perceived that ADB's effectiveness in delivering knowledge products and services had declined slightly since the previous survey in 2012. The staff also indicated that ADB can do better by continuing to learn what stakeholders value most.

ADB will continue to consult those who draw on its knowledge in 2017 and to use the feedback to shape its knowledge work. It will accelerate its efforts to co-create knowledge with clients by involving DMC governments in developing content for the Development Asia website. ADB is looking at making digital dissemination its first choice when sharing its knowledge. It is exploring ways to make knowledge products more readable. To help staff perform tasks quickly or to help change client perceptions, it will strengthen e-learning tools and resources. These efforts will feed into ADB's overall effort to improve its knowledge creation and collaboration.

Source: ADB Knowledge Sharing and Services Center.

## 5. Partnerships

181. ADB's rate of **engagement with civil society organizations** (CSOs) in its sovereign operations was 96% in 2016 (Table 8).<sup>111</sup> Ratios have been consistently above the 90% annual target for 4 years. When preparing a project for approval, staff detail how civil society will be involved both during project design and during implementation. A common example of CSO participation at the design stage is the exchange of information, research, and experience with ADB. CSOs may also be contracted to carry out participatory socioeconomic assessments in the project areas. During project implementation, CSOs may take on a monitoring and evaluation role, keeping close watch on whether the project is delivering the planned results and providing feedback when corrective action is needed.<sup>112</sup>

**Table 8: Civil Society Organization Participation in ADB Sovereign Operations, 2016**

Sovereign Operations <sup>a</sup>	Number of Projects	With Civil Society Organization Participation							
		Total		Design		Implementation		Design and Implementation	
		No.	(%)	No.	(%)	No.	(%)	No.	(%)
<b>ADB Total<sup>b</sup></b>	<b>114</b>	<b>110</b>	<b>96</b>	<b>79</b>	<b>69</b>	<b>100</b>	<b>88</b>	<b>72</b>	<b>63</b>
OCR loans	65	62	95	44	68	56	86	41	63
<b>ADF Total</b>	<b>59</b>	<b>58</b>	<b>98</b>	<b>41</b>	<b>69</b>	<b>53</b>	<b>90</b>	<b>37</b>	<b>63</b>
ADF loans	44	44	100	32	73	41	93	29	66
ADF grants	15	14	93	9	60	12	80	8	53

ADB = Asian Development Bank, ADF = Asian Development Fund, No. = number.

<sup>a</sup> The Development Effectiveness Review index includes all loans and grants funded by the ADF and ordinary capital resources (OCR).

<sup>b</sup> This includes all sovereign OCR- and ADF-funded loans and grants counted based on project identification numbers, except for those processed using the project design facility.

Source: ADB Sustainable Development and Climate Change Department.

182. CSO participation during implementation rose to 88% in 2016 from 66% in 2015. Participation by CSOs during both the design and the implementation stages increased to 63% from 38%.

183. **Continued close alignment with country plans.** The share of ADB **operations aligned with country results frameworks** has consistently surpassed the annual target of 90%, which illustrates ADB's strong commitment to linking its projects to DMC development plans.

184. **Further steps on alignment.** During 2016, ADB updated its guidelines for preparing design and monitoring frameworks, which now provide for clearer alignment of an ADB project's impact

<sup>111</sup> ADB measures engagement with CSOs as a ratio of the number of sovereign operations approved in a year that contain elements of activity and/or participation by CSOs during the design or implementation stage of the project as a percentage of the total number of sovereign operations approved during the year.

<sup>112</sup> ADB. 2012. *Strengthening Participation for Development Results: An Asian Development Bank Guide to Participation*. Manila.

statement with the country's development strategies.<sup>113</sup> The updated guidelines extend to several more ADB project modalities, including results-based lending, and put strong emphasis on results, particularly on the use of country systems.

185. **Use of country systems a goal.** ADB has made continuous efforts to use DMC public financial management and procurement systems in operations. The share of **sovereign operations using country systems** was 61% for ADB operations overall, meeting the target to exceed the baseline of 59% each year. The rate for the ADF subset was 47.14%, slightly above the baseline of 47% (Table 9).

**Table 9: ADB Sovereign Operations Using Country Systems, 2012–2016 (%)**

Indicator	ADB Operations Overall					ADF Operations				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Use of country financial management systems	70	67	70	69	74	63	64	64	63	69
Use of country procurement systems	48	33	39	52	48	32	31	34	36	25
<b>Total use of country systems</b>	<b>59</b>	<b>50</b>	<b>55</b>	<b>60</b>	<b>61</b>	<b>47</b>	<b>48</b>	<b>49</b>	<b>50</b>	<b>47</b>

ADB = Asian Development Bank, ADF = Asian Development Fund.  
Source: ADB Strategy, Policy and Review Department.

<sup>113</sup> ADB. 2016. *Guidelines for Preparing a Design and Monitoring Framework*. Manila.

# LEVEL 4

## ADB'S ORGANIZATIONAL MANAGEMENT







## LEVEL 4: ADB'S ORGANIZATIONAL MANAGEMENT

### A. Overview

186. ADB needs to perform well internally and operationally to help deliver development results in the DMCs and meet all the targets it has set for itself under Strategy 2020 and the midterm review. The nine level 4 results indicators measure ADB's organizational performance in three areas: human resources, budget resources, and process efficiency and client orientation.

187. The human resources indicators track whether ADB has adequate staff to support its operations. Given that ADB is pursuing gender equality in its own work environment as well as in the region's developing countries, the results of these efforts are monitored too. Budget resources indicators measure efficiency in ADB's use of its administrative expenses—how much it has spent to get its work done. Finally, business process indicators monitor ADB's internal efficiency in processing operations and reviewing procurement contracts. These also measure ADB's ability to respond quickly to the needs of its DMCs.

188. Taken together, the nine level 4 indicators show whether ADB is managing its internal resources and processes efficiently to support operational management (level 3) and deliver results (level 2).

### B. Managing Human Resources

189. **Operations department staffing target met.** During 2013–2016, 56% of all ADB international and national staff positions were allocated to its operations departments, exceeding the target of 55% (Table 10).

**Table 10: ADB Staff in Operations Departments, 2013–2016**

Year	Number of IS and NS		Share of Staff in Operations (%)
	ADB (number) <sup>a</sup>	Operations (number) <sup>b</sup>	
Baseline (2010–2012)	1,674	927	55
2013	1,770	985	56
2014	1,778	996	56
2015	1,789	1,009	56
<b>2016</b>	<b>1,834</b>	<b>1,032</b>	<b>56</b>

ADB = Asian Development Bank, IS = international staff, NS = national staff.

Note: Figures are authorized budgeted positions as of December of each year.

<sup>a</sup> The ADB total excludes young professionals and directors' advisors.

<sup>b</sup> Positions in regional departments, the Private Sector Operations Department, and the Office of Public–Private Partnership.

Source: ADB Budget, Personnel, and Management Systems Department.

190. **Low percentage of women in international staff.** The **representation of women in the international staff category** remained low and at 34% in 2016 was below the target of 37% (Table 11). Their percentages declined from 45.5% in 2013 to 43.7% in 2016 at the entry levels (1–4) and from 27.6% to 24.6% at the senior levels (7–10). The share held by women expanded from 28.7% in 2013 to 30.2% in 2016 at the pipeline levels (5 and 6). Comparatively few women held senior management positions. In 2016, only 5 of 24 heads of departments and 7 of 27 country directors and representatives were women.

**Table 11: Representation of Women on the ADB International Staff, 2013–2016 (%)**

Level	2013	2014	2015	2016	Target
1 to 4	45.5	46.4	44.2	43.7	40.0
5 to 6	28.7	29.2	29.0	30.2	35.0
7 to 10	27.6	26.0	25.6	24.6	25.0
<b>Total</b>	<b>35.0</b>	<b>34.5</b>	<b>33.8</b>	<b>34.0</b>	<b>37.0</b>

Source: Asian Development Bank Budget, Personnel, and Management Systems Department.

191. **Gender action plan adopted, and ADB EDGE-certified.** ADB adopted a new 17-point gender action plan in 2016 to strengthen gender equality in the institution and make full use of its diverse workforce in dealing with the complex development challenges facing the DMCs. The plan was based in part on the findings of an independent assessment by EDGE (Economic Dividends for Gender Equality), an international foundation specializing in best practices in workplace gender equality. In 2016, ADB set new gender targets for different levels of international staff and an overall 40% target for women international staff by the end of 2022. The gender action plan focuses on three pillars—recruitment and gender representation, career management and retention, and training and development. The aim is to make ADB more attractive for potential and existing women employees to support recruitment and retention of women international staff members. ADB attained the first level of EDGE certification in December 2016, which acknowledged its public commitment to a strong gender balance and its concrete action plan to making further progress.<sup>114</sup>

192. **Progress, but more to do on staff engagement.** The periodic **staff engagement** surveys ADB has conducted since 2008 aim to determine how ADB is viewed by its staff and highlight any need for change. The findings inform internal reforms seeking to improve productivity and engagement. The surveys in 2008, 2010, 2012, and 2015 all had 90% response rates. The 2015 survey results showed that staff members perceive ADB to have made progress on matters such as merit-based career advancement, opportunities to provide feedback on issues affecting them, and operating with integrity. However, they also indicated that ADB should improve communication, leadership and management, work–life balance, and work organization and efficiency.

<sup>114</sup> EDGE Levels of Certification. <http://www.edge-cert.org/certification/levels-of-certification/>

193. **Staff engagement action taken on areas of concern.** ADB has responded to the 2015 survey results, which fell short of the 87% favorable engagement target, by working to better understand the staff concerns and act on them. It conducted several post-survey workshops to discuss the issues the survey had highlighted. These consultations have led to initiatives to carry out institutional change. They include a diversity and inclusion action plan, leadership development programs, and a review of performance management and career development. All directors were required to incorporate and prioritize staff engagement survey actions in their 2016 work plans. Staff engagement survey action planning and monitoring mechanisms have been strengthened with guidance from ADB's Budget, Personnel, and Management Systems Department.

194. **Leadership development stepped up.** Internal leadership development programs launched in 2016 complement ADB's managerial assessment and development center. The center gives ADB staff members who demonstrate high potential for leadership a clearer career pathway at ADB. In addition, the introduction of more than 40 just-in-time learning resources in 2016 has given all staff members the option to develop and learn management skills at their own pace.

195. **Steps toward better communication and feedback.** Learning sessions were conducted for 150 ADB supervisors on how to prepare and deliver feedback for their staff. ADB began new training programs at headquarters and in resident missions for staff members at all grade levels who were new to people management on core skills tailored to their roles. Resident mission supervisory staff received tailored training as well. Staff development to create a more inclusive workplace continued to be a priority. Workshops were introduced to mitigate unconscious bias and strengthen staff management in ADB's diverse, multicultural work environments.

196. **Staff engagement improvements essential.** Improving staff engagement is indispensable to the successful execution of Strategy 2020 and ADB's expansion of its operations. ADB is considering adding a managerial effectiveness index component to the next staff engagement survey planned for 2018 to boost managerial accountability.

## C. Managing Budget Resources

197. **Budget efficiency and adequacy below target.** ADB's budget efficiency and adequacy are measured through the ratio of internal administrative expenses (IAE) to disbursement and the share of its operational expenses that go to managing its portfolio. The targets are both ranges that indicate ADB's need to balance (i) its efforts to improve overall budget efficiency with the requirement that adequate resources are available for operations, and (ii) the work of processing of new operations for approval with the work needed to supervise operations during implementation afterwards. The ratios fell below the 2016 target ranges for both indicators. The **IAE per \$1 million disbursed** declined by 23.3% from \$63,100 during the 2013 DEfR 3-year report period to \$48,400 in the 2016 report

period. This was \$7,700 below the \$56,100 lower band of the target range (Table 12). The drop was due to two factors: a trend of modest slowing growth in IAE coupled with faster increases in ADB's disbursements.

**Table 12: ADB Internal Administrative Expenses Ratio, 2013–2016**

Indicator	Baseline	2013	2014	2015	2016	2016 Target
Internal administrative expenses per \$1 million disbursed (\$'000)	59.0	63.1	60.6	53.7	48.4	56.1–57.2

Source: Asian Development Bank Budget, Personnel, and Management Systems Department.

198. **Budget efficiency strengthened.** ADB has one of the lowest ratios of administrative expenses to average adjusted common equity of the multilateral development banks and compares favorably with other multilateral development banks in terms of IAE per \$1 million disbursed.<sup>115</sup> ADB's performance on the IAE ratio can be viewed as a sign of operational efficiency. A series of reforms and measures to enhance operational efficiency, staff productivity, and budget flexibility offset additional resource requirements each year. A series of further steps implemented in 2016 were intended to manage the costs of staff services, business travel, and consultants more prudently. Year-to-year growth in gross IAE expanded at an annual average of 12% in 2010–2012. This rate dropped to 1% in 2014–2016.

199. **Disbursements partially increased by policy-based lending.** The lower-than-targeted IAE-disbursement ratio is due in part to a rising share in the overall disbursements of policy-based lending (PBL). The PBL share of disbursements grew from an annual average of 21% in 2010–2012 to 25% in 2014–2016 and increased in absolute terms from \$1.74 billion to \$2.92 billion. If the volume of PBL disbursements had remained at historical levels, the IAE per \$1 million disbursed in 2014–2016 would have been \$53,120.

200. **Budget expansion slowing despite operations growth.** Growth in ADB's approved budget has been slowing since 2011. It stood at 12.9% then and was only 1.7% in 2016 before staff optimization measures. Year-to-year gross IAE expansion contracted as well, from 12.4% in 2011 to 6.8% in 2016. ADB's 2017 budget of \$647.0 million approved in December 2016 was 3.0% larger than that of the preceding year. Budget growth has been below the 2010–2016 average of 7.2%. With ADB's disbursements expected to grow at a rate exceeding budget growth, this suggests that performance on the budget adequacy indicator will continue to decline in coming years.

201. **Greater staffing needs ahead.** ADB recognizes it will need more staff than initially planned to effectively accommodate the 2016–2018 base case operational growth scenario. This analysis is based on the scaling up of the annual operations growth trajectory. More staff resources are also required

<sup>115</sup> Standard & Poor's Financial Services LLC. 2016. *Supranationals Special Edition 2016*. New York City.

to intensify ADB's focus on sound project, program, and technical assistance (TA) implementation. Estimates that take these factors and other priorities into account put the net staff size increase required for 2017–2019 at about 6%, compared with 4% for 2016–2018. Other additional staffing requirements will be met through the various staff optimization measures identified through the workforce analysis process. The posting of more sector, procurement, and private sector operations staff to resident missions will continue to strengthen ADB's presence in the DMCs in 2017–2019.

202. **Staff and operational efficiency savings delivered.** ADB continued to streamline its operations and organize more effectively during the 2013–2016 corporate result framework period. It offset additional resource requirements each year through efficiency and cost-saving measures. The staff optimization measures brought estimated savings of about \$14.0 million during 2014–2016. ADB took steps during the period to address constraints on efficiency and effectiveness in preparing and administering loans and TA operations, improving project readiness, and optimizing ADB's resources. Reforms streamlined and strengthened the quality of the country partnership strategy and TA processes. Incremental savings from operational efficiency and business process improvements were estimated at about \$3.2 million in 2014–2016.

203. **Travel costs lowered through reforms.** Reforms implemented in 2014 have reduced ADB's average cost of travel significantly. New reforms begun in 2016 aim to reduce the administrative burden of travel, simplify policies, and enhance the online travel management system. Travel reforms together brought estimated savings of \$4.8 million in 2014–2016 and are expected to save a further \$1.4 million in 2017.

204. **Better budget planning and use.** ADB has changed some procedures to improve how its internal budgets are planned and used. It took the following measures in 2016 to increase the flexibility in the use of budgetary resources:

- (i) **Budget management flexibility enhanced.** Budget management flexibility measures gave business units the authority to transfer budget funds between certain expense items. This allows them to reallocate savings from one item to another promptly and to thereby manage their overall budgets more efficiently. For example, departments can now reallocate up to 20% of the original item budgets between the staff consultant and business travel items.
- (ii) **Incentives introduced for better budget planning.** ADB is providing more incentives for departments to plan budgets effectively and use the resources efficiently. These include (a) a requirement that departments report on their budget use that aims to increase transparency and accountability, (b) recognition of departments that have good budget planning and performance based on their work programs by the respective vice-president's office during a year-end budget review process, and (c) the shortening of the accrual period

for staff consultant costs. As a result, budget estimates are expected to be more realistic and be better reflected by actual spending in 2017.

- (iii) **Budget management information systems improved.** Since May 2016, an automated departmental budget utilization report has been sent to the heads of departments and budget coordinators on a monthly and quarterly basis. These reports increase managerial awareness. ADB is refining and upgrading the system's user interface, accessibility, and reporting capability to expedite Management's decision making on reallocations, redeployment, and monitoring.

205. **Smaller share for implementation.** The **share of operational expenses for portfolio management** decreased to 54.6% in 2016, short of the targeted 62.0%–64.0% range and down from 56.9% in 2015 (Table 13). The drop is partly due to more spending in 2016 on preparing projects and building a stronger pipeline for the planned scale-up of operations. It was also a result of more work to make projects design- and procurement-ready at approval and ensure better quality at entry. The number of approvals exceeded the planned work program as well.

**Table 13: Share of ADB Operational Expenses for Portfolio Management, 2013–2016**

Indicator	Baseline	2013	2014	2015	2016	2016 Target
Share of operational expenses for portfolio management (% of total operational expenses attributable to portfolio management and processing of operations)	59.8	61.5	59.8	56.9	54.6	62.0–64.0

Source: Asian Development Bank Budget, Personnel, and Management Systems Department.

## D. Monitoring Business Process

206. The business process indicators gauge ADB's efficiency related to speed of project processing and procurement processing. The performance on most indicators is below-target.

207. **Project processing time longer.** The average **sovereign operation processing time** from the start of loan fact-finding to Board approval slowed to 7.1 months. This missed the 6.0-month target and was up from 6.5 months in 2015 (Table 14). The average time from approval to effectiveness shortened for both ADB overall (5.2 months) and the ADF subset (4.8 months). During 2013–2016, average processing time ranged from 6.5 to 7.4 months, shorter than the baseline of 8.0 months in 2012. The most common reasons for longer sovereign operation processing times were lengthy government approval procedures and changes in DMC governments, including as a result of national elections. Performance on this indicator is also influenced by ADB's focus on quality at entry, including an increased emphasis on project readiness.



**Table 14: ADB Business Process Efficiency Indicators, 2013–2016**

Indicator	Baseline	2013	2014	2015	2016	Annual Target
Sovereign operations processing time (months)	8.0	7.0	7.4	6.5	7.1	6.0
Nonsovereign operations processing time (months)	8.0	6.2	9.4	7.9	9.0	Maintain
Processing time for procurement contracts (days)	72.0	57.0	58.0	49.0	44.0	40.0 <sup>a</sup>

<sup>a</sup> 40 days is a subset of a broader target for end-to-end processing of procurement contracts.

Sources: Asian Development Bank Budget, Personnel, and Management Systems Department and Private Sector Operations Department.

208. **Nonsovereign outlier effect. Processing time for nonsovereign operations** stretched to 9.0 months, missing the target of no longer than 8.0 months and lengthening from 7.9 months in 2015. Performance was greatly affected by two projects that took much longer to process than usual due to external factors. In one case, the client needed to complete internal restructuring before seeking ADB approval. The other project was held back by a delayed go-ahead from a local regulator. If the 2 outliers among the 26 projects were ignored, the average 2016 processing time would drop to 7.6 months in 2016. In terms of both volume and number, 60% of the nonsovereign projects overall met the processing time target.

209. **Shorter overall procurement processing time.** ADB steadily improved its overall performance in processing sovereign operation procurement contracts of more than \$10 million during the 2013–2016 results framework period, and it missed the 2016 target by only a little. The processing times dropped from 72 days in 2012 to 44 days in 2016, slightly above the target of 40. ADF-funded contracts took 57 days in 2016. This was up from 49 days the year before and above the 40-day target but down from the baseline of 64. The better results for this indicator were mainly due to continued information technology reforms in online procurement systems, the posting of more procurement specialists to ADB's resident missions, close scrutiny of larger contracts, and continuous capacity building of executing and implementing agencies in the DMCs.

210. **Contract advertisement-to-signing time performance flat.** ADB's performance on the indicator for the average procurement time in its operations from the date of a contract's advertisement to its signing has remained flat. It was 359 days in 2014 and 367 in 2016.<sup>116</sup> However, ADB has shortened the time it takes to complete the portion of the contract review process in which it is directly involved from 151 days to 136 days.

<sup>116</sup> The President's Planning Directions for 2017 and preparation of the work program and budget framework for 2018–2020 indicate that end-to-end processing time was 373 days in 2016. This estimate includes two types of operations that are not covered by the DEfR: operations funded by special funds and cofinanced grants fully administered by ADB. The President's Planning Directions for 2017 sets a target for reducing end-to-end procurement time to 150 days.

211. **Consultant recruitment time dropping.** The average advertising-to-mobilization period for recruiting consulting services under ADB-administered contracts declined from 200 days to 154 days during 2014–2016. ADB formed a procurement reform working group in 2016 to look for new ways to improve procurement processes, practices, and systems. It aims to both shorten the end-to-end period and improve contractor quality. Work has begun on the second phase of ADB’s major procurement reforms (Box 5).

#### Box 5: Proposed Second-Phase Procurement Reforms

In 2014, Asian Development Bank (ADB) Management approved a 10-point procurement action plan to increase operational efficiency and reduce overall procurement time. Implementation of this plan has produced encouraging results. Yet ADB’s procurement procedures are often perceived by its developing member countries (DMCs) and other stakeholders as cumbersome and not conducive to timely or high-quality results. While recognizing the need for fiduciary oversight, DMCs complain that ADB is applying its procedural compliance requirements in a one-size-fits-all fashion.

ADB and the DMCs still take a long time to carry out the procurement under ADB operations; and deeper procurement reforms are clearly needed to achieve a system that is better, faster, and more effective. With input from a range of stakeholders and building on the 10-point procurement plan, ADB has now finalized proposals for its second phase of procurement reforms. The reforms aim to reduce overall procurement time, improve the quality of procurement outcomes, and strengthen the procurement delivery system. The key proposed features are

- (i) the expansion of procurement principles to add quality and value for money to economy, efficiency, fairness, and transparency;
- (ii) the use of a less prescriptive, more principles-based procurement policy to meet the emerging needs of DMCs and market conditions;
- (iii) the adoption of fitness of purpose as the operational model in designing procurement arrangements;
- (iv) the encouragement of risk-based procurement review approaches to free up time for ADB to help on more complex projects;
- (v) ADB support for the procurement of high-level technologies, particularly to help DMCs address climate change and meet other growth aspirations; and
- (vi) alternative procurement arrangements to reduce transaction costs for DMCs and ADB’s cofinanciers.

ADB will also overhaul its delivery model by decentralizing more of the procurement process to its operational departments and posting procurement specialists in all resident missions and sector divisions with a portfolio of more than \$1 billion.

Source: ADB Operations Services and Financial Management Department.

212. **Resident missions further empowered.** ADB continues to empower its resident missions by giving them more responsibilities. The goal is to deliver timely, innovative services to the DMCs and allow ADB to respond quickly to client needs. The proportion of **sovereign operations administered with substantial involvement of resident missions** reached the 2016 target of 80%, up from 73% the year before.

213. **Portfolio management decentralization ongoing.** Through decentralization reforms, ADB has expanded the role resident missions play in project and TA implementation. The field offices have increased their share of project processing. The portion of ADB's international and national staff who work in resident missions grew to 54% in 2016. This was up from 40% in 2004 and 49% in 2013 and accompanied by the appropriate budgets. About 20% of net IAE have been allocated to resident missions for 2017, including expenses for increased staff resources and additional posting of staff members from headquarters.

214. **Further resident mission strengthening.** A change in ADB's project administration instructions will expand the authority of resident mission staff to approve and manage administrative tasks and implement projects. ADB will also review its current position management system to help it acquire greater national staff expertise and talent for its resident missions.



# ACTIONS TO ADDRESS CHALLENGES







## ACTIONS TO ADDRESS CHALLENGES

215. The 2016 Development Effectiveness Review (DEfR) identifies ADB's performance successes and new high points but underlines some old problems and fresh challenges as well. Through its rigorous annual reporting on ADB's performance, the DEfR supports ADB's commitment to continually improve its development effectiveness. ADB is addressing its challenges under its midterm review action plan and identifying new actions to take through its work planning process (Table 15).

**Table 15: Ongoing and Recently Completed Actions to Improve ADB Performance**

Action	Level	Status
<b>a. Improve project readiness and reduce start-up delays</b>		
<ul style="list-style-type: none"> <li>Adopt realistic project implementation schedules using project readiness filters; classify projects into two readiness categories—high and low</li> </ul>	Levels 2–4	<p>Monitoring has been separated into two categories: design readiness and procurement readiness. Monitoring has started, and results have been reported in the 2014–2016 development effectiveness reviews (DEfRs).</p> <p>The updated corporate results framework contains a results framework indicator on infrastructure projects that are procurement-ready (%) and a standard explanatory data indicator on infrastructure projects that are design-ready (%). These indicators will be used to measure high readiness.</p>
<ul style="list-style-type: none"> <li>Provide an end-to-end project monitoring system that can track progress from listing of the project in the country operations business plan (COBP) to the financial closing of the project</li> </ul>	Level 3	<p>eOperations simplification phase 2 release 4 went live on 23 May 2016, with overall productivity improvements of 70% based on the reduction of clicks, screens, and data fields. The eOperations simplification project will be closed and moved to regular maintenance mode.</p> <p>Initiatives are under way to find a solution to accommodate all nonsovereign operation processes and products.</p> <p>The portfolio and project performance indicators have been standardized and are used in the annual portfolio performance report and country portfolio reports.</p>
<ul style="list-style-type: none"> <li>Provide an end-to-end e-system for procurement review that can track procurement actions from preparation of bid documents to contract completion</li> </ul>	Level 3	<p>Post review monitoring went live on 2 December 2016. The loan consulting module is ready for deployment, pending approval of the new project administration instructions 2.02, 2.03, 2.04, and 2.05.</p>
<ul style="list-style-type: none"> <li>Ensure availability of resources for preparation of detailed project designs and feasibility studies</li> </ul>	Level 3	<p>Policy on enhancing the operational efficiency of the Asian Development Bank (ADB) was approved by the Board in December 2015 to streamline financing partnership operations.<sup>a</sup></p>

Action	Level	Status
<b>b. Procurement reforms to reduce sovereign operation implementation delays</b>		
<ul style="list-style-type: none"> <li>Delegate more authority for procurement matters to regional departments and resident missions to reduce ADB's response time</li> </ul>	Levels 2-4	<p>8 country procurement assessments have been completed, 5 currently are under review, and 20 more are to be initiated.</p> <p>The revised decision-making authorities are in effect and have delivered significant efficiency gains. In 2015, 184 contracts of more than \$10 million were approved based on these improvements.</p> <p>About 54% of ADB's staff in the regional departments worked in its resident missions in 2016, up from 49% in 2013.</p>
<ul style="list-style-type: none"> <li>Assess procurement risks and introduce new prior review limits for contracts</li> </ul>	Levels 2-3	The new prior review limits are effective for all new projects and may be applied to ongoing projects. Since September 2014, 42 projects reviewed adopted the new prior review ceilings.
<ul style="list-style-type: none"> <li>Regional departments to classify projects by procurement risks and complexity at concept clearance; for high-risk and complex projects, ADB's Operation Services and Financial Management Department (OSFMD) to join project team and provide support during processing, and regional departments to include capacity building as part of project design</li> </ul>	Levels 2-3	In 2015, 47 projects were classified as category A (complex) requiring specialized procurement support from OSFMD during project processing.
<ul style="list-style-type: none"> <li>Streamline the timelines and procurement review processes for different procurement methods</li> </ul>	Levels 2-4	Transactions up to \$40 million in Bangladesh, the People's Republic of China, India, Pakistan, Uzbekistan, and Viet Nam are signed off by senior procurement staff, posted to these resident missions, on behalf of OSFMD directors. In addition, four OSFMD staff provide exclusive support to the front offices of the Central and West Asia Department, Pacific Department, South Asia Department, and Southeast Asia Department.
<ul style="list-style-type: none"> <li>Regional departments to have flexibility to use new procurement modes and templates</li> </ul>	Levels 2-3	The use of new procurement modes and templates is already in place. Design-and-build documents are already developed and being used by several projects in Central and West Asia Department, South Asia Department, and Southeast Asia Department. The use of fixed-price contracts is also permitted and currently used by South Asia Department. An e-procurement strategy has been prepared and the use of e-procurement is allowed, as was done recently in a project in India.

Action	Level	Status
<ul style="list-style-type: none"> <li>Streamline recruitment of consulting services and improve quality</li> </ul>	Levels 2–4	<p>A memo to encourage the use of the 90:10 quality–cost ratio for more quality-based contracts was issued in September 2014.</p> <p>OSFMD issued a memo in March 2015 to encourage regional departments to use less-prescriptive terms of reference and consider key experts and those who should be full-time staff of the consulting firm.</p>
<ul style="list-style-type: none"> <li>Enhance quality of contractors</li> </ul>	Levels 2–3	<p>Strengthening technical and financial qualification and evaluation criteria in standard bidding documents, as well as contractor prequalification criteria to take into account project complexity and competition are included in new staff instruction and revised project administration instructions 3.01–3.12.<sup>b</sup></p>
<ul style="list-style-type: none"> <li>Undertake a review of procurement and consultant policy and guidelines, including single-source selection and use of country systems and processes</li> </ul>	Levels 2–3	<p>The new procurement framework was completed in 2015. ADB is now reviewing ADB’s new framework for additional analysis and benchmarks. The result will be used for the pending modification of procurement-related project administration instructions.</p>
<b>c. Improve sustainability of infrastructure operations</b>		
<ul style="list-style-type: none"> <li>Undertake an in-depth analysis of factors undermining sustainability and recommend measures for improvement</li> </ul>	Level 2	<p>The Strategy, Policy and Review Department (SPD); regional departments; and the transport and water sector groups have undertaken a joint study to be completed in Q2 2017. The findings will inform measures for improving sustainability.</p>
<b>d. Improve disbursement performance</b>		
<ul style="list-style-type: none"> <li>Provide a client portal for faster disbursements to allow executing agencies or borrowers to file the withdrawal applications</li> </ul>	Level 3	<p>The client portal system for disbursement (CPD) is complete and was launched in July 2015. The CPD allows agencies to prepare, submit, and track loan and grant withdrawal applications online. It also allows real-time communications between agencies and ADB.</p> <p>ADB presented the CPD to about 30 representatives from the Philippines’ Department of Finance and several executing and implementing agencies in 2015 in ADB headquarters.</p> <p>The CPD rollout to DMCs started in August 2015. The eight pilot DMCs comprise the Philippines and the seven DMCs where resident missions have disbursement units (Bangladesh, the People’s Republic of China, India, Indonesia, Pakistan, Sri Lanka, and Viet Nam).</p>

Action	Level	Status
<ul style="list-style-type: none"> <li>Remove ceiling on imprest accounts and statements of expenditures for executing agencies with adequate capacity, and finance imprest accounts on the basis of 6 months' estimated expenditure</li> </ul>	Level 3	The Controller's Department revised the loan disbursement handbook in February 2015 to incorporate action 2.27 of the midterm review action plan, removing the ceiling on imprest accounts and statements of expenditures for executing agencies with adequate capacity and to finance imprest accounts on the basis of 6 months' estimated expenditure.
<ul style="list-style-type: none"> <li>Reduce the time for payment of withdrawal applications</li> </ul>	Level 3	Two measures have been explored to reduce time for payment of withdrawal applications: <ol style="list-style-type: none"> <li>The revised service level standards guidelines were rolled out to ADB's Loan Administration Division in 2016.</li> <li>The interdepartmental working group recommended reducing the time between the receipt of withdrawal application and payment dates to 5 days.</li> </ol>
<ul style="list-style-type: none"> <li>Ensure that the information technology systems in the large and medium-sized resident missions identified for fully delegated contract approvals and disbursement functions are capable of full and unfettered access to headquarters information</li> </ul>	Level 3	An internet service provider upgrade in resident missions is now complete.
<ul style="list-style-type: none"> <li>Link allocation of ordinary capital resources to project performance, including disbursement performance</li> </ul>	Level 3	SPD has had preliminary discussions with departments. The basic concept involves capping the level of undisbursed balances at a reasonable level to be determined in conjunction with departments. If this cap is exceeded, approvals may be delayed until the level of undisbursed balances is brought below the cap.
<b>e. Increase cofinancing</b>		
<ul style="list-style-type: none"> <li>Enter into risk-sharing arrangements with selected development partners to expand headroom</li> </ul>	Level 3	ADB signed a risk-transfer agreement for \$155 million with the Swedish International Development Cooperation Agency on 21 September 2016.
<ul style="list-style-type: none"> <li>Streamline processes relating to Japan Fund for Poverty Reduction (JFPR)</li> </ul>	Level 3	2014 JFPR guidelines were updated in 2015. ADB's Office of Cofinancing Operations (OCO) circulated its memo to directors-general on 2015 JFPR guidelines. OCO conducted JFPR policies and procedures briefing sessions for user departments in May 2015.
<ul style="list-style-type: none"> <li>Put credible cofinancing targets in country partnership strategies and COBPs</li> </ul>	Level 3	Country partnership strategies and COBPs already include cofinancing estimates. SPD will monitor whether this is done on a regular basis. OCO will work with the regional departments to identify funding sources.

Action	Level	Status
<ul style="list-style-type: none"> <li>Streamline cofinancing procedures to minimize transaction costs</li> </ul>	Level 3	<p>Information dissemination for private sector partnerships guidelines was conducted in the first quarter (Q1) of 2016 (26 February–17 March). Supplemental integrity due diligence guidelines for private sector partnerships are being reviewed. The time frame for approval and information dissemination is Q2 2017.</p> <p>Ongoing activities in the development of a cofinance management system and their timing are as follows: (i) integration with cofinance database—Q1 2017; (ii) migration of 1970–2016 data—tentatively, Q1 2017; (iii) ongoing web enhancements—for rollout Q2 2017; and (iv) report generation—Q2 2017.</p> <p>Cofinancing fact sheets for the Department for International Development of the United Kingdom, Agence Française de Développement, the European Investment Bank, KfW, the Nordic Development Fund, and the Swedish International Development Cooperation Agency were produced and are shared with internal and external clients.</p> <p>A cofinancing guide for the Islamic Development Bank was released in September 2016 during the ADB–Islamic Development Bank joint retreat in Saudi Arabia. A cofinancing guide for the Export–Import Bank of Korea was published in December 2016.</p>
<ul style="list-style-type: none"> <li>Link corporate cofinancing target with differentiated department-level targets, and monitor</li> </ul>	Level 3	<p>Beginning in 2014, official direct value-added cofinancing targets were developed at the regional department level in consultation with regional departments, OCO, and SPD. SPD’s quarterly operations review meetings have been reporting against departmental targets. The exercise will be repeated annually.</p>
<ul style="list-style-type: none"> <li>Allocate a portion of earned administrative fees to project teams for administration of cofinanced projects.</li> </ul>	Level 3	<p>The Budget and Management Services Division developed a new methodology to transparently allocate earned fees (linked to disbursement) for cofinancing activities and trust funds to operational departments. The pilot methodology was used during the 2015 budget allocation.</p>
<p><b>f. Increase public-private partnership (PPP) transactions and leverage greater private financing</b></p>		
<ul style="list-style-type: none"> <li>Centralize PPP transaction advisory teams</li> </ul>	Level 3	<p>A new Office of PPP was established in August 2014 and commenced work on 1 September 2014.</p>
<ul style="list-style-type: none"> <li>Consider a dedicated technical assistance (TA) facility on a cost-recovery basis for transaction advisory service mandates</li> </ul>	Level 3	<p>The TA facility was established and approved (TA 8909: Enhancing PPP Project Development through Support for ADB Transaction Advisory Services in Southeast Asia and the Pacific).</p>

Action	Level	Status
<ul style="list-style-type: none"> <li>Develop a facility to help prepare regional projects to leverage financing from other partners</li> </ul>	Level 3	This action item is combined with the Asia Pacific Project Preparation Facility (AP3F) in light of the AP3F's intent to favor the preparation of PPP projects that promote greater regional economic integration and connectivity. AP3F operations have commenced.
<ul style="list-style-type: none"> <li>Conceptualize AP3F and other facilities to develop infrastructure projects.</li> </ul>	Level 3	Board approved the paper and donors confirmed it. The AP3F trust fund was created in 2015.
<b>g. Increase education financing</b>		
<ul style="list-style-type: none"> <li>Increasing share of education to 6%–10% of total financing</li> </ul>	Level 3	Sovereign operation pipelines of the work program and budget framework, 2017–2019 shows share of education is expected to reach 6% of the operational pipeline, by value, by 2018, compared with the midterm review target of 6%–10% by value. Resources are allocated on a country and regional department basis, and regional allocate these in accordance with midterm review priorities and country consultations.
<b>h. Ensure right talent and skills mix and increase women international staff's representation</b>		
<ul style="list-style-type: none"> <li>Develop a structured workforce planning methodology that comprehensively assesses future resourcing and skill requirements</li> </ul>	Level 4	<p>ADB completed a workload and workforce analysis in 2015 to identify the optimal use of available staffing resources, and project overall staffing requirements. The analysis looked at existing gaps and future requirements for implementing the recommendations of the midterm review of Strategy 2020 and scaling up ADB operations.</p> <p>Recommendations were presented to an internal steering group, the Budget Review and Human Resources Committees of the Board, and to the Board of Directors at different stages. Departmental consultation meetings were conducted to discuss and validate the preliminary findings and discuss departmental staffing requirements for consideration for 2016–2018 staffing and the 2016 budget. The Budget, Personnel, and Management Systems Department will continue to implement staff optimization measures in 2017.</p>
<ul style="list-style-type: none"> <li>Strengthen staffing and skills where gaps are identified as part of the workforce planning methodology</li> </ul>	Level 4	The skills audit was undertaken during May 2014–October 2015 to project gaps in skills required by operational departments. Skills gaps were projected for 2017–2019 in three areas: (i) sector skills, (ii) operational skills for the five regional departments, and (iii) private sector skills for the Private Sector Operations Department. Major findings in these areas are being addressed through targeted hiring initiatives.

Notes: The midterm review action plan, prepared in 2014, includes a detailed operational and organizational agenda that aims to translate the Strategy 2020 midterm review outcomes into specific actions. (ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila).

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

<sup>b</sup> ADB. 2015. *Procurement. Project Administration Instructions. PAIs 3.01 and 3.12*. Manila.

Source: ADB midterm review action plan monitoring (accessed 9 March 2017).



# APPENDIXES





## ADB DEVELOPING MEMBER COUNTRIES BY CATEGORY

Table A1.1: Developing Member Countries Receiving Regular ADB Assistance

Afghanistan	India	Mongolia	Tajikistan
Armenia	Indonesia	Myanmar	Thailand
Azerbaijan	Kazakhstan	Nauru	Timor-Leste
Bangladesh	Kiribati	Nepal	Tonga
Bhutan	Kyrgyz Republic	Pakistan	Turkmenistan
Cambodia	Lao People's Democratic Republic	Palau	Tuvalu
China, People's Republic of	Malaysia	Papua New Guinea	Uzbekistan
Cook Islands	Maldives	Philippines	Vanuatu
Fiji	Marshall Islands	Samoa	Viet Nam
Georgia	Micronesia, Federated States of	Solomon Islands	
		Sri Lanka	

ADB = Asian Development Bank.

Note: Five developing members have graduated from regular ADB assistance and are not included in this table—Brunei Darussalam; Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China.

Source: ADB Strategy, Policy and Review Department.

Table A1.2: Classification of ADB Developing Member Countries for Operations in 2016

OCR-Only	Blend Countries <sup>a,b</sup>	ADF-Only <sup>b</sup>	FCAS <sup>c</sup>
Azerbaijan	Armenia	Afghanistan	Afghanistan
China, People's Republic of	Bangladesh	Bhutan	Kiribati
Cook Islands	Georgia	Cambodia	Marshall Islands
Fiji	India <sup>d</sup>	Kiribati	Micronesia, Federated States of
Indonesia	Micronesia, Federated States of	Kyrgyz Republic	Myanmar
Kazakhstan	Mongolia	Lao People's Democratic Republic	Nauru
Malaysia	Pakistan	Maldives	Solomon Islands
Philippines	Palau	Marshall Islands	Timor-Leste
Thailand	Papua New Guinea	Myanmar	Tuvalu
Turkmenistan	Sri Lanka	Nauru	
	Timor-Leste	Nepal	
	Uzbekistan	Samoa	
	Viet Nam	Solomon Islands	
		Tajikistan	
		Tonga	
		Tuvalu	
		Vanuatu	

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

Note: ADF countries refer to blend countries and ADF-only countries.

<sup>a</sup> Countries that are eligible to borrow from the ADF and have access to OCR.

<sup>b</sup> Countries with access to the ADF in the 11th replenishment of the ADF (2013–2016).

<sup>c</sup> Countries that are classified as FCAS in ADB's FCAS operational plan. The 2015 classification guided ADB operations in 2016. For 2017 operations, the following countries are considered as FCAS: Afghanistan, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Papua New Guinea, Solomon Islands, Timor-Leste, and Tuvalu.

<sup>d</sup> India is eligible for ADF assistance under ADB's graduation policy but currently does not have access to the ADF.

Sources: ADB. 2013. *ADB's Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila; ADB. 2013. *Classification and Graduation of Developing Member Countries. Operations Manual*. OM A1/BP. Manila; and ADB Strategy, Policy and Review Department.

**Table A1.3: New Classification of ADB Developing Member Countries Following the Asian Development Fund–Ordinary Capital Resources Merger**

<b>Group A<sup>a</sup></b> (Concessional Assistance Only)	<b>Group B<sup>b</sup></b> (OCR Blend)	<b>Group C<sup>c</sup></b> (Regular OCR Only)
Afghanistan	Bangladesh	Armenia
Bhutan	India <sup>d</sup>	Azerbaijan
Cambodia	Mongolia	China, People's Republic of
Kiribati	Pakistan	Cook Islands
Kyrgyz Republic	Palau	Fiji
Lao People's Democratic Republic	Papua New Guinea	Georgia
Maldives	Sri Lanka	Indonesia
Marshall Islands	Timor-Leste	Kazakhstan
Micronesia, Federated States of	Uzbekistan	Malaysia
Myanmar	Viet Nam	Philippines
Nauru		Thailand
Nepal		Turkmenistan
Samoa		
Solomon Islands		
Tajikistan		
Tonga		
Tuvalu		
Vanuatu		

ADB = Asian Development Bank, OCR = ordinary capital resources.

Note: The approved Asian Development Fund (ADF)–OCR merger became effective on 1 January 2017. As a result, countries in groups A and B have been renamed concessional assistance countries.

<sup>a</sup> Countries with access to ADF grants and concessional OCR lending only.

<sup>b</sup> Countries with access to both concessional OCR lending and regular OCR lending.

<sup>c</sup> Countries with access to regular OCR lending only.

<sup>d</sup> India currently does not have access to concessional assistance resources.

Sources: ADB. 2016. *Concessional Assistance Policy*. Manila; ADB. 2016. Annual Report on the Country Performance Exercise 2007–2015. <https://wpqr4.adb.org/LotusQuickr/fragilesituations/Main.nsf>; World Bank. 2016. Harmonized List of Fragile Situations FY 17. Washington, DC. <http://pubdocs.worldbank.org/en/154851467143896227/FY17HLFS-Final-6272016.pdf>; ADB. Lending Policies. <https://www.adb.org/site/public-sector-financing/lending-policies>; and ADB Strategy, Policy and Review Department.





## DELIVERING RESULTS IN FRAGILE AND CONFLICT-AFFECTED SITUATIONS

1. The Asian Development Bank (ADB) highlights the need to address the unique challenges of its developing member countries (DMCs) that are in fragile and conflict-affected situations (FCAS). ADB's Strategy 2020 midterm review and operational plan for FCAS emphasize delivering results through understanding the local context, making a long-term commitment, ensuring country ownership, and being flexible in responding to the unique challenges of FCAS.<sup>1</sup>

2. **Nine fragile and conflict-affected countries.** The DMCs identified by ADB in 2016 as FCAS have an estimated total population of 91 million.<sup>2</sup> Afghanistan and Myanmar are conflict-affected. Kiribati, the Marshall Islands, the Federated States of Micronesia (FSM), Nauru, Solomon Islands, Timor-Leste, and Tuvalu are fragile. ADB also gives special attention to subnational fragile situations such as in Southern Mindanao, Philippines.<sup>3</sup>

### A. Country Context

3. **High poverty levels.** About 24% of the people in FCAS DMCs lived in extreme poverty in 2013, a slight improvement over the 2012 estimate of 25%. The poverty levels were highest in Solomon Islands, at about 33%, followed by Timor-Leste with 22%.<sup>4</sup> Growth has generally been weaker in FCAS countries than in other DMCs. For example, Afghanistan's economy contracted by 2% in 2015. Myanmar was the exception to the low FCAS DMC average with 6% growth that year.

4. **Low human development rates.** FCAS countries have struggled to make progress on core human development outcomes. Many Millennium Development Goals remained unmet. The average child mortality rate was 71 per 1,000 live births in 2015, and maternal mortality was 289 per 100,000 live births. Both were about double the DMC averages. The secondary education graduation rate was only about half that for the DMCs overall. The electrification ratio in the FCAS DMCs was only 31% in 2016. The Millennium Development Goal targets for access to improved water sources were not met.

<sup>1</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila; ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict-Affected Situations*. Manila. <http://www.adb.org/documents/operational-plan-enhancing-adb-effectiveness-fragile-and-conflict-affected-situations>

<sup>2</sup> ADB's operations in 2016 were guided by the 2015 list of FCAS countries.

<sup>3</sup> Under its 2013 FCAS operational plan, ADB has adopted a harmonized multilateral development bank score for determining FCAS in its DMCs. At 3.3, both Papua New Guinea and Vanuatu had country performance assessment scores slightly above the 3.2 cutoff point, but ADB's operations in these countries continue to pay due attention to issues of fragility. ADB also categorizes Nauru as a country facing FCAS even though it is not eligible to borrow from the World Bank's International Development Agency. Weak performance and fragility are part of a spectrum of factors affecting a country's development and do not disappear when a DMC moves marginally above the cut-off score in ADB's country performance assessment for determining FCAS.

<sup>4</sup> The international poverty line was set at \$1.90 per day by the World Bank in 2015. It is based on 2011 purchasing power parity. It replaced the \$1.25 per day poverty line, based on 2005 purchasing power parity. The international poverty line reflects the average national poverty lines of the 15 poorest developing countries. It represents a very low standard of living threshold that is believed to correspond to the minimum cost of basic needs. For more details, see World Bank. 2015. *Development Goals in an Era of Demographic Change: Global Monitoring Report 2015/2016*. Washington, DC.

5. **Governance issues.** ADB conducts country performance assessments (CPAs) of DMCs eligible for concessional assistance from the Asian Development Fund (ADF). These assessments evaluate their policy and institutional frameworks and their ability to support sustainable growth and poverty reduction and make effective use of development assistance. The CPAs guide ADB's allocation of ADF funds. They show the FCAS DMCs facing substantial governance challenges. Their average CPA scores continued to fall in 2016, dropping to 3.0 from 3.1 in 2015. Individual scores dipped in Kiribati, the Marshall Islands, the FSM, and Nauru.

## B. Operations

6. **Completed sovereign operations.** The success rate for ADB sovereign operations in FCAS countries completed during the 2016 Development Effectiveness Review (DEfR) 3-year report period improved to 83% from 60% in the preceding period.<sup>5</sup> Of the six operations completed, five were rated *successful* and achieved fundamental structural reforms and public service and infrastructure improvements in Myanmar, Nauru, Solomon Islands, and Tuvalu.

7. **Myanmar policy reforms.** The ADF-funded policy-based operation in Myanmar helped bring about comprehensive policy reforms that supported inclusive growth and fostered macroeconomic stability, fiscal sustainability, improved public financial management, investment, and trade and finance sector integration.<sup>6</sup> The program enabled the central bank to issue standard auction-based government securities and establish market-based interest rates. Restructuring of the Ministry of Finance, budget and debt management, and treasury operations kept the country's fiscal deficit at around 5%. The government doubled tax revenue collections, incentivized foreign direct investments, reduced the number of days to start a business from 90 up to 180 days to 72 days, and increased foreign trade and private investments.

8. **Fewer road closures in Solomon Islands.** An ADF-funded project grant in Solomon Islands rehabilitated 63.6 kilometers of rural roads and bridges damaged by floods in 2009 and 2010, cutting travel times to markets and social services by 70%.<sup>7</sup> The climate-proof road designs reduced the incidence of road closures due to storm surge flooding to 1 day a year from the previous 11.

9. **High technical assistance success rate.** For the second DEfR period in a row, the success rate for technical assistance (TA) operations in the FCAS countries exceeded that for the DMCs overall. It was 92% in the current 3-year report period and 90% in the previous one, compared with the 87% averages in both periods ADB-wide. FCAS country performances during 2004–2013 were in the 42%–75% range.

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<sup>5</sup> The 2016 DEfR 3-year report period refers to 1 July 2013–30 June 2016. The preceding period was 1 July 2012–30 June 2015.

<sup>6</sup> ADB. 2015. *Completion Report: Support for Myanmar's Reforms for Inclusive Growth Program*. Manila; Independent Evaluation Department (IED). 2016. *Validation Report: Support for Myanmar's Reforms for Inclusive Growth Program*. Manila: ADB.

<sup>7</sup> ADB. 2015. *Completion Report: Second Road Improvement (Sector) Project in Solomon Islands*. Manila; IED. 2016. *Validation Report: Second Road Improvement (Sector) Project in Solomon Islands*. Manila: ADB.

10. **Wide-ranging support.** A capacity-building TA project featured education, fiscal, and trade reforms in Myanmar. Others improved public investments, water supply, and sanitation in Timor-Leste; introduced an environmentally sound transport system in Solomon Islands and safeguards-compliant urban infrastructure in Kiribati; and helped stabilize electricity supply in Nauru. ADB policy and advisory TA mapped out a national development strategy action plan in Afghanistan, strengthened fiscal management in the Marshall Islands, and pursued tourism-led economic growth and renewable energy investments in the FSM.

11. **Ongoing implementation also improving.** Implementation was rated *satisfactory* for 92% of ongoing FCAS sovereign operations in 2016, up from 81% the previous year.<sup>8</sup> The rates for ADB overall (95%) and the ADF-funded subset (96%) were only slightly higher. Four FCAS projects rated actual problem in 2016 had encountered disbursement difficulties. Three had contract award issues.

12. **Disbursements up.** Disbursements of sovereign loans and grants to FCAS countries were up to \$280 million in 2016 from \$166 million the year before. When policy-based lending is excluded, the increase was to \$273 million from \$163 million. The disbursement ratio for sovereign projects and results-based lending rose to 11.5% from 8.1%. Total disbursements were highest in Afghanistan at \$185 million (a disbursement ratio of 10.4%). The best FCAS DMC disbursement ratio was the FSM's, at 58.6%.

13. **Cofinancing surge.** Cofinancing for ADB operations in the FCAS countries in 2016 was nearly seven times the 2015 level, spiking to \$1.64 billion from \$241.8 million. This pushed direct value-added cofinancing to \$2.21 billion for the current 3-year report period from \$1.04 billion in the previous one. About 79% of the 2016 cofinancing went to ADB operations in Myanmar. The Japan International Cooperation Agency contributed 51% of the year's total, followed by the World Bank (24%) and the Afghanistan Infrastructure Trust Fund (15%).

14. **Processing time down.** The 12 FCAS country operations in 2016 were processed in an average 6.3 months, better than ADB's overall average of 7.1 months and down from 7.0 months in 2015. The average included the 15.3-month processing of a transport project in Solomon Islands, which extended until the government agreed to a linking of disbursements to the achievement of agreed results.<sup>9</sup> The remaining 11 operations took an average of only 5.5 months to process.

## C. ADB's Approach to Fragile and Conflict-Affected Situations

15. **Long-standing agenda.** Since 2005, development partners, governments, and international civil society organizations have all agreed to adhere to statements, declarations, and principles that

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<sup>8</sup> These are operations rated on track or potential problem by ADB's project performance rating system.

<sup>9</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to Solomon Islands for the Sustainable Transport Infrastructure Improvement Program*. Manila.

relate to aid effectiveness, peace building, state building, and a policy of do-no-harm in countries experiencing conflict and fragility.<sup>10</sup> Studies now emphasize that addressing fragility is central to realizing Sustainable Development Goal (SDG) 16, which is to “promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels.”<sup>11</sup>

16. ADB adopted its current approach to what it now calls FCAS in 2007 and prepared a staff handbook on working differently in affected DMCs in 2012.<sup>12</sup> It began implementing an operational plan to enhance its FCAS engagement in 2013.<sup>13</sup> ADB’s classification of DMCs as FCAS each year is based on the World Bank’s harmonized list of fragile situations and ADB’s own CPAs (paras. 2 and 5). In addition to FCAS-level attention to such subnational fragile situations as those in the Mindanao region of the Philippines, it accords special consideration to other DMCs. These include countries such as Nepal that have exited the FCAS list but remain in a transitional or post-conflict situation. It also encompassed DMCs whose CPA scores are only a little above the cutoff score for FCAS classification, such as Papua New Guinea and Vanuatu (Box A2.1).

## D. Highlights of Operational Achievements

17. Both the ADB Strategy 2020 midterm review and the 2013 FCAS operational plan have highlighted the importance of understanding the local context, making long-term commitments, ensuring country ownership, and being flexible in responding effectively to the unique challenges in FCAS.

18. **Understanding the local context.** ADB conducts fragility assessments and political economy analyses on which to base its strategies, programs, and projects in FCAS countries. For example, given that both countries have suffered from armed conflict, ADB is applying peace-building tools in Afghanistan that it previously used in Nepal (Box A2.2). In 2016, ADB mapped out the main fragility

<sup>10</sup> International consensus since 2005 includes the Paris Declaration on Aid Effectiveness (2005), the Organisation for Economic Co-operation and Development (OECD) Principles for Good International Engagement in Fragile States and Situations (2007), the Accra Agenda for Action (2008), the Dili Declaration (2010), further g7+ Statements (2011), the Busan New Deal for Engagement in Fragile States (2011), the Dili Consensus (2012), and the Washington Communiqué (2013). The 2011 World Development Report also addresses development needs related to conflict and security.

<sup>11</sup> OECD. 2015. *States of Fragility*. Paris. <http://www.oecd.org/dac/states-of-fragility-2015-9789264227699-en.htm>; S. Hearn. 2016. *Independent Review of the New Deal for Engagement in Fragile States for the International Dialogue on Peacebuilding and Statebuilding*. New York: Center on International Cooperation, New York University. <http://www.pbsdialogue.org/en/independent-review/>; United Nations. Sustainable Development Knowledge Platform. <https://sustainabledevelopment.un.org/sdgsproposal.html> (accessed 4 May 2016).

<sup>12</sup> ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank’s Approach to Engaging with Weakly Performing Countries*. [www.adb.org/documents/achieving-development-effectiveness-weakly-performing-countries-asian-development-bank-s-a](http://www.adb.org/documents/achieving-development-effectiveness-weakly-performing-countries-asian-development-bank-s-a); ADB. 2012. *Working Differently in Fragile and Conflict-Affected Situations: The ADB Experience*. <http://www.adb.org/documents/working-differently-fragile-and-conflict-affected-situations-adb-experience>

<sup>13</sup> ADB. 2013. *Operational Plan for Enhancing ADB’s Effectiveness in Fragile and Conflict-Affected Situations*. <http://www.adb.org/documents/operational-plan-enhancing-adb-effectiveness-fragile-and-conflict-affected-situations>

### Box A2.1: Common Challenges of Fragile and Conflict-Affected Situations

Common issues in the fragile and conflict-affected situations (FCAS) confronting some Asian Development Bank (ADB) developing member countries (DMCs) are weak economic management, structural policies, and public sector management, and a lack of social inclusion. ADB's country performance assessment includes indicators covering all of these issues.

**Economic management.** Some FCAS countries are highly dependent on grants from development partners, some are experiencing debt stress, and others could be vulnerable to debt stress when external funding runs out. They need to improve public expenditure management and mobilize more public revenue domestically to become fiscally sustainable. The obstacles to this happening include ill-suited economic policies, lack of institutional and human capacity, and limited private sector investment. These challenges can be exacerbated by a DMC's geographical isolation and public business monopolies. Security issues and armed conflict make it difficult to manage and implement economic development, as do such obstacles as the spread of the opium industry in Afghanistan.

**Structural policies.** In many FCAS countries, the processes for customs services, securing credit, and business registration and licensing are cumbersome, costly, and sometimes even informal. Private sector investments and economic activity lag as a result. Infrastructure, financial markets (including microfinance), the banking system, and human resources are usually underdeveloped. Government restrictions on land use bog down economic development, and securing credit or leasing property to start businesses is difficult when customary or informal landownership exists. Squatting, unresolved land disputes, lack of property records, land-grabbing, and opaque corruption-prone land governance are additional obstacles. People forced to flee their land during conflict often lose it.

**Gender inequity and social exclusion.** Policies to allow and support social inclusion and gender equality are weak in FCAS countries. Men have more economic resources, legal rights, and access to social services than women, who are also poorly represented in political systems. Gender-based violence is common. Weak justice systems may overlook domestic violence against women. Schools and training services lack qualified teachers and proper educational material and infrastructure facilities. Health, clean water, and sanitation services are not available for many people. Basic social services are mostly concentrated in the major city and surrounding urban areas, leaving large rural populations with little or no access. Although most FCAS countries have some sort of formal social protection system, it usually offers very thin coverage. The traditional social safety nets provided through tribal, clan, and family support are gradually eroding, especially in the urban areas.

**Climate change.** ADB's FCAS DMCs are all vulnerable to such risks from climate change as rising sea levels and to shocks from such natural events as cyclones, floods, storm surges, landslides, earthquakes, and droughts. Governments have little ability to adapt to climate change. Their environmental policies are patchy and poorly enforced.

**Public sector management and institutions.** Most FCAS countries have a narrow income tax base. Economic activity is low, and they are overdependent on development partner grants. Taxation is usually administered inefficiently and open to corruption. Most of these DMCs have trouble using external aid effectively. Their institutions are underdeveloped, and they lack qualified staff. This leaves policy formulation, planning, implementation, and monitoring and evaluation inadequate as well. Coordination is poor across sectors and between national and local governments. Decision making is top-down. Accountability is weak. Governments change frequently in some FCAS countries, and insurgencies threaten political stability in others.

Source: ADB. 2016. *Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific*. <https://www.adb.org/publications/mapping-fcas-asia-and-pacific-adb-experience>



issues in each of the current FCAS DMCs and identified their common weaknesses to help policy and decision makers and development practitioners prioritize actions, formulate strategies, and operationalize development programs.<sup>14</sup> ADB has now mainstreamed consideration of FCAS in most of its project reports and strategic documents and in the preparation of concept papers and reports and recommendations of the President for sovereign operations.

### Box A2.2: Peace-Building Tools for ADB-Supported Projects in Afghanistan

Technical assistance being implemented by the Asian Development Bank (ADB) resident mission in Afghanistan aims to support government peace-building efforts by providing analysis, peace-building tools, and policy advice that will help project management units apply a conflict-sensitive approach when implementing ADB-financed activities.

The analytical peace-building tools will help ADB team leaders and social experts understand the local context of ADB operations and identify risks to implementation linked to social conflicts. The tools examine issues and questions to help identify the potential for social conflict in fragile and conflict-affected situations. Their future use will help prevent unintended consequences and inform the development of mitigation measures. They will also help identify opportunities for building peace and social cohesion during the implementation of ADB development projects.

Source: ADB. 2015. *Afghanistan: Building Resilience to Fragility in ADB-Supported Projects*. Manila. <http://www.adb.org/projects/48258-001/main#project-pds>

19. **Making a long-term commitment.** ADB has made long-term commitments to particular sectors in FCAS DMCs where it can deliver the most impact. For example, it continues its long-term support for the transport; energy; and agriculture, natural resources, and rural development sectors in Afghanistan. ADB's Pacific Approach is updated every 5 years to draw lessons from the past and apply them to its operations in the region's FCAS DMCs over the next 5 years. The new Pacific Approach for 2016–2020 will focus on achieving renewable energy, connectivity, an enabling business environment, sound macroeconomic management, climate change and disaster risk management, private sector development, livable urban areas, investment in people, and greater operational effectiveness for smaller Pacific island countries.<sup>15</sup>

20. **Ensuring country ownership.** ADB ensures ownership by the key stakeholders by building capacity and encouraging participation. In the FSM, for example, a personnel training and capacity development plan was prepared for the Chuuk Public Utility Corporation using an inclusive, participatory approach with a commitment to local ownership and long-term sustainability. The

<sup>14</sup> ADB. 2016. *Mapping Fragile and Conflict-Affected Situations in Asia and the Pacific*. <https://www.adb.org/publications/mapping-fcas-asia-and-pacific-adb-experience>

<sup>15</sup> ADB. 2016. *Pacific Approach, 2016–2020*. <https://www.adb.org/documents/pacific-approach-2016-2020>



process involved wide stakeholder consultation to identify, assess, and address capacity gaps and to develop a results-based framework and an implementation strategy to deliver the training plan over 2–3 years. Young people are participating with ADB support in the development of policies and programs that will improve skills, employment, and decent work outcomes for the region's youth, particularly in FCAS DMCs.

21. **Being flexible.** ADB has made its FCAS operations more flexible by adopting simplified business processes, adapting operational procedures to particular DMC conditions, and applying alternative implementation arrangements for FCAS countries. So far, however, flexibility in FCAS operations is not an ADB Board-approved policy. This means that any relaxation of norms in an individual undertaking must be justified on a case-by-case basis in each operation proposal and may require a waiver at the appropriate authorized ADB approval level. A forthcoming staff instruction will institutionalize a flexible approach that may be taken toward some due diligence and reporting requirements for operations in FCAS DMCs. Flexibility will be allowed in the areas of cost-benefit analysis at the feasibility study stage; administration fees; project accounts; executing and/or implementing agencies; monitoring, reporting, and auditing arrangements; and eligibility and modes of procurement.

## E. Organizational Support

22. **Post-conflict and exceptional support.** ADB's policy on concessional assistance recognizes the need for flexibility and exceptional support in allocating concessional assistance to DMCs in a post-conflict situation or when they reengage with ADB's ADF operations after a hiatus. ADB's approach is aligned with the framework under the 16th replenishment of the World Bank's International Development Association (IDA), or IDA 16. For IDA's 17th replenishment, the IDA 16 approach has been replaced with an exceptional allocation regime for countries facing turn-around situations.<sup>16</sup> ADB will carefully study IDA's experience as it implements this new regime, with a view toward aligning its own exceptional support regime with it. Under the 12th ADF replenishment, ADB will provide exceptional support during 2017–2020 to post-conflict and reengaging countries under its existing policy provisions. It will introduce a base allocation of \$6 million per year for concessional assistance countries, which include the FCAS DMCs. ADB will also provide \$200 million in grant financing for disaster risk reduction to all concessional-assistance-only countries and grants-only countries. On a pilot basis, it will provide \$150 million in grant financing to all concessional assistance countries to support regional health security.<sup>17</sup>

<sup>16</sup> A turn-around situation is a critical juncture in a country's development trajectory providing a significant opportunity for building stability and resilience marked by (i) the cessation of an ongoing conflict (e.g., interstate warfare, civil war, or other cycles of violence that significantly disrupt a country's development prospects); or (ii) the commitment to a major change in the policy environment following a prolonged period of disengagement from lending, or a major shift in a country's policy priorities addressing critical elements of fragility. See IDA. 2013. *Implementation Arrangements for Allocating IDA Resources to Countries Facing "Turn-Around" Situations*. [http://www.worldbank.org/ida/papers/IDA17\\_Replenishment/Implementation-Arrangements-for-Allocating-IDA-Resources-to-Countries-Facing-Turn-around-Situations-Background-Note-September-2013.pdf](http://www.worldbank.org/ida/papers/IDA17_Replenishment/Implementation-Arrangements-for-Allocating-IDA-Resources-to-Countries-Facing-Turn-around-Situations-Background-Note-September-2013.pdf)

<sup>17</sup> ADB. Asian Development Fund: An Overview. Unpublished.

23. **Field presence.** ADB establishes its presence in FCAS DMCs through resident missions and development coordination offices that help ADB cooperate with development partners and deliver its assistance more effectively. Of ADB's nine development coordination offices in the Pacific, five are in FCAS DMCs: Kiribati (shared with the World Bank), the Marshall Islands, the FSM, Solomon Islands, and Vanuatu (shared with the World Bank). ADB has the Pacific Subregional Office in Suva, Fiji; the Pacific Liaison and Coordination Office in Sydney, Australia; and resident missions in Papua New Guinea and Timor-Leste. Overall, ADB's field offices in the Pacific have a staff of 66, including 22 in the FCAS DMCs. The resident missions in Afghanistan (with 24 staff members), Myanmar (with 17), and Nepal (with 45) are all headed by country directors. ADB has deployed 108 staff to FCAS DMCs.

24. **Capacity building and knowledge sharing.** As part of its internal project design and management course, ADB continues to give its staff a better understanding of fragility and conflict. The course also makes staff members aware of the issues and challenges of engaging in FCAS and ADB's various approaches to them. ADB also maintains a website that offers ADB knowledge products on FCAS, including publications, blogs, and videos.<sup>18</sup> Since 2010, 21 publications have been produced capturing ADB's experiences, best practices, lessons, guidelines, and frameworks on FCAS.

## F. Way Forward

25. ADB will build on the current momentum and lessons from its FCAS engagement through the following steps:

- (i) ADB will continue to apply an **FCAS-sensitive approach** in its FCAS operations.<sup>19</sup> To better understand the local context and thereby mitigate possible operational risks, political economy analyses and fragility assessments will need to be incorporated at the concept stage before project design and used continuously during project implementation.
- (ii) It will develop inclusive, long-term institutional capacity-building approaches. In FCAS, state building and the strengthening of core development sectors and institutions should not focus solely on the state. ADB will take all stakeholders, including ethnic groups or competing authorities, into account when designing development programs and in institutional capacity building to make aid more effective.
- (iii) ADB will implement a **communications strategy** in selected FCAS DMCs to inform and engage stakeholders. Communications activities will enlist and sustain the public support that can lead to inclusive country-led and country-owned transitions out of fragility.<sup>20</sup>

<sup>18</sup> Fragile and Conflict-Affected Situation Resource Center. <http://fragilesituations.adb.org>

<sup>19</sup> FCAS-sensitivity refers to the ability of an organization or a particular intervention to (i) understand the operating context; (ii) understand the interaction between an intervention and the operating context; and (iii) act on the understanding of this interaction to avoid negative effects and maximize positive impact for peace building, state building, and development. Adapted from International Alert. 2014. *Fragile reforms—World Bank and Asian Development Bank Financing in Fragile and Conflict-Affected Situations*. <http://www.international-alert.org/resources/publications/fragile-reforms>

<sup>20</sup> ADB. 2014. *Ten Years of Accountability Mechanism*. Manila.

- (iv) ADB may also consider exceptional or specific support to countries facing turn-around situations (footnote 16). These could be DMCs exiting and in transition from FCAS status and committed to reform. They could also include DMCs that ADB no longer classifies as FCAS but have been off the list for less than 5 years.
- (v) In recognition of the difficult conditions under which they must operate, ADB will improve incentives for staff working in FCAS and hardship duty stations. This will include offering better career advancement opportunities.



## CHANGES TO DATA

1. This appendix explains the changes made to the data reported in 2015 Development Effectiveness Review (DEFER).<sup>1</sup> Tables in this appendix include only those indicators for which data have been revised, with the revised data presented below the original data and highlighted in blue.

### A. Level 1: Development Progress in Asia and Pacific

2. The data in Table A3.1 has been revised to include new country data on poverty and other development outcome indicators made available in 2015.

**Table A3.1: Development Progress in Asia and the Pacific**  
(Revised baselines and targets)

Indicator	Baseline Year	ADB Developing Member Countries		ADF Developing Member Countries	
		Baseline Value	MDG Target 2015	Baseline Value	MDG Target 2015
<b>Poverty</b>					
Population living on less than \$1.25 PPP per day (%)	2008	22.6 20.3	27.6 25.5	25.5 17.4	27.0 22.7
GDP per capita growth rate (%)	2011			4.1 4.3	
Countries with high income inequality (% of countries with Gini coefficient exceeding 0.4)	2000–2010	25.9 36.4		16.7 33.3	
Wage and salaried workers in total employment (%)	2011	29.2 29.0		34.3 34.4	
Female	2011	21.1 29.0			
Male	2011	28.5 29.0			
Underweight children under 5 years old (%)	2010			26.4 26.3	21.7 21.5
Ratio of girls to boys in education (%)					
Secondary	2010			0.9 1.0	
Tertiary	2010	0.9 1.0		0.9 1.0	
Gross lower secondary education graduation rate (%)	2010	80.6 81.6		58.7 59.4	
Female	2010	82.2 82.8		59.1 59.4	
Male	2010	79.2 80.4		58.5 59.1	

<sup>1</sup> ADB. 2016. *2015 Development Effectiveness Review*. Manila.

Indicator	Baseline Year	ADB Developing Member Countries		ADF Developing Member Countries	
		Baseline Value	MDG Target 2015	Baseline Value	MDG Target 2015
Maternal mortality ratio (number per 100,000 live births)	2009	163.7	87.6	230.7	118.2
		170.8	82.9	233.9	97.3
<b>Other Development Outcomes</b>					
Population using an improved sanitation facility (%)	2010				
Rural	2010	45.3			
		45.1			
Urban	2010	75.3		75.3	
		75.1		74.9	
Governance and public sector management assessment (index)	2012			3.6	
				3.5	
Land area covered by forests (%)	2010	22.9		23.7	
		23.0		23.6	

ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = Gross Domestic Product, MDG = Millennium Development Goal, PPP = purchasing power parity.

Notes: The blue highlights indicate revised data. ADF developing member countries are a subset of ADB developing member countries that have access to the ADF according to ADB's 2013 operations manual on Classification and Graduation of Developing Member Countries (OMA1/BP), issued on 4 September 2013. See Appendix 1 for country groupings.

Sources: Regional aggregates for MDG indicators were prepared by the Strategy, Policy and Review Department using country data from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Statistics Division as part of the partnership between ADB, UNESCAP, and the United Nations Programme on the MDGs; population data used as weights are from the United Nations Population Division World Population Prospects: The 2015 Revision; sources for other indicators include the World Bank, PovcalNet online database. <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx> (accessed 10 January 2017); International Labour Organization Key Indicators of the Labour Market 8th Edition [http://www.ilo.org/empelm/what/WCMS\\_114240/lang-en/index.htm](http://www.ilo.org/empelm/what/WCMS_114240/lang-en/index.htm) (accessed 23 January 2017); United Nations Educational, Scientific and Cultural Organization Institute for Statistics <http://stats.uis.unesco.org/unesco/ReportFolders/ReportFolders.aspx> (accessed 25 January 2017); and the World Bank, World Development Indicators online database <http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators#> (accessed 12 January 2017).

## B. Level 2: ADB's Contributions to Development Results

3. Completed sovereign operations rated *most likely sustainable* or *likely sustainable* for Asian Development Bank (ADB) and Asian Development Fund (ADF) operations, and success rates for completed sovereign projects for ADF operations were updated to include ratings from seven project performance evaluation reports (PPERs) prepared by the Independent Evaluation Department (IED) in 2016 (Tables A3.2 and A3.3). Ratings assigned by PPERs changed the ratings of project and program completion validation reports.<sup>2</sup> The sustainability ratings of two projects were downgraded from *likely sustainable* to *less than likely sustainable*. The overall rating of one of these projects was also adjusted from *successful* to *less than successful* because the relevance, effectiveness, efficiency, and sustainability criteria were downgraded.

<sup>2</sup> PPERs are field-based evaluations undertaken by IED for 10%–20% of projects. IED. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila: ADB.



**Table A3.2: Quality at Completion**  
(Revised data)

Indicator	Baseline Year	ADB Operations Overall				
		Baseline Value	RY 2013	RY 2014	RY 2015	2016 Target
Completed sovereign operations rated <i>successful</i> (%)						
• Rated <i>likely sustainable</i>	RY 2010–2012	49	57	62	61	80
		48	56	61	60	

ADB = Asian Development Bank, RY = reporting year.

Note: The blue highlights indicate revised data.

Source: ADB Strategy, Policy and Review Department.

**Table A3.3: Quality at Completion**  
(Revised data)

Indicator	Baseline Year	ADF Operations				
		Baseline Value	RY 2013	RY 2014	RY 2015	2016 Target
Completed sovereign operations rated <i>successful</i> (%)						
• Project	RY 2010–2012	59	65	68	71	80
		58	64			
• Rated <i>likely sustainable</i>	RY 2010–2012	43	51	55	56	80
		42	50			

ADF = Asian Development Fund, RY = reporting year.

Note: The blue highlights indicate revised data.

Source: ADB Strategy, Policy and Review Department.

## C. Level 3: ADB's Operational Management

4. The infrastructure projects that are procurement-ready have been revised to exclude policy-based loans and result-based loans in 2013–2016 (Table A3.4).

**Table A3.4: Infrastructure Projects that Are Procurement-Ready**  
(Revised data)

Indicator	Baseline Year	ADB Operations Overall				
		Baseline Value	2013	2014	2015	Target
Infrastructure projects that are procurement-ready (%)	2012	14	27	31	25	40
			28		28	

ADB = Asian Development Bank.

Note: The blue highlights indicate revised data.

Source: ADB Strategy, Policy and Review Department.

5. The methodology for computation of indicators under the Development Agendas and Drivers of Change has been changed to exclude all approved project design advances. Several indicators were affected by this change (Table A3.5).

**Table A3.5: Selected Indicators under Development Agendas and Drivers of Change**  
(Revised data)

Indicator	Baseline Year	Baseline Value	2013	2014	2015	Target
	ADB Operations Overall					
Operations supporting environmental sustainability (%)	2010–2012	45	49	53	57 56	50
ADF Operations						
Operations contributing to inclusive economic growth focusing on social protection (%)	2010–2012	8.0	7.7	7.3	8.4 8.5	Above Baseline
Operations supporting regional cooperation and integration (%)	2010–2012	27	27	29	28 27	25
Operations supporting governance and/or capacity development (%)	2010–2012	69	67	75	78 79	Above Baseline
Operations supporting gender mainstreaming (%)	2010–2012	56	60	58	57 59	55

ADB = Asian Development Bank, ADF = Asian Development Fund.

Note: The blue highlights indicate revised data.

Source: ADB Strategy, Policy and Review Department.

6. Changes have been made to the sectoral breakdown to reflect the classification of subsectors based on the latest Work Program and Budget Framework (2017–2019). Irrigation, previously a subsector under agriculture, was reclassified under infrastructure (Table A3.6).

**Table A3.6: Comparison of Former and Revised Subsector Lists**

Sector	Former Subsector	Revised Subsector
<b>Agriculture, Natural Resources, and Rural Development</b>	Agricultural Drainage	Agricultural Drainage
	Agricultural Policy, Institutional and Capacity Development	Agricultural Policy, Institutional and Capacity Development
	Agricultural Production	Agricultural Production
	Agriculture Research and Application	Agriculture Research and Application
	Agro-Industry, Marketing, and Trade	Agro-Industry, Marketing, and Trade
	Fishery	Fishery
	Forestry	Forestry
	Irrigation	
	Land-Based Natural Resources Management	Land-Based Natural Resources Management

Sector	Former Subsector	Revised Subsector
<b>Agriculture, Natural Resources, and Rural Development</b>	Livestock	Livestock
	Rural Flood Protection	Rural Flood Protection
	Water-Based Natural Resources Management	Water-Based Natural Resources Management
<b>Water and Other Urban Infrastructure and Services</b>	Urban Flood Protection	Urban Flood Protection
	Urban Hazardous Waste Management	Urban Hazardous Waste Management
	Urban Sanitation	Urban Sanitation
	Urban Sewerage	Urban Sewerage
	Urban Solid Waste Management	Urban Solid Waste Management
	Urban Water Supply	Urban Water Supply
	Rural Sanitation	Urban Housing
	Rural Solid Waste Management	Urban Slum Development
	Rural Water Policy, Institutional and Capacity Development	Renovation and Protection of Cultural Heritage
	Rural Water Supply Services	Other Urban Services
<b>Other Infrastructure</b>		Urban Policy, Institutional and Capacity Development
	Other Urban Services	Rural Water Supply Services
	Renovation and Protection of Cultural Heritage	Rural Sanitation
	Urban Housing	Rural Solid Waste Management
	Urban Policy, Institutional and Capacity Development	Rural Water Policy, Institutional and Capacity Development
	Urban Slum Development	
Rural Market Infrastructure	Rural Market Infrastructure	
<b>Infrastructure</b>		Irrigation

Note: Changes are highlighted in blue.

Source: ADB Strategy, Policy and Review Department.

7. The reassignment of subsectors to different sectors affects the results framework indicator on financing for Strategy 2020 core operational areas (Table A3.7).

**Table A3.7: Financing for Strategy 2020 Core Operational Areas**  
(Revised data)

Indicator	ADB Operations Overall					
	Baseline Year	Baseline Value	2013	2014	2015	Target
Financing for Strategy 2020 core operational areas (%)	2010–2012	88	83	88	90	80
		90	91	89		

ADB = Asian Development Bank.

Note: The blue highlights indicate revised data.

Source: ADB Strategy, Policy and Review Department.



# SUPPORT FOR STRATEGY 2020

Table A4.1: Financing for Strategy 2020

Strategy 2020 Areas of Operation	2010–2012		2013		2014		2015		2016	
	\$ million	%	\$ million	%	\$ million	%	\$ million	%	\$ million	%
<b>ADB Operations Overall</b>										
Infrastructure	9,866	72.8	9,860	69.4	9,220	68.2	10,501	64.5	10,576	60.6
Energy	3,573	26.4	3,788	26.7	2,695	19.9	5,388	33.1	4,506	25.8
Transport	4,626	34.1	3,897	27.4	4,380	32.4	2,833	17.4	4,086	23.4
Water and other urban infrastructure and services	1,200	8.9	1,735	12.2	1,637	12.1	1,849	11.4	1,525	8.7
ICT	38	0.3	0	0.0	50	0.4	194	1.2	77	0.4
Other infrastructure	73	0.5	2	0.0	153	1.1	76	0.5	105	0.6
Irrigation	356	2.6	438	3.1	305	2.3	161	1.0	278	1.6
Finance	1,421	10.5	1,477	10.4	1,161	8.6	2,553	15.7	2,019	11.6
Education	451	3.3	647	4.6	818	6.0	586	3.6	771	4.4
Agriculture, natural resources, and rural development	505	3.7	240	1.7	427	3.2	652	4.0	875	5.0
Health	194	1.4	158	1.1	0.2	0.0	360	2.2	341	2.0
Industry and trade	189	1.4	50	0.4	392	2.9	77	0.5	894	5.1
Public sector management	924	6.8	1,781	12.5	1,511	11.2	1,552	9.5	1,985	11.4
<b>Total ADB financing</b>	<b>13,551</b>	<b>100.0</b>	<b>14,213</b>	<b>100.0</b>	<b>13,529</b>	<b>100.0</b>	<b>16,280</b>	<b>100.0</b>	<b>17,462</b>	<b>100.0</b>
<b>ADF Operations</b>										
Infrastructure	1,967	67.5	2,256	58.6	2,318	75.0	1,892	66.0	1,591	51.8
Energy	359	12.3	746	19.4	915	29.6	687	24.0	453	14.8
Transport	954	32.8	656	17.0	798	25.8	519	18.1	840	27.3
Water and other urban infrastructure and services	420	14.4	589	15.3	304	9.8	590	20.6	184	6.0
ICT	10	0.3	0	0.0	0	0.0	27	0.9	0	0.0
Other infrastructure	27	0.9	0.4	0.0	15	0.5	11	0.4	37	1.2
Irrigation	197	6.8	266	6.9	287	9.3	57	2.0	76	2.5
Finance	192	6.6	155	4.0	100	3.2	264	9.2	315	10.2
Education	289	9.9	217	5.6	313	10.1	434	15.1	546	17.8
Agriculture, natural resources, and rural development	136	4.7	66	1.7	116	3.8	126	4.4	104	3.4
Health	127	4.3	97	2.5	0	0.0	30	1.0	126	4.1
Industry and trade	36	1.2	19	0.5	42	1.4	77	2.7	73	2.4
Public sector management	165	5.7	1,039	27.0	202	6.5	45	1.6	320	10.4
<b>Total ADF financing</b>	<b>2,912</b>	<b>100.0</b>	<b>3,850</b>	<b>100.0</b>	<b>3,091</b>	<b>100.0</b>	<b>2,867</b>	<b>100.0</b>	<b>3,073</b>	<b>100.0</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, ICT = information and communication technology.

Notes:

1. Other infrastructure includes the following subsectors: rural water supply services; rural sanitation; rural solid waste management; rural market infrastructure; and rural water policy, institutional and capacity development.
2. Percentages may not total 100% because of rounding.
3. Project design advances (PDAs) with ensuing loans have been removed and corresponding values reduced accordingly. One PDA amounting to \$3.5 million in 2012 had a resulting loan in 2014, and three PDAs totaling \$7.65 million in 2015 had resulting loans in 2016.

Source: ADB Strategy, Policy and Review Department.

Table A4.2: Operations Supporting Strategy 2020

Strategy 2020 Areas of Operation	2010–2012		2013		2014		2015		2016	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>ADB Operations Overall</b>										
Infrastructure	104	64.5	93	63.7	110	64.3	91	60.7	106	57.3
Energy	31	18.1	32	21.9	27	15.8	26	17.3	30	16.2
Transport	40	23.5	32	21.9	45	26.3	28	18.7	41	22.2
Water and other urban infrastructure and services	23	13.6	23	15.8	24	14.0	25	16.7	22	11.9
ICT	2	1.0	0	0.0	1	0.6	3	2.0	2	1.1
Other infrastructure	7	4.3	1	0.7	5	2.9	5	3.3	4	2.2
Irrigation	7	4.1	5	3.4	8	4.7	4	2.7	7	3.8
Finance	16	9.1	19	13.0	14	8.2	23	15.3	22	11.9
Education	8	4.5	8	5.5	14	8.2	8	5.3	10	5.4
Agriculture, natural resources, and rural development	16	9.3	11	7.5	15	8.8	12	8.0	15	8.1
Health	5	2.9	5	3.4	1	0.6	4	2.7	4	2.2
Industry and trade	3	1.9	2	1.4	5	2.9	4	2.7	8	4.3
Public sector management	13	7.8	8	5.5	12	7.0	8	5.3	20	10.8
<b>Total ADB operations</b>	<b>165</b>	<b>100.0</b>	<b>146</b>	<b>100.0</b>	<b>171</b>	<b>100.0</b>	<b>150</b>	<b>100.0</b>	<b>185</b>	<b>100.0</b>
<b>ADF Operations</b>										
Infrastructure	44	58.2	41	61.2	52	61.9	38	60.3	40	54.1
Energy	8	9.6	14	20.9	11	13.1	7	11.1	8	10.8
Transport	20	24.1	11	16.4	22	26.2	14	22.2	22	29.7
Water and other urban infrastructure and services	11	12.9	10	14.9	10	11.9	12	19.0	6	8.1
ICT	1	1.2	0	0.0	0	0.0	2	3.2	0	0.0
Other infrastructure	4	4.8	1	1.5	2	2.4	1	1.6	1	1.4
Irrigation	5	5.6	5	7.5	7	8.3	2	3.2	3	4.1
Finance	5	6.0	7	10.4	4	4.8	5	7.9	5	6.8
Education	6	7.6	4	6.0	9	10.7	6	9.5	9	12.2
Agriculture, natural resources, and rural development	8	9.6	5	7.5	7	8.3	4	6.3	3	4.1
Health	4	4.8	3	4.5	0	0.0	2	3.2	2	2.7
Industry and trade	2	2.8	1	1.5	4	4.8	4	6.3	4	5.4
Public sector management	9	10.8	6	9.0	8	9.5	4	6.3	11	14.9
<b>Total ADF operations</b>	<b>78</b>	<b>100.0</b>	<b>67</b>	<b>100.0</b>	<b>84</b>	<b>100.0</b>	<b>63</b>	<b>100.0</b>	<b>74</b>	<b>100.0</b>

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Notes:

1. Other infrastructure includes the following subsectors: rural water supply services; rural sanitation; rural solid waste management; rural market infrastructure; and rural water policy, institutional and capacity development.
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Source: ADB Strategy, Policy and Review Department.



## 2016 Development Effectiveness Review

The 2016 Development Effectiveness Review (DEfR) is the 10th in a series of yearly reports by the Asian Development Bank (ADB) on its performance in achieving the priorities of Strategy 2020, its long-term strategic framework for 2008–2020. The 2016 DEfR tracks recent development progress in Asia and the Pacific, assesses ADB's development effectiveness, and identifies areas where ADB's performance needs to be strengthened.

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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.

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