2018 ANNUAL PORTFOLIO PERFORMANCE REPORT

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
APPR	–	annual portfolio performance report
BER	–	bid evaluation report
CAR	–	contract award ratio
COL	–	concessional OCR lending
CWRD	–	Central and West Asia Department
DMC	–	developing member country
DVA	–	direct value added
EARD	–	East Asia Department
FAST	–	Faster Approach to Small Nonsovereign Transactions
FCAS	–	fragile and conflict-affected situations
IRR	–	internal rate of return
MFF	–	multitranche financing facility
MFI	–	microfinance institution
NPF	–	new procurement framework
NSO	–	nonsovereign operations
OCR	–	ordinary capital resources
OIST	–	Office of Information Systems and Technology
ORM	–	Office of Risk Management
PARD	–	Pacific Department
PBL	–	policy-based loan
PCR	–	project completion report
PPFD	–	Procurement, Portfolio and Financial Management Department
PPR	–	project performance rating
PRC	–	People’s Republic of China
PRF	–	project readiness financing
PSOD	–	Private Sector Operations Department
SARD	–	South Asia Department
SEFF	–	small expenditure financing facility
SERD	–	Southeast Asia Department
SIDS	–	small island developing states
TA	–	technical assistance
TFP	–	Trade Finance Program
US	–	United States

NOTES

(i) In this report, “$” refers to United States dollars.

(ii) Totals may not sum precisely because of rounding.

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EXECUTIVE SUMMARY

Introduction

The annual portfolio performance report (APPR) provides the Asian Development Bank (ADB) Board and Management with a strategic overview of the size, composition, and quality of ADB's active portfolio. The report identifies key issues and portfolio trends and makes recommendations at the overall portfolio level. It builds on the project implementation reports and ADB project information databases. The APPR also includes lessons for future ADB interventions.

The 2018 APPR covers both the sovereign and nonsovereign portfolio. In 2018, ADB switched sovereign and nonsovereign portfolio reporting from approvals based to commitment based. The sovereign portfolio[1] analyzes loans, grants, technical assistance (TA), guarantees, and equities based on commitments. The nonsovereign portfolio has historically included commitments in the analysis of loans and other debt securities, guarantees, and equities, and hence the approach to reporting remains unchanged.

2018 Sovereign Portfolio

Overall sovereign portfolio up by 11.6% in 2018. The active portfolio showed a net change of $9.0 billion compared with 2017 and stood at $86.7 billion at the end of 2018, comprising 1,883 loans, grants, TA, a guarantee, and an equity. The portfolio consists of 691 active loan and grant projects with an average project size of $122.3 million, compared with $114.1 million in 2017. Total new commitments in 2018 were $19.2 billion, loan closures totaled $8.2 billion, and cancellations $2.0 billion. The investment lending modality accounted for more than 90% of the 691 loan and grant projects. Regional and sector portfolio distribution were similar to 2017 levels.

Portfolio quality improved starting from project design. Of the projects approved in 2018, 80% were design-ready and 46% were procurement-ready. To further increase project readiness, two new streamlined modalities to replace the existing TA loan and project design facility (PDF) modalities were introduced in 2018—project readiness financing (PRF) and small expenditure financing facility (SEFF). By the end of 2018, 13 project design advances ($52.2 million) had been approved; the first PRF was approved in December. Project readiness is a precursor to procurement efficiency, which also improved. The average end-to-end procurement time decreased from 370 days in 2017 to 348 days in 2018, and the average time for approval of evaluation reports (procurement processing time) by ADB declined from 52 days to 38 days. Procurement efficiency remains central to project implementation, paving the way for higher contract awards at the early stages of project implementation.

[1] Covers operations funded by regular ordinary capital resources (OCR), concessional OCR lending (COL), Asian Development Fund (ADF), other special funds, and cofinancing fully administered by ADB, whereas the Development Effectiveness Review report covers operations funded by ADF, COL and OCR.

	2014	2015	2016	2017	2018	
Design-ready (%)	65	62	75	82	80	⇧
Procurement-ready (%)	31	28	44	45	46	⇧
Procurement processing time (days)	58	49	45	52	38	⇧
End-to-end procurement time (days)	335	419	386	370	348	⇧

⇧ = improvement from 2017, ⇧ = within 3 percentage points compared with 2017.
Source: Asian Development Bank data.

Key project implementation indicators generally strong. The time from loan or grant signing to first contract remained at 10 months. For legislative reasons, advance contracting was not possible in some larger developing member countries such as Mongolia, the People's Republic of China (PRC), and Viet Nam. Contract awards reached $10.2 billion and a contract award ratio of 25.7% was achieved. This was largely the result of more projects being design- and procurement-ready at project commencement, with $5.4 billion of contract awards coming from projects less than 2 years old. Disbursements, excluding policy-based loans, were $9.2 billion, of which $2.8 billion was from projects less than 2 years old. The 2018 disbursement ratio achieved was 21.1%. Starting in 2020, disbursement targets will reflect a differentiated approach which takes into account historical performance. Project implementation will become increasingly challenging given that the gap between commitments and contract awards has risen steadily since 2016 and widened further in 2018. Project teams will need to ensure continuously that portfolio-related challenges are dealt with proactively.

	2014	2015	2016	2017	2018	
Signing to first contract (months)	11.9	11.2	11.9	9.9	10.1	⇩
Contract awards age < 2 years ($ billion)	4.6	4.2	4.4	5.2	5.4	⇧
Contract awards ($ billion)	8.2	8.2	9.4	9.6	10.2	⇧
Contract award ratio	27.8	26.2	29.7	27.6	25.7	⇩
Uncontracted (%)	39.3	39.6	36.6	37.3	39.4	⇩
Disbursements ($ billion)	7.3	7.1	8.0	8.5	9.2	⇧
Disbursement ratio	21.5	19.3	20.3	21.7	21.1	⇩
Undisbursed (%)	62.0	61.6	59.3	59.6	59.7	⇩

⇧= improvement from 2017, ⇩= within 3 percentage points compared with 2017.
Source: Asian Development Bank data.

Detailed review of project performance rating initiated in 2018. As recommended in the 2017 APPR, a working group to review the project performance rating system was established in the second half of 2018. It was tasked to strengthen the technical, financial management, and safeguards indicators (the contract awards and disbursement numbers are directly captured from ADB's financial systems and are not the subject of the review). Once the recommendations for the three indicators are finalized, the overall system modifications necessary to upgrade the rating system will be implemented. The new PPR system will then be pilot-tested for an estimated period of at least six months, and results based on the revised PPR indicators will only be reported starting 2021.

Projects taking longer than envisaged. The requirements for implementation support will vary depending on several factors, including those that define the project's key features and its risk profile. For project loans and grants that closed in 2018, the average implementation time was 6.5 years. This is 2.2 years longer than the expected implementation period at the project design stage. This is however a reduction of 0.2 year in the average delay compared with projects closed in 2017. The active portfolio contained 73 loans and grants (6.9%) that were at least 8 years into implementation, requiring stronger implementation support. Planning for implementation should begin at project preparation and focus on mitigating potential risks that could further extend the project duration and delay the project outcome.

	2014	2015	2016	2017	2018	
Project performance rating (on track) (%)	80	76	80	73	75	⇧
Implementation period (years)	6.4	6.4	6.5	6.7	6.5	⇧

⇧ = improvement from 2017.
Source: Asian Development Bank data.

Project completion reports are essential to measure the outcome and identify lessons learned. Delays in preparing project completion reports (PCRs) raise the broader issue that lessons may not be available when designing a similar future project. An analysis of 586 projects financially closed between 2010 and 2017 confirmed that only nine PCRs (1.7%) had not been circulated within 2 years after the project's closure. Although the compliance rate is high, regional departments need to track PCR preparation closely, and make sure that lessons can be fed into similar future projects. Efforts to upgrade existing reporting systems to have them trigger alerts on potentially delayed PCRs are being made.

Implementation of the 2017 APPR recommendations is on track:

(i) The share of projects classified as procurement-ready at approval improved to 46%, while design-ready projects declined marginally to 80%.
(ii) A comprehensive and thorough review of financial management across ADB projects was completed and resulted in the approval of an action plan by the President, of which the implementation is ongoing.
(iii) The revision of the project performance rating system was initiated, and progress was made on redefining the technical, financial, and safeguard indicators.
(iv) Implementation for the new procurement framework reached a key milestone in June with the publication of key implementation and guidance documents. Further capacity building and outreach activities began in July.
(v) The average end-to-end procurement time further improved by 22 days in 2018.

Each year, portfolio management yields lessons to better direct efforts in the future:

(i) Continue the institutional strengthening of projects' executing and implementing agencies, as supported by TA resources for capacity building where feasible.
(ii) Further increase the number of design- and procurement-ready projects by using the PRF and SEFF modalities.
(iii) Consider further outposting and strategic placement in regional departments of procurement specialists to improve procurement support.
(iv) Continue to strengthen the financial management of ADB-financed projects by implementing the action plan in 2019 and beyond.

(v) Set differentiated annual disbursement targets across regional departments based on country grouping and historical performance.
(vi) Timely project completion reports are critical in identifying lessons in a country and sector context.

The analysis of the 2018 sovereign portfolio and its lessons highlights four key recommendations:

(i) **Recommendation 1:** Further strengthen project implementation to narrow the gaps between annual commitments and contract awards, and disbursements.
(ii) **Recommendation 2:** At the project design stage, set a realistic implementation period.
(iii) **Recommendation 3:** Going forward, adopt a revised approach to setting annual disbursement targets to accurately reflect country capacity and situation.
(iv) **Recommendation 4:** Further strengthen the guidelines on preparing and monitoring PCRs to ensure timely circulation.

2018 Nonsovereign Portfolio

Robust portfolio growth in 2018. Commitments increased by 37.1% to $3.1 billion, exceeding by 16.1% the 2018 planning target for nonsovereign operations (NSO) of $2.7 billion. As a percentage of total regular OCR commitments, nonsovereign commitments in 2018 reached 19.3%—surpassing the 2018 volume target of 17% for ADB's regular OCR commitments. Disbursements in 2018 increased by 42.4% to $1,952.7 million, 95.7% of the 2018 planning target for nonsovereign operations of $2,040 million. The total committed portfolio[2] continued to expand rapidly, by 14.5% to $12.4 billion.

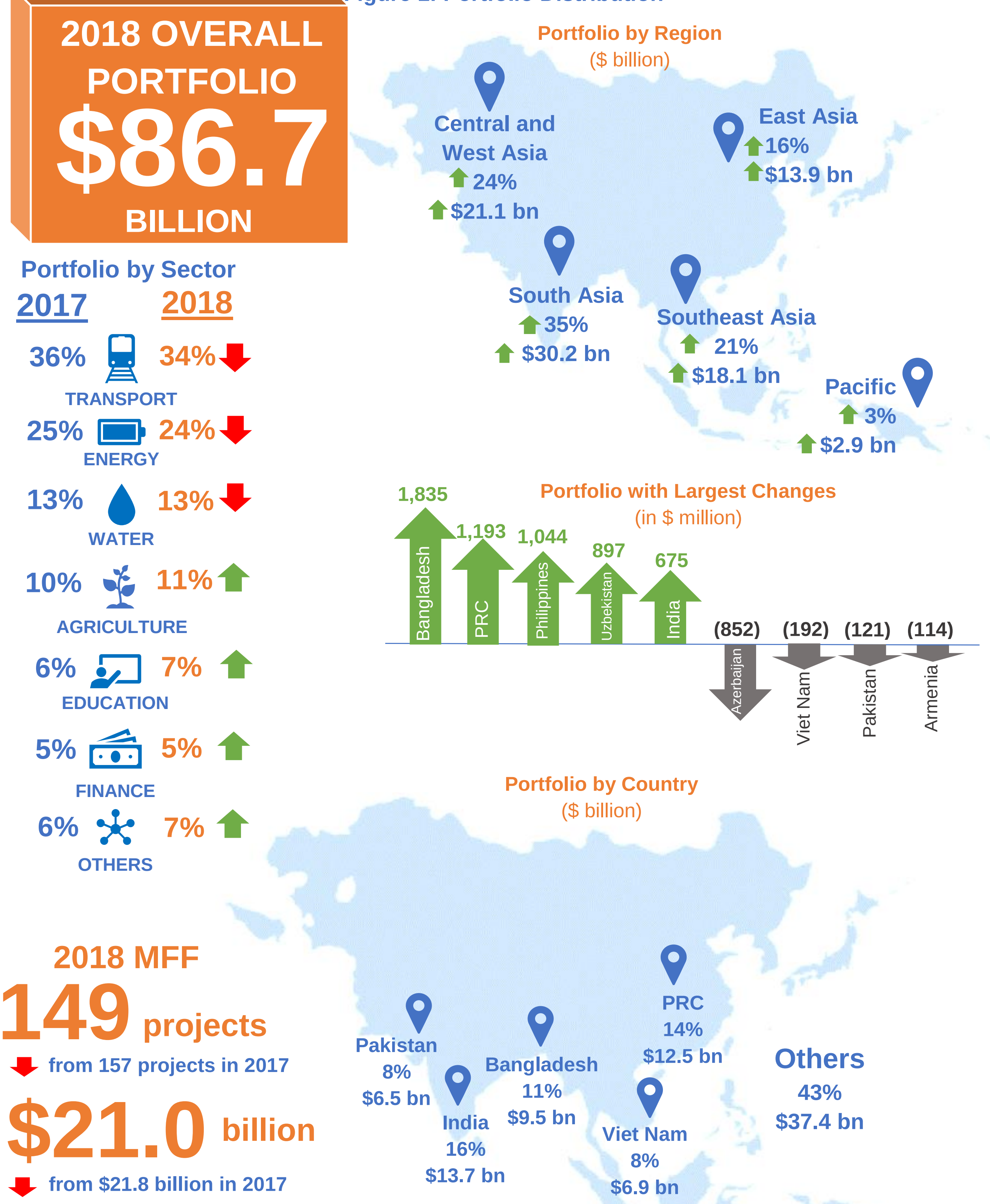
Nonsovereign projects strongly aligned with ADB's development targets. Most new projects were in frontier economies or sectors, and/or benefited the poor and women. In support of the Strategy 2030 priorities, the Private Sector Operations Department (PSOD) (i) created a Business Development Team to incubate innovative projects or projects in challenging sectors and markets; (ii) established a Social Sectors Team specialized in health, education, and social protection; (iii) upgraded the Guarantees and Syndications Unit to a full unit so as to increase private sector operations cofinancing and to support sovereign operations credit enhancement products; and (iv) created an Equity Investment Unit to strengthen equity operations.

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]

[2] The committed loan and equity portfolio consists of outstanding balances plus undisbursed balances. The committed guarantee portfolio consists of outstanding balances plus non-executed commitments.

2018 SOVEREIGN PORTFOLIO

Figure 1: Portfolio Distribution



agriculture = agriculture, natural resources, and rural development; bn = billion; MFF = multitranche financing facility; PRC = People's Republic of China; water = water and other urban infrastructure and services.

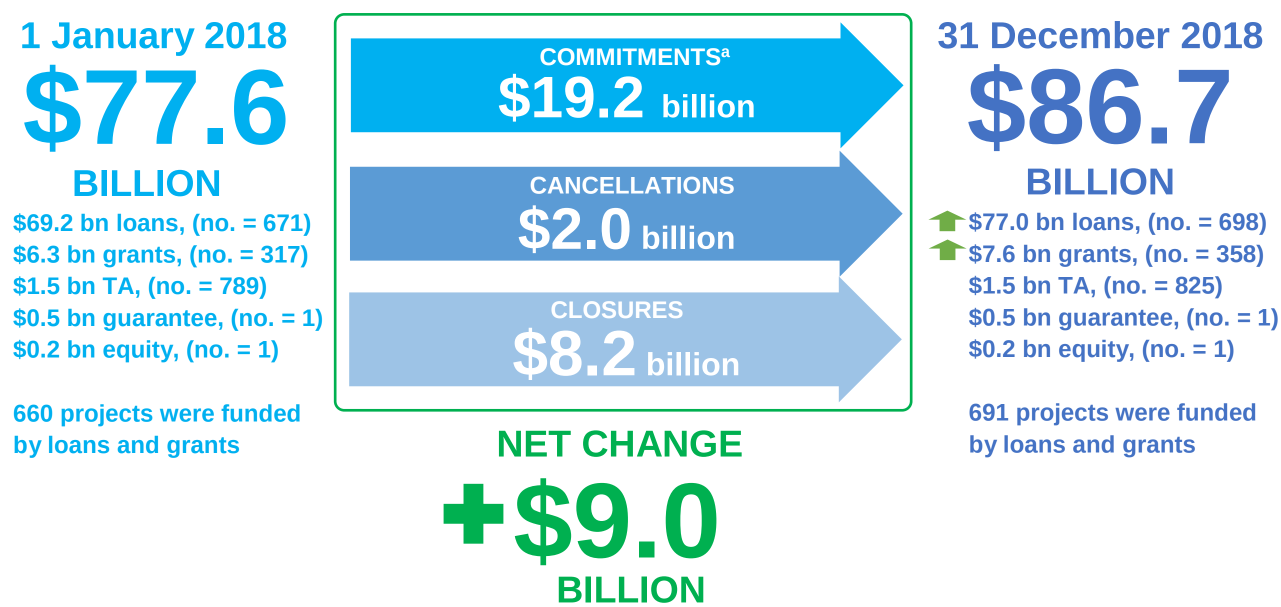
Source: Asian Development Bank data.

I. 2018 SOVEREIGN PORTFOLIO

A. Portfolio Composition and Trends

1. **Overall sovereign portfolio increased by 11.6% in 2018.** The active portfolio at the end of 2018 comprised 1,883 loans, grants, technical assistance (TA) projects, a guarantee, and an equity for a total of $86.7 billion. The average project size of 691 active loan and grant projects was $122.3 million, compared with $114.1 million in 2017. Total new commitments in 2018 were $19.2 billion, whereas loan closures stood at $8.2 billion and cancellations were $2.0 billion (Figure 2). The active portfolio has increased by 40.3% since 2014 (Figure 3). Regular ordinary capital resources (OCR) dominated the funding mix with $60.6 billion (69.9%), followed by concessional OCR lending (COL) at $16.2 billion (18.7%), the Asian Development Fund (ADF) at $5.3 billion (6.1%), and other special funds and cofinancing at $4.7 billion (5.4%) (Figure 4). All figures reflect funds fully administered by the Asian Development Bank (ADB).

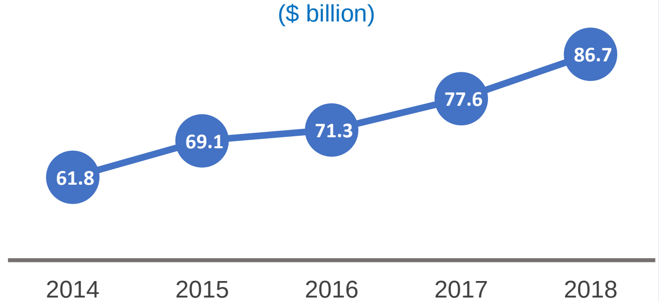
Figure 2: Sovereign Portfolio at a Glance



[a] Based on the net amount as of end 2018.
bn = billion, no. = number, TA = technical assistance.
Source: Asian Development Bank data.

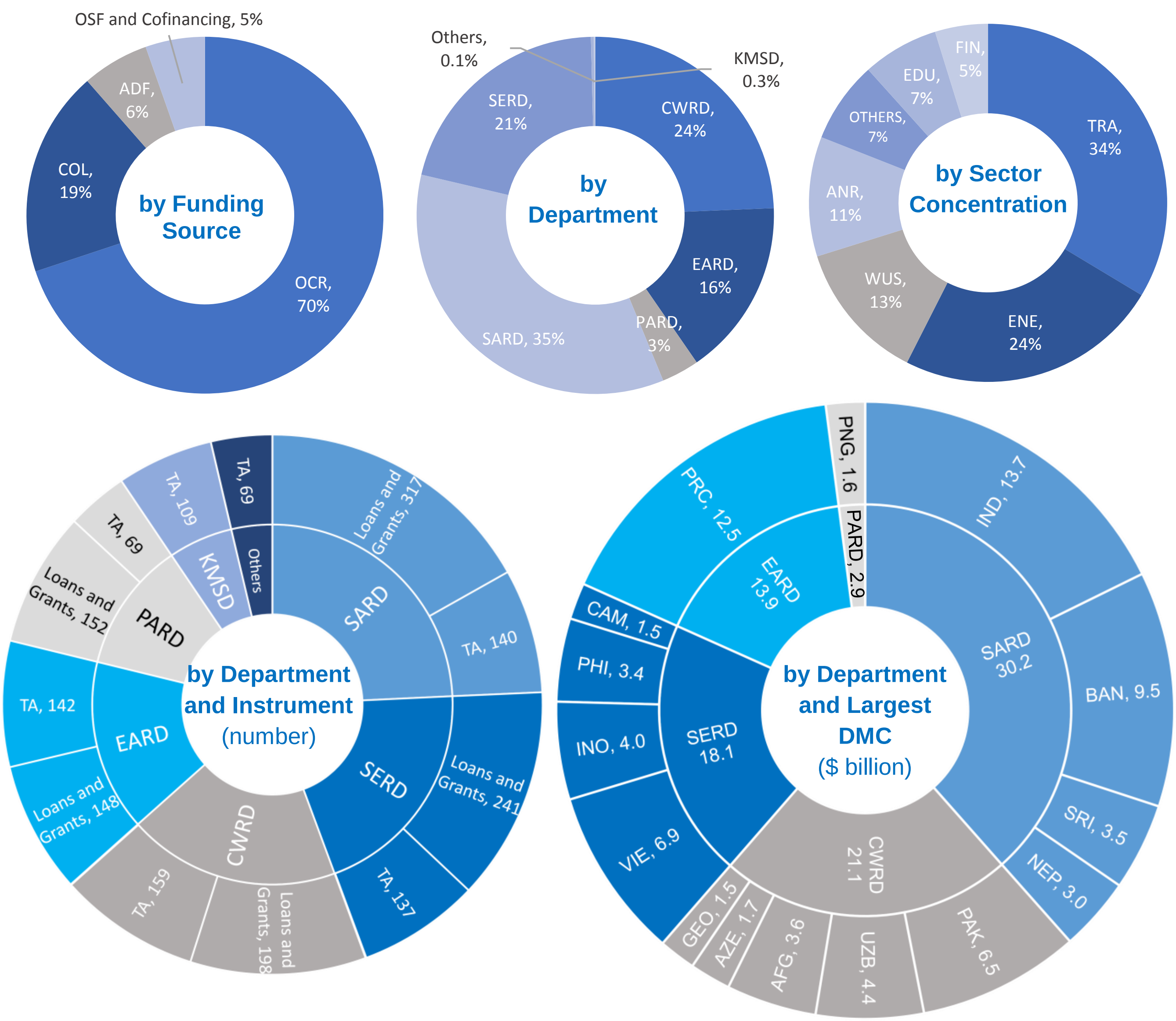
2. **Regional portfolio distribution stable.** The South Asia Department (SARD) remained by far the largest portfolio with a 34.9% share, followed by the Central and West Asia Department (CWRD) at 24.4%, Southeast Asia Department (SERD) at 20.9%, East Asia Department (EARD) at 16.0%, and Pacific Department (PARD) at 3.4% (Figure 4). A significant achievement in 2018 was the first loan to Turkmenistan in 7 years.

Figure 3: ADB Overall Portfolio, 2014–2018
($ billion)



ADB = Asian Development Bank.
Source: Asian Development Bank data.

Figure 4: Portfolio Composition, 2018

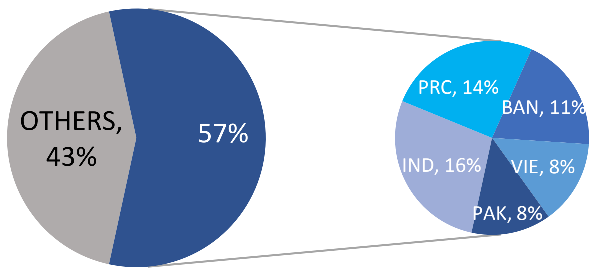


CWRD = 1 sovereign guarantee, SERD = 1 equity investment.

Note: Countries with ≥ $1.5 billion portfolio.

ADF = Asian Development Fund; AFG = Afghanistan; ANR = agriculture, natural resources, and rural development; AZE = Azerbaijan; BAN = Bangladesh; CAM = Cambodia; COL = concessional OCR lending; CWRD = Central and West Asia Department; DMC = developing member country; EARD = East Asia Department; EDU = education; ENE = energy; FIN = finance; GEO = Georgia; IND = India; INO = Indonesia; KMSD = knowledge management and sustainable development departments; NEP = Nepal; OCR = ordinary capital resources; OSF = other special funds; PAK = Pakistan; PARD = Pacific Department; PHI = Philippines; PRC = People's Republic of China; PNG = Papua New Guinea; SARD = South Asia Department; SERD = Southeast Asia Department; SRI = Sri Lanka; TA = technical assistance; TRA = transport; UZB = Uzbekistan; WUS = water and other urban infrastructure and services; VIE = Viet Nam.
Source: Asian Development Bank data.

Figure 5: Country Concentration



BAN = Bangladesh, IND = India, PAK = Pakistan, PRC = People's Republic of China, VIE = Viet Nam.
Source: Asian Development Bank data.

3. **Country concentration the same since 2017.** India held the largest share with 15.8% of the portfolio, followed by the People's Republic of China (PRC) at 14.5%, Bangladesh with 11.0%, Viet Nam at 8.0%, and Pakistan at 7.6%. The five developing member countries (DMCs) accounted for 56.8% of the portfolio, against 59.0% in 2017 (Figure 5). The active portfolio of the five DMCs with the largest individual portfolios remains stable and is generally unchanged. In aggregate, the portfolio movement for the top five DMCs was $3.4 billion, with increases in Bangladesh, the PRC, and India, and declines in Viet Nam and Pakistan.

4. **Energy and transport sectors account for more than half of ADB's active portfolio.** The high share of lending in energy and transport was attributed to ADB's support for investments in infrastructure to expand transport connectivity in the region and promote sustainable energy supply. The combined share of water and other urban infrastructure and services, education, and finance was about 25% of the total portfolio. DMCs continue to borrow for projects in large infrastructure sectors because they need to spend at least $1.7 trillion annually to maintain growth. The two sectors combined grew by 25.7% since 2014, compared with growth of more than 50.0% in almost all other sectors. This shows that ADB's efforts to diversify sector concentration are showing positive signs.

5. **Investment lending the leading modality.** Of the 691 active loan and grant projects, more than 90% (656, $76.1 billion) were investment projects. Results-based lending increased by $537.0 million from 2017. It had a 2.5% (17) share in terms of number and a 5.7% ($4.8 billion) share in terms of value. Policy-based lending was comparable to 2017 at 3.9% (27) in terms of number and 4.3% ($3.7 billion) in terms of value. The distribution of these three modalities was similar to the distribution in 2017. Multitranche financing facility (MFF) tranches totaled 149, accounting for 21.6% by number and $21.0 billion by value, mostly in infrastructure. They dropped slightly from 157 MFF tranche projects ($21.8 billion) in 2017. New modalities such as project readiness financing (PRF) and the small expenditure financing facility (SEFF) were introduced in 2018 with streamlined business processes. The PRF modality aims to boost project readiness of ensuing ADB projects. The new modalities replace TA loans and the piloted project design facility. Similarly, the SEFF supports small expenditures (up to $15.0 million per activity) in a quick and responsive manner. Each activity under the SEFF should be associated with or support a larger ADB-financed project. In 2018, the first small-scale PRF for $3.0 million was approved for Solomon Islands to prepare an urban water supply and sanitation project.[3]

6. **Emergency assistance peaked at $1.0 billion.** A $100.0 million emergency grant was prepared for Bangladesh to help meet the immediate and urgent needs of the people displaced from Myanmar to Bangladesh's Cox's Bazar District. Two loans totaling $400.0 million using the investment and quick disbursement modalities were provided to the Philippines for the reconstruction and recovery of Marawi after the heavy conflict of 2017. ADB approved $500.0 million in November to support the Government of Indonesia's recovery and rehabilitation

[3] ADB. Solomon Islands: *Preparing the Urban Water Supply and Sanitation Sector Project*. https://www.adb.org/projects/51271-002/main

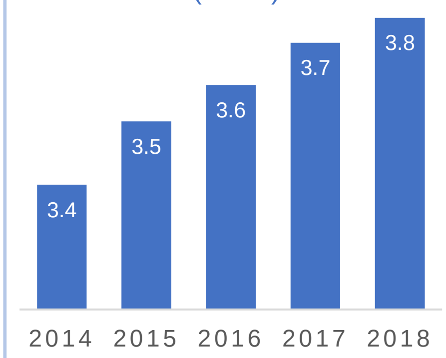
of Lombok and Central Sulawesi after disasters had claimed thousands of lives and destroyed infrastructure, property, and livelihoods. ADB also allocated $8.8 million to Tonga from the ADF 12 Disaster Response Facility for the reconstruction and upgrade of the electricity network infrastructure damaged by Tropical Cyclone Gita.

B. Portfolio Key Findings[4]

1. Portfolio Age

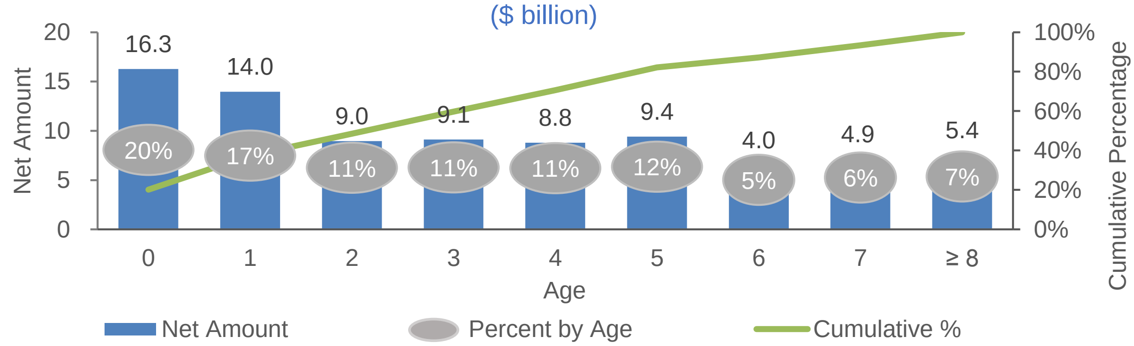
7. **Average portfolio age over the last 5 years is increasing** (Figure 6). About 37.4% of the active committed portfolio is less than 2 years old. Conversely, 6.7% of projects 8 years old or even older are still active (Figures 7 and 8). For projects that are well past their closing date and are yet to be financially closed, measures need to be agreed with the borrowers as soon as possible to achieve financial closure. A clean portfolio of active loans and grants is essential to good portfolio management. In Central Asian countries, the portfolio remains relatively young even though its age increased from 3.4 years to 3.7 years. This increase is attributed to Afghanistan, where project implementation is directly affected by the security situation.

Figure 6: Average Age of Project Portfolio, 2014–2018
(Years)



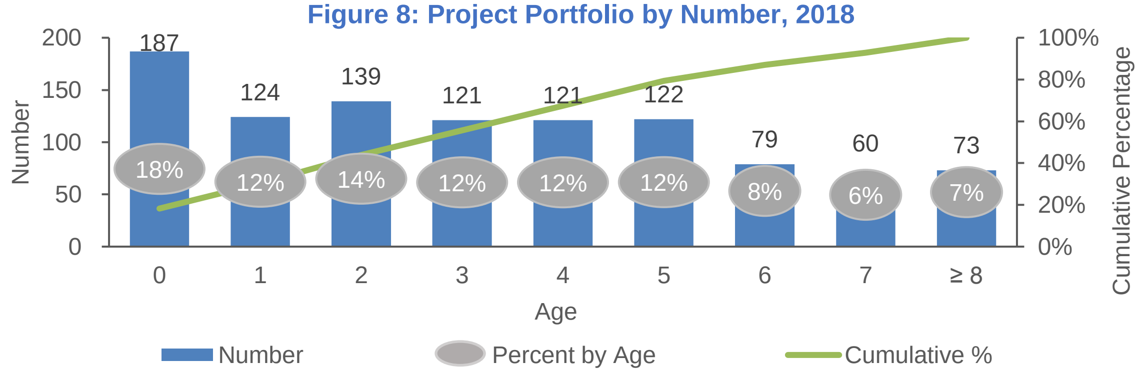
Source: Asian Development Bank data.

Figure 7: Project Portfolio by Value, 2018
($ billion)



Source: Asian Development Bank data.

Figure 8: Project Portfolio by Number, 2018



Source: Asian Development Bank data.

[4] The section covers the performance of the project portfolio unless specified otherwise.

2. Project Readiness

8. **Project readiness helps improve the quality of portfolio performance.** Of the projects approved in 2018, 80% were design-ready and 46% were procurement-ready. Most DMCs continue to stress the need for faster project preparation and implementation. Effective project preparation and better project readiness are critical to ensuring that a project's development impact is realized expeditiously. ADB introduced the project design facility in 2011 and in 2018 supplemented it with the PRF, which features simplified documentation, and approvals for the facility are delegated to the ADB Management. The PRF has the flexibility to support single or multiple ensuing projects and is an excellent vehicle for project preparation, such as detailed engineering design, feasibility study, capacity building for future projects, and project start-up[5] activities. By the end of 2018, 13 project design advances (totaling $52.2 million) and one small-scale PRF ($3.0 million) had been approved. CWRD accounted for most of it ($27.7 million), PARD for $15.7 million. Project teams are encouraged to use the SEFF instrument, also approved in 2018, which allows for a quick response to meet the needs to finance multiple small activities, such as consulting services, pilot testing, and rehabilitation.

9. In 2018, the time from loan or grant signing to first contract award remained at 10 months. For legislative reasons, advance contracting, which facilitates higher project readiness at project approval and signing, was not possible in some larger DMCs such as Mongolia, the PRC, and Viet Nam. In Mongolia, the current procurement law prohibits any form of advance action. An amendment to the law was proposed in 2018 but was deferred to 2019. In India, as part of project readiness executing agencies are recommended to have at least 30% of the contracts either awarded or ready for award prior to approval (Box 1).

Box 1: South Asia Department

The South Asia Department (SARD) continuously strives for a high degree of comprehensive project readiness—e.g., design, safeguards, and strengthened implementation arrangements—when approving projects. It uses technical assistance and project readiness facilities for project preparation in improving project readiness. Dedicated portfolio and project implementation technical assistance help build the capacity of executing and implementing agencies and address specific implementation issues.

SARD has implemented high project readiness compliance through detailed project readiness checklists for its new projects. In 2018, the monitoring form was further refined with more stringent procurement and consultant recruitment monitoring, safeguards compliance, and availability of staff resources from executing and implementing agencies.

The Government of India enforces project readiness criteria and checklists before loan negotiation and signing. Some developing member countries in the region need to further develop and strengthen their project readiness criteria and checklists before loan negotiation and signing.

In 2018, SARD achieved 100% on design readiness and 95% in procurement readiness, exceeding the Asian Development Bank target of 40% for procurement readiness in 2018.

Source: Asian Development Bank, South Asia Department.

[5] Project start-up is when the loan is made effective and works can proceed.

10. CWRD has also made significant strides in enhancing readiness (Box 2). PARD continues to invest in improving project readiness, apart from three ongoing project design advances and a PRF under implementation in Solomon Islands. Australia is channeling support through ADB with a $2.0 million grant for detailed design and procurement support for an energy sector project in Papua New Guinea. SERD established the Project Readiness Improvement Trust Fund in 2016 to support project readiness and climate-resilient detailed engineering designs for infrastructure projects (Box 3).

Box 2: Central and West Asia Department

Design and procurement readiness remain a paramount proxy for project readiness in the Central and West Asia Department (CWRD). Design readiness was achieved for 69% of all infrastructure projects, including 100% of all transport projects, well above the Asian Development Bank (ADB) target of 60%. Procurement readiness is strong—54% of all infrastructure projects launched an invitation for bids prior to Board/Management approval. This is well above ADB's target of 40%.

All concept papers for infrastructure projects are screened by CWRD's quality assurance team for readiness, and the report and recommendation documents contain statements that highlight the state of readiness to the Board. The department uses project readiness facilities to finance designs or develops agreements with governments to allocate domestic resources to the financing of designs. In some cases, loan proceeds from ongoing loans are used to finance designs and readiness for the subsequent loan. None of the developing member countries within CWRD has legal restrictions on advance contracting, after ADB helped the Government of Uzbekistan formulate new loan processing rules and regulations that now allow advance actions.

The key to readiness is to develop a sufficiently large standby list of projects that can substitute pipeline projects that are not yet ready. Readiness in the energy and transport sectors is high, whereas readiness in the agriculture and water sectors is mixed. CWRD is now allocating additional project readiness facilities resources in these sectors to increase readiness.

Source: Asian Development Bank, Central and West Asia Department.

Box 3: Southeast Asia Department

The Southeast Asia Department (SERD) continues its efforts to improve project readiness through policy dialogue with the governments during project planning, preparing design-ready and procurement-ready projects in countries where advance contracting is allowed, and working with cofinanciers to prepare detailed designs during project preparation or under grant projects. The following actions are taken at the project planning and processing stages:

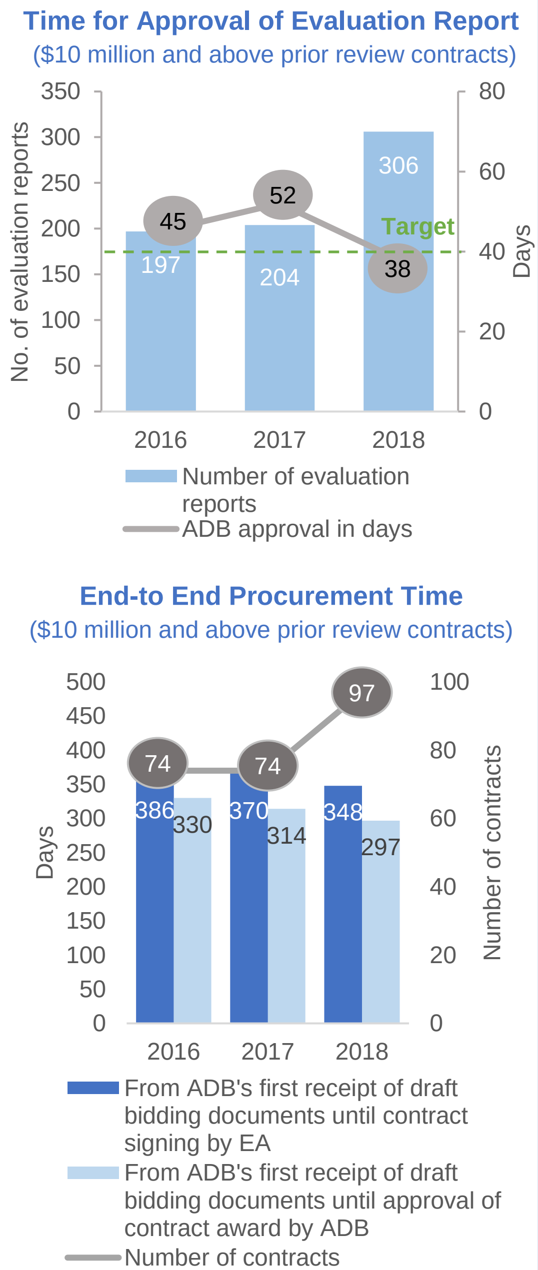
(i) Regular orientation and training is provided to counterpart staff in executing and implementing agencies on project scoping, procurement actions, safeguards, and the Asian Development Bank (ADB) approval process. This increases the capacity for and understanding of ADB's project processing and implementation procedures.
(ii) Detailed procurement packaging in coordination with executing agencies is done for higher-value contracts to minimize the number of packages. The use of turnkey and engineering–procurement–construction contracts, as appropriate, is also encouraged.
(iii) Start-up consultants are mobilized to assist the executing and implementing agencies in recruiting the project implementation consulting firm.
(iv) Executing and implementing agencies are assisted by involving staff accredited under ADB's Procurement Accreditation Skills Scheme and outposted procurement specialists in finalizing procurement packages, bidding documents, and invitations for bids for advance procurement packages, including bid evaluation and terms of reference for consulting packages.
(v) Safeguard documents are prepared during project processing.
(vi) Processing missions and meetings with the executing agencies are conducted to ensure completion of the preliminary design and bidding documents prior to loan approval.

In 2016, SERD established the Project Readiness Improvement Trust Fund with an initial contribution of $8.0 million to support project readiness and climate-change-related projects. As of 31 December 2018, the Project Readiness Improvement Trust Fund had supported 10 transaction technical assistance projects to prepare climate-resilient detailed engineering designs for infrastructure projects, reducing the time taken from project approval to the first contract award by an average of 6 months.

Source: Asian Development Bank, Southeast Asia Department.

3. Procurement Time

Figure 9: Procurement Time, 2016–2018

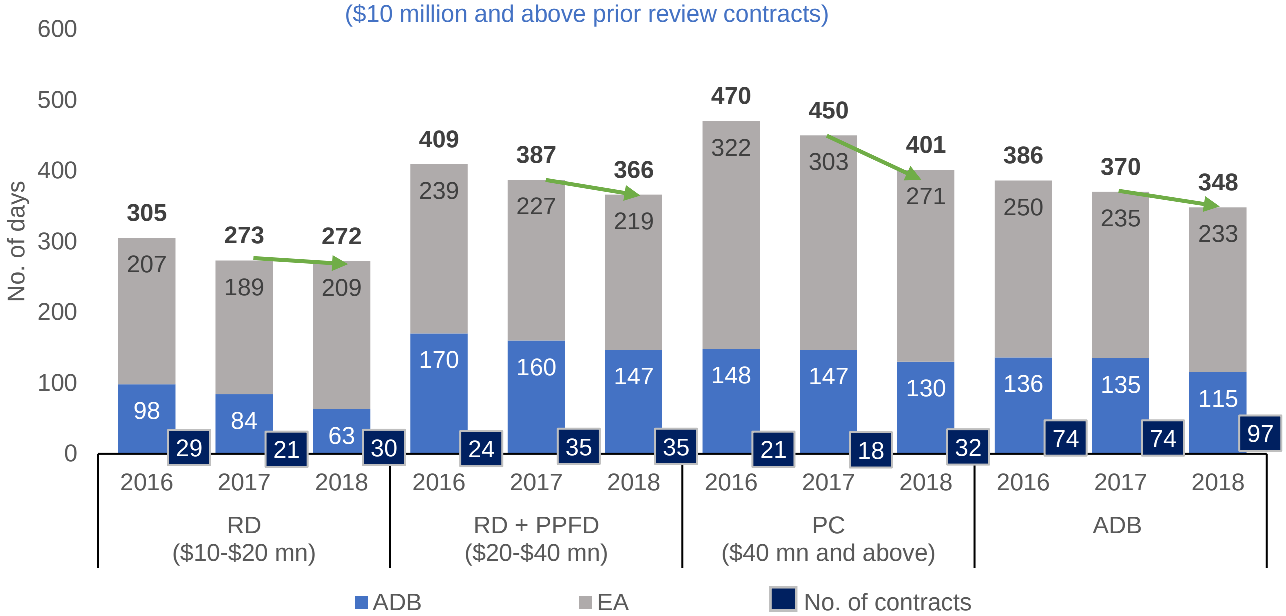


ADB = Asian Development Bank, EA = executing agency, no. = number.
Source: Asian Development Bank data.

11. **Further improvements in procurement time for transactions of $10 million and above.** The average end-to-end procurement time, defined as the time from receipt of draft bidding documents to contract signing, decreased from 370 days in 2017 to 348 days in 2018 for an average gain of 22 days. Compared to the average 386 days in 2016, the 2018 time improved by 38 days (Figures 9 and 10). In SARD, the average end-to-end procurement time increased from 364 days in 2017 to 399 days in 2018 (Figure 11). This is mainly attributed to the use of two-stage bidding, which on average takes longer, for two projects in Bangladesh and Sri Lanka, each taking more than 1,000 days to complete the procurement. In the case of Bangladesh, the invitation to bid was posted 10 months after the draft bidding document was submitted to ADB. A second measure is the average time taken by ADB, an equally important metric within the overall average end-to-end time, defined as the time taken by ADB to exercise its oversight and that taken by the executing agency to clarify and revise the documents. The ADB time improved by 20 days compared to 2017 and by 21 days compared to 2016. The time taken by executing agencies improved by 2 days compared with 2017 and by 17 days when compared with 2016 (Figures 10 and 11). Overall, procurement time is showing a positive trend since 2016.

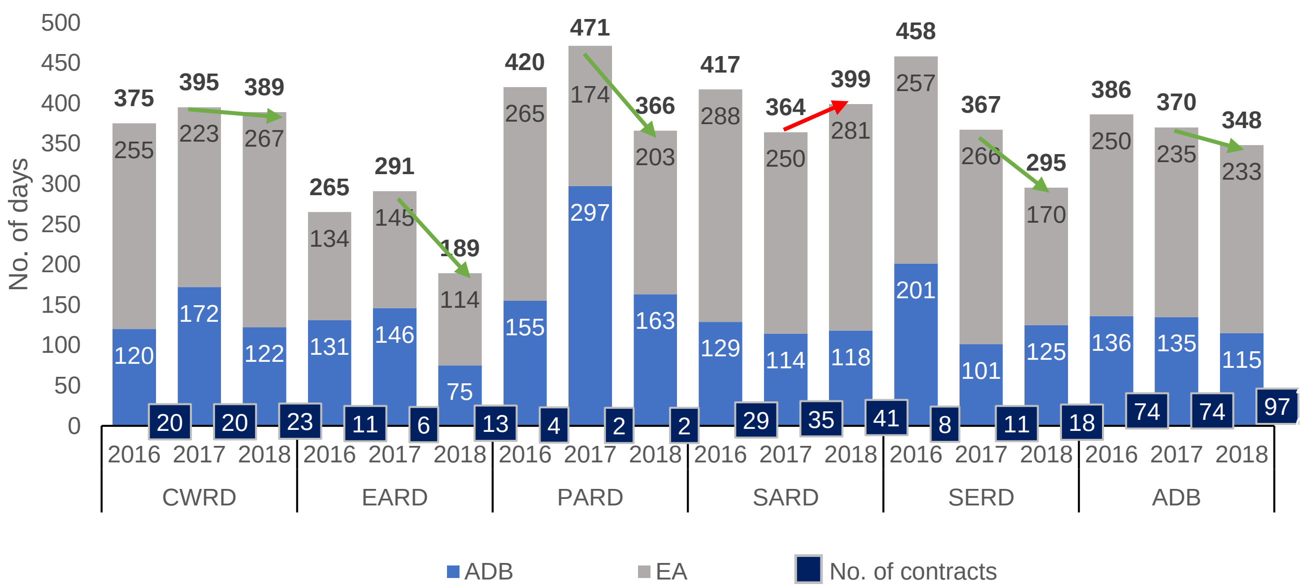
12. A second, equally significant indicator aligned with the corporate Transitional Results Framework 2017–2020 is the average time for approval of procurement evaluation reports by ADB. The target in the corporate results framework is 40 days. Despite a 50% increase in the number of evaluation reports reviewed by ADB, the time dropped by 14 days since 2017, i.e., from 52 days to 38 days, and by 7 days compared with 2016 (Figures 9 and 12). As per the previous definitions of ADB time, this also measures the time taken by ADB to exercise its oversight and the time taken by the executing agency to clarify and revise the evaluation reports. The improvements are attributed to more proactive monitoring of the transactions entered into the Procurement Review System and also to system upgrades in late 2018, i.e., the system now sends automated notifications on pending transactions to the ADB staff concerned. Furthermore, the strategic placement of procurement specialists in sector divisions and regional department front offices (10 to date), and outposting to resident missions (nine to date), is bearing fruit and instrumental in coordinating consulting and procurement matters on site.

Figure 10: End-to-End Procurement Time by Approving Authority, 2016–2018
($10 million and above prior review contracts)



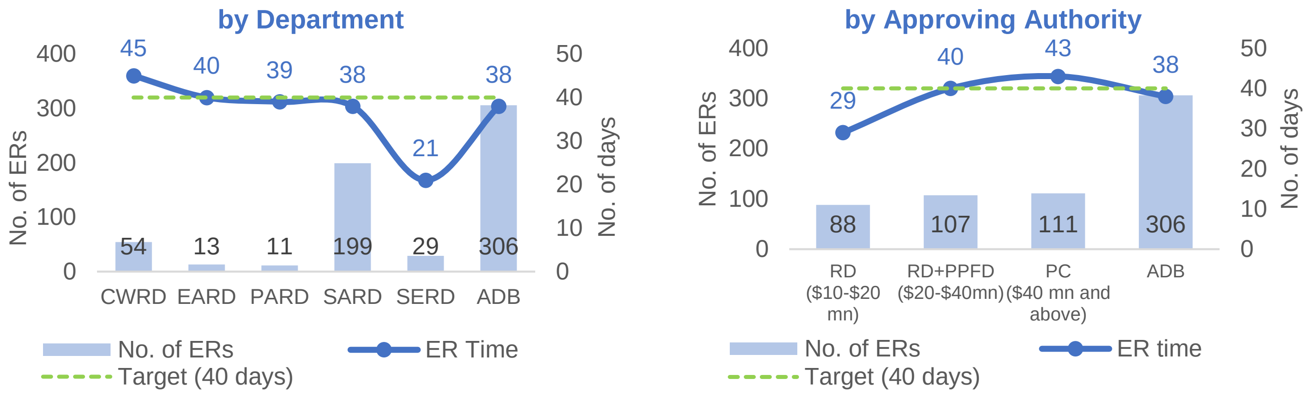
ADB = Asian Development Bank; EA = executing agency; mn = million; no. = number; PC = Procurement Committee; PPFD = Procurement, Portfolio and Financial Management Department; RD = regional department.
Source: Asian Development Bank data.

Figure 11: End-to-End Procurement Time by Department, 2016–2018
($10 million and above prior review contracts)



ADB = Asian Development Bank, CWRD = Central and West Asia Department, EA = executing agency, EARD = East Asia Department, no. = number, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

Figure 12: Time for Approval of Evaluation Report, 2018
($10 million and above prior review contracts)



ADB = Asian Development Bank; CWRD = Central and West Asia Department; EARD = East Asia Department; ER = evaluation report; mn = million; no. = number; PARD = Pacific Department; PC = Procurement Committee; PPFD = Procurement, Portfolio and Financial Management Department; RD = regional department; SARD = South Asia Department; SERD = Southeast Asia Department.
Source: Asian Development Bank data.

13. **Implementation of new procurement framework gathering pace.** Implementation for the new procurement framework (NPF) reached a key milestone in June 2018 with the publication of 24 guidance notes, eight standard bidding documents, nine user guides, and four staff instructions. Further capacity building and outreach activities began in July. Activities include outreach to sector directors and operations focal points as well as procurement strategy clinics. Capacity building and training on the NPF will gain further momentum in 2019 and beyond, as needed. By the end of 2018, outreach activities had benefited nearly 3,000 government staff and procurement practitioners as the NPF applies to more projects (over 100 by the end of 2018). A summary of the 2018 activities is in Box 4.

Box 4: Outreach Activities for the New Procurement Framework in 2018

(i) Outreach activities to sector directors and operations focal points.

(ii) Train-the-trainer course held for 22 Procurement, Portfolio and Financial Management Department (PPFD) procurement specialists.

(iii) Procurement strategy clinics for project staff from regional departments and resident missions.

(iv) National procurement officers' training attended by 15 national procurement officers, 10 outposted procurement specialists, and 31 PPFD staff.

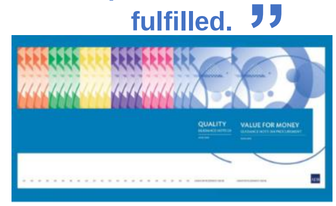
(v) Procurement strategy clinics for project staff in counterpart agencies in the People's Republic of China and Uzbekistan.

(vi) Twenty-six outreach activities provided to 2,781 government ministry officials, project management unit staff, procurement practitioners/agency officers, consultants, and contractors and suppliers.

(vii) In-house PPFD Masterclasses on Procurement Risk Framework (70 participants), Strategic Procurement Planning (58 participants), and Contract Management (80 participants).

Source: Asian Development Bank, Procurement, Portfolio and Financial Management Department.

"The rollout of the new framework will allow greater flexibility to meet emerging developing member countries' needs, while ensuring that fiduciary, governance, and anticorruption requirements are fulfilled."

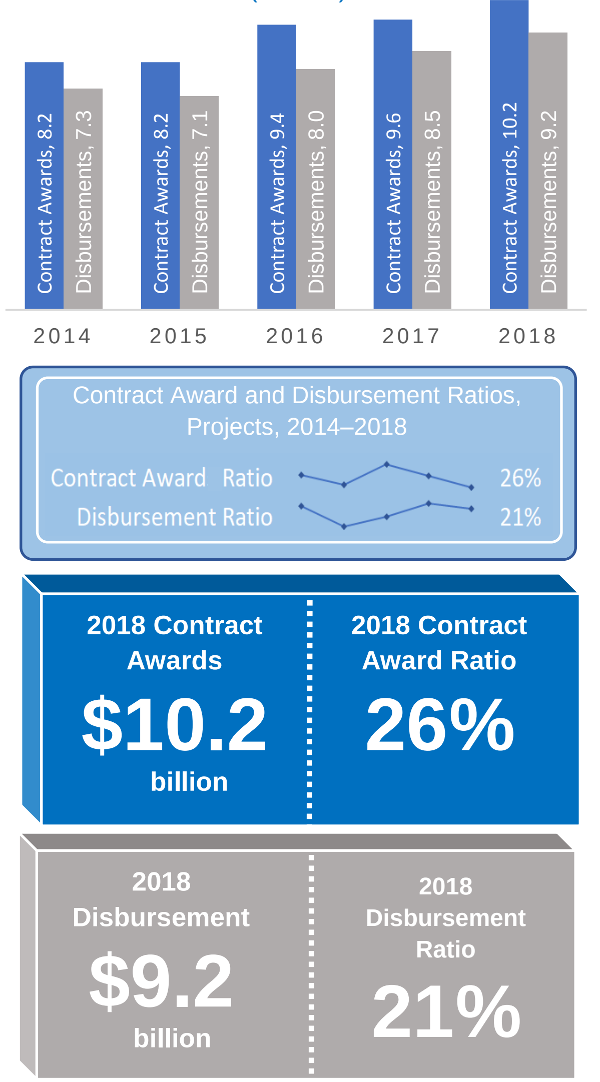


14. **Alternative procurement arrangement with World Bank.** In 2018, ADB signed its first alternative procurement arrangement with the World Bank, allowing procedures on cofinanced projects to follow a single procurement framework. Under ADB's new procurement framework, the arrangement allows one bank to be the lead cofinancier on a project, and the procurement of all, or a portion of, the contracts under the project to follow the lead cofinancier's procurement guidelines and procedures. This allows cofinanced projects to be implemented more efficiently by applying a single framework to the whole project and reducing transaction costs for the executing and implementing agencies. ADB is negotiating with other multilateral agencies to expand the number of cofinanced projects that will use similar arrangements.

4. Contract Award and Disbursement Performance Overview

Figure 13: Contract Awards and Disbursement 2014–2018

($ billion)



Source: Asian Development Bank data.

15. **Another record year for contract awards and disbursements.** Procurement efficiency remains central to project implementation, paving the way for higher contract awards at the early stages of project implementation. Contract awards and disbursements are leading indicators of progress toward achieving a project's expected outputs and outcomes. In 2018, contract awards reached a high of $10.2 billion, a 6.8% increase from 2017 and a 25.0% increase from 2014; project disbursements excluding policy-based loans (PBLs) reached $9.2 billion, a 7.2% increase ($617.7 million) from 2017 and a 25.3% increase from 2014 (Figure 13). Project disbursements achieved almost 96.6% of the 2018 target of $9.5 billion.

16. **Policy-based loan disbursements performing well.** The total annual disbursement through the PBL modality was $3.6 billion versus a target of $2.0 billion—an achievement of 182.0%. Factoring in PBLs, disbursements rose to $12.8 billion for a disbursement ratio of 27.7%. PBLs provide DMCs with fast-disbursing budget support while, at the same time, creating an opportunity for ADB to influence policy reforms to boost growth and poverty reduction.

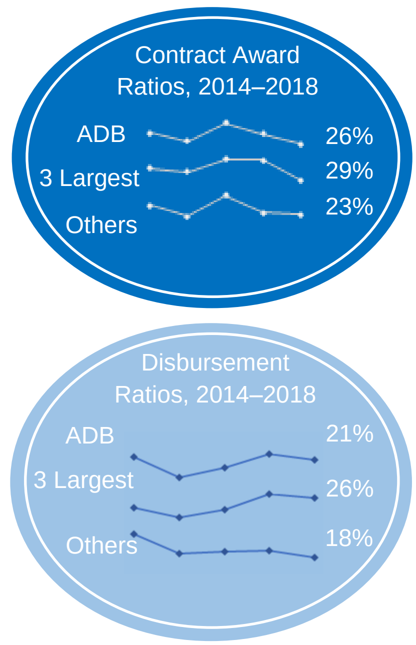
17. **Small decrease in contract award and disbursement ratios notwithstanding increasing commitments.** The contract award ratio (CAR) was 25.7%, lower by 1.9 percentage points than the 27.6% in 2017. The disbursement ratio was also marginally lower at 21.1%, against 21.7% in 2017. Both were attributed to an increase in commitments in the recent years.

18. **Contract award ratio historically constant.** The average CAR for the 5-year period from 2014–2018 was 27.4%, compared with a 3-year average for 2016–2018 of 27.6%. SARD consistently exceeded the ADB-wide target of 26% with an average CAR of 36.4% from 2014–2018, and PARD followed with an average of 30.7%. CWRD averaged 25.3%, EARD 22.4%, and SERD 21.0%.

19. The three DMCs with the highest contract awards were India with $2.2 billion, Bangladesh with $1.3 billion, and the PRC with $1.2 billion. This equates to CARs of 45.1% (India), 26.8% (Bangladesh), and 19.3% (PRC). The combined CAR for the top three performers was 29.4%, well above ADB's 25.7%, but declined by 4.3 percentage points from the 2017 combined CAR (Figure 14). India's significantly higher CAR is the result of high procurement and project readiness to accelerate project commencement and shorten implementation time.

20. The uncontracted beginning balance at the start of 2018[6] was $39.9 billion, higher by $10.4 billion than the $29.5 billion in 2014 (35.4% increase), accounting for higher commitments added to the portfolio since 2014. The PRC had the largest uncontracted beginning balance at $6.4 billion, followed by India ($4.9 billion) and Bangladesh ($4.7 billion). These three DMCs alone accounted for 40.0% of the total uncontracted beginning balance.

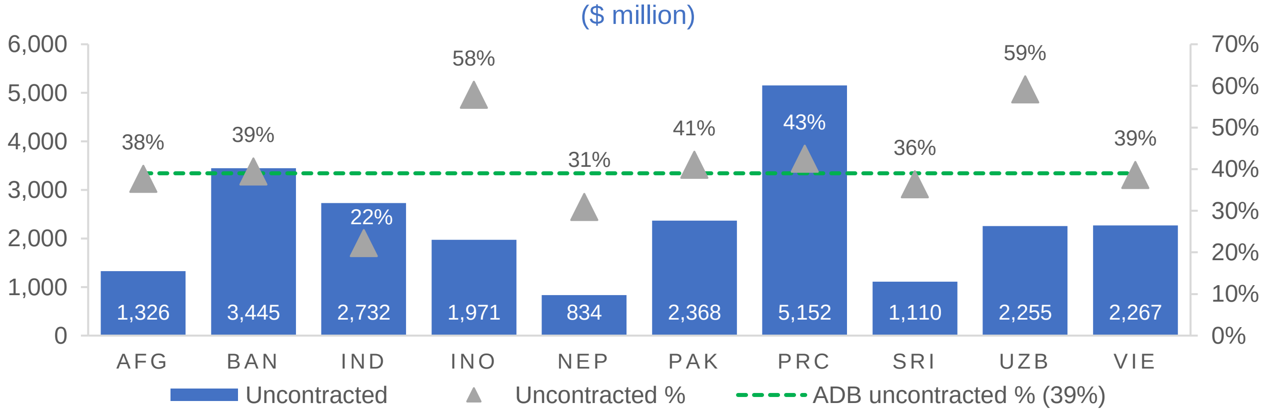
Figure 14: Contract Award and Disbursement Ratios



ADB = Asian Development Bank.
Source: Asian Development Bank data.

21. The uncontracted balance as at the end of 2018 reached $29.8 billion (39.4%), an increase of $4.5 billion (17.9%) from 2017 (Figure 15). The countries that had the largest increase were Bangladesh ($848.4 million or 32.7%), India ($785.2 million or 40.3%), and the PRC ($519.8 million or 11.2%).

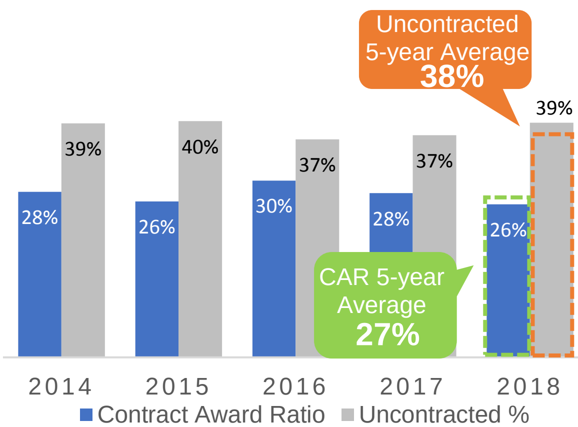
Figure 15: Uncontracted Balance and Percentage for Countries with Largest Project Portfolio, 2018
($ million)



ADB = Asian Development Bank, AFG = Afghanistan, BAN = Bangladesh, IND = India, INO = Indonesia, NEP = Nepal, PAK = Pakistan, PRC = People's Republic of China, SRI = Sri Lanka, UZB = Uzbekistan, VIE = Viet Nam.
Source: Asian Development Bank data.

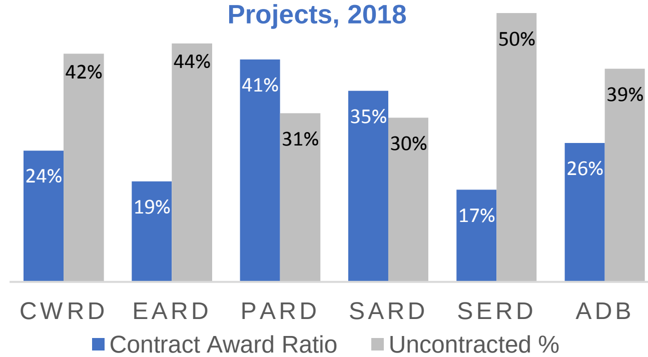
[6] Includes new commitments during the year.

Figure 16: Contract Award Ratio and Uncontracted Percentage, Projects, 2014–2018



CAR = contract award ratio.
Source: Asian Development Bank data.

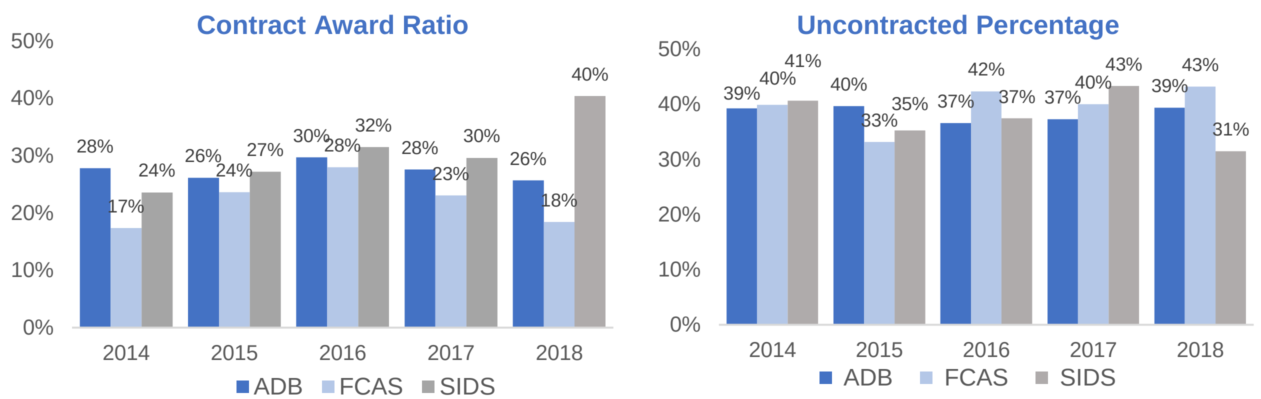
Figure 17: Contract Award Ratio and Uncontracted Percentage by Department, Projects, 2018



ADB = Asian Development Bank, CWRD = Central and West Asia Department, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

22. Contract awards across the DMCs in fragile and conflict-affected situations[7] (FCAS) were $604.1 million, more than double the 2014 achievement of $292.1 million and marginally higher than the 2017 achievement of $590.5 million. The uncontracted balance in the FCAS was $2.7 billion, almost twice the 2014 balance of $1.4 billion. Comparing 2018 with 2017, the uncontracted balance increased from $2.0 billion to $2.7 billion, an increase of 35.2%. The total uncontracted balance in the FCAS was 9.0% of the total uncontracted balance of $29.8 billion. The 5-year average CAR in the FCAS was 22.1%—despite spikes in performance coming from a low of 17.4% in 2014, jumping to 28.0% in 2016, and dropping to 18.4% in 2018 (Figure 18). A similar performance was seen in small island developing states[8] (SIDS), where contract awards year on year increased to $523.1 million in 2018. This was an increase of 161.6% from 2014. The SIDS' 5-year CAR averaged 30.5%, with a high of 40.4% in 2018, and was higher than ADB's ratio of 25.7% (Table 1). In both groups, projects less than two years old accounted for more than 65% of their 2018 contract awards.

Figure 18: Fragile and Conflict-Affected Situations, and Small Island Developing States, 2014–2018

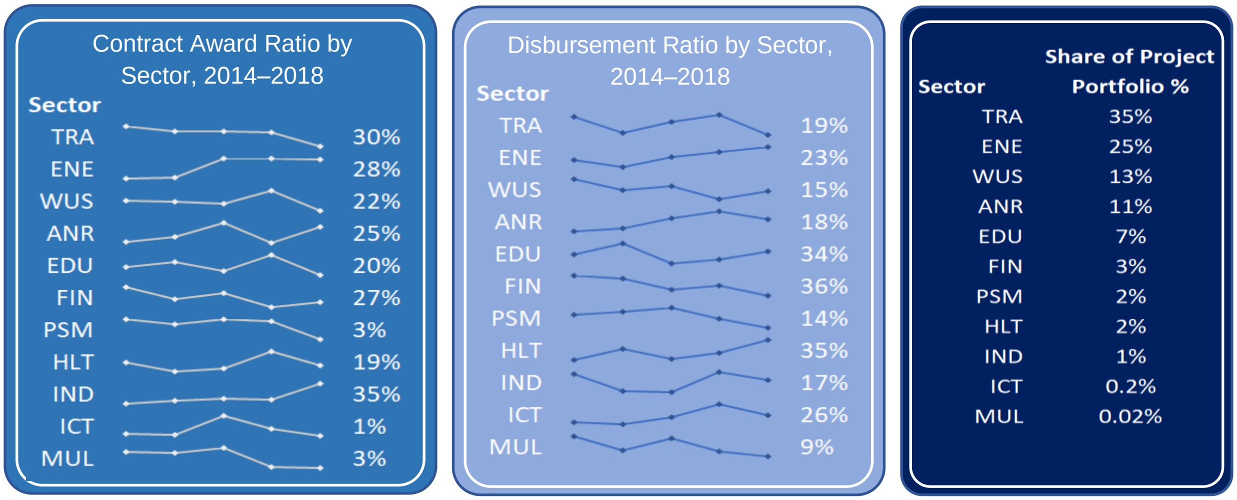


ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, SIDS = small island developing states.
Source: Asian Development Bank data.

[7] ADB's nine developing member countries affected by fragility and conflict are Afghanistan, Federated States of Micronesia, Kiribati, Marshall Islands, Myanmar, Nauru, Papua New Guinea, Solomon Islands, and Tuvalu.
[8] Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Maldives, Nauru, Palau, Papua New Guinea, Marshall Islands, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

23. Among the sectors with the largest project portfolios, energy and transport combined had an uncontracted balance of $14.6 billion (48.9%). Despite achieving a high level of contract awards of $5.9 billion (58.0%) in 2018, there is room to further reduce uncontracted balances across these sectors in 2019. The CAR of these two sectors also performed better than ADB's overall ratio of 25.7% (Figure 19).

Figure 19: Contract Award Ratio, Disbursement Ratio, and Share of Project Portfolio by Sector



ANR = agriculture, natural resources, and rural development; ENE = energy; EDU = education; ICT = information and communication technology; IND = industry and trade; FIN = finance; HLT = health; MUL = multisector; PSM = public sector management; TRA = transport; WUS = water and other urban infrastructure and services.
Source: Asian Development Bank data.

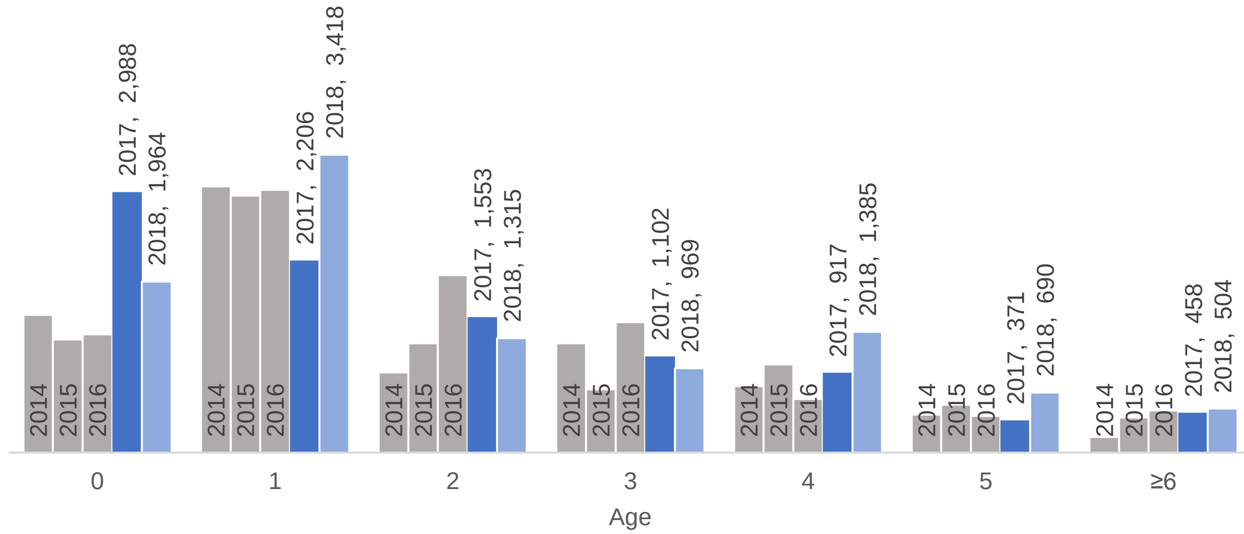
24. Project readiness efforts are evident in the contribution of projects less than two years old to the annual contract awards achieved. An age analysis of contract award for 2018 shows that most contract awards came from age 1 projects (33.4% or $3.4 billion). Combining contract awards of projects less than two years old, they collectively contributed 52.5% ($5.4 billion) of the annual contract awards ($10.2 billion) (Figure 20). The uncontracted percentage in age 0 (prior to one year old after loan signing) rose to 87.1% in 2018 as new commitments entered the portfolio. Closer attention needs to be given to older projects with remaining uncontracted balances (Figure 21).

Table 1: Contract Award Ratio and Disbursement Ratio by Country Group

	Contract Award Ratio					Disbursement Ratio				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Concessional assistance only	18%	19%	30%	29%	19%	13%	13%	15%	15%	17%
OCR blend	31%	29%	33%	30%	29%	22%	18%	21%	22%	21%
Regular OCR only	27%	24%	24%	23%	23%	24%	25%	22%	25%	24%
FCAS	17%	24%	28%	23%	18%	11%	12%	15%	13%	15%
SIDS	24%	27%	32%	30%	40%	24%	19%	24%	27%	17%
LICs	18%	16%	31%	33%	19%	9%	9%	13%	14%	17%
LMICs	29%	28%	30%	28%	28%	22%	19%	20%	21%	21%
UMICs	28%	24%	28%	24%	21%	25%	23%	24%	27%	25%
ADB	**28%**	**26%**	**30%**	**28%**	**26%**	**21%**	**19%**	**20%**	**22%**	**21%**

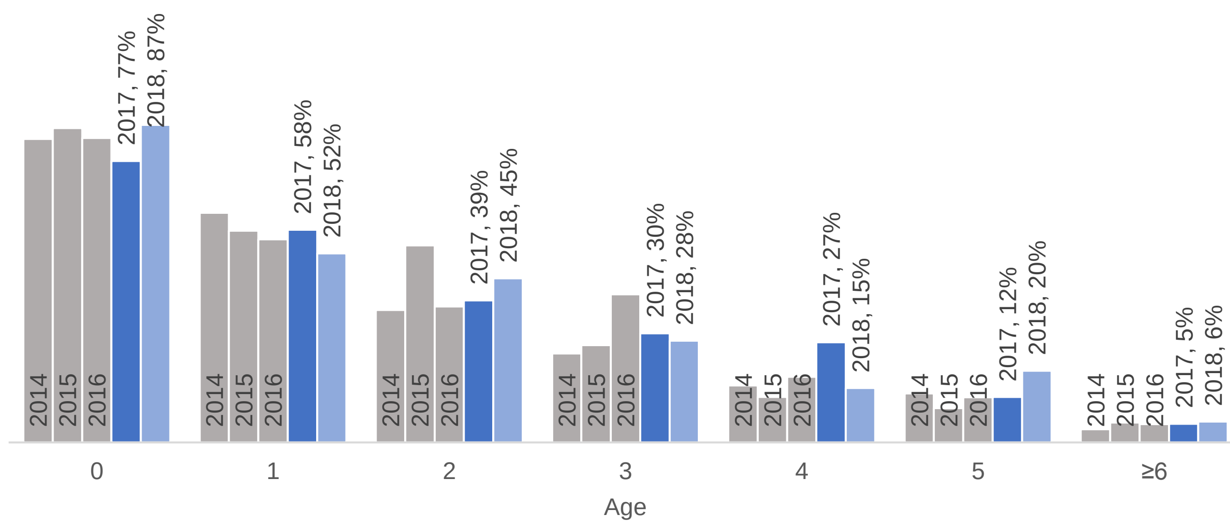
ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, LIC = low-income country, LMIC = lower middle-income country, OCR = ordinary capital resources, SIDS = small island developing states, UMIC = upper middle-income country.
Source: Asian Development Bank data.

Figure 20: Annual Contract Awards by Age, Projects, 2014–2018
($ million)



Source: Asian Development Bank data.

Figure 21: Uncontracted Percentage by Age, Projects, 2014–2018



Source: Asian Development Bank data.

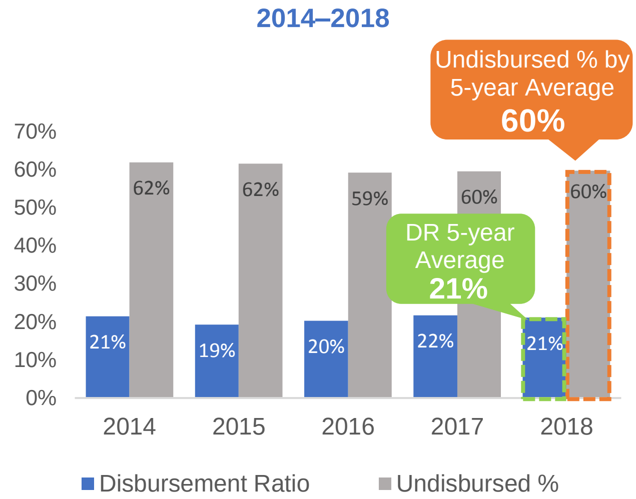
25. **Disbursement ratio slightly lower than target**. The 2018 disbursement ratio is marginally lower than the 22% target for 2018.[9] Two regional departments, primarily EARD and SARD, exceeded the 22% benchmark, while CWRD achieved 18.3%, SERD 17.5%, and PARD 16.6% (Figure 22). The top three DMCs for disbursements were again India with $1.9 billion, the PRC with $1.5 billion, and Bangladesh with $1.0 billion. India's disbursement ratio was a high 29.2%, while Bangladesh achieved 23.8% and the PRC 23.1%. A very marginal decline of less than 1 percentage point was seen in the disbursement ratio of the top three. Disbursements were affected by security situations in Afghanistan; implementation delays in large and complex transport projects, e.g., the Ho Chi Minh City mass rapid transit project in Viet Nam; and capacity constraints in Pacific DMCs.

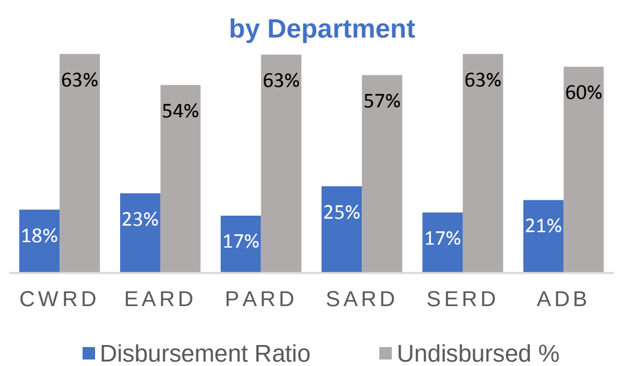
26. The total undisbursed balance of active project loans and grants[10] at the end of 2018 was $48.3 billion,[11] an increase of 11.4% from the 2017 ending balance of $43.4 billion.

27. The top three countries with the largest project portfolios also had the largest undisbursed balances—India at $7.0 billion, the PRC at $6.6 billion, and Bangladesh at $5.5 billion. The three countries combined had a net undisbursed balance of $19.1 billion, or 39.5% of the overall undisbursed ending balance of 2018. Bangladesh had the largest increase in the undisbursed balance (from $4.4 billion in 2017 to $5.5 billion in 2018) because of newly committed projects (Figure 23).

28. By sector, the highest undisbursed percentage was in industry and trade at 78.6%, lower than 85.4% in 2017. The two highest undisbursed balances in the core sectors were in transport at $15.9 billion (55.6% undisbursed) and energy at $11.6 billion (58.1% undisbursed). This is attributed to the high volume of committed projects in 2018—$4.2 billion in transport and $3.7 billion in energy. Agriculture, natural resources, and rural development (agriculture) had the highest undisbursed balance at $6.1 billion (66.4% undisbursed).

Figure 22: Disbursement Ratio and Undisbursed Percentage

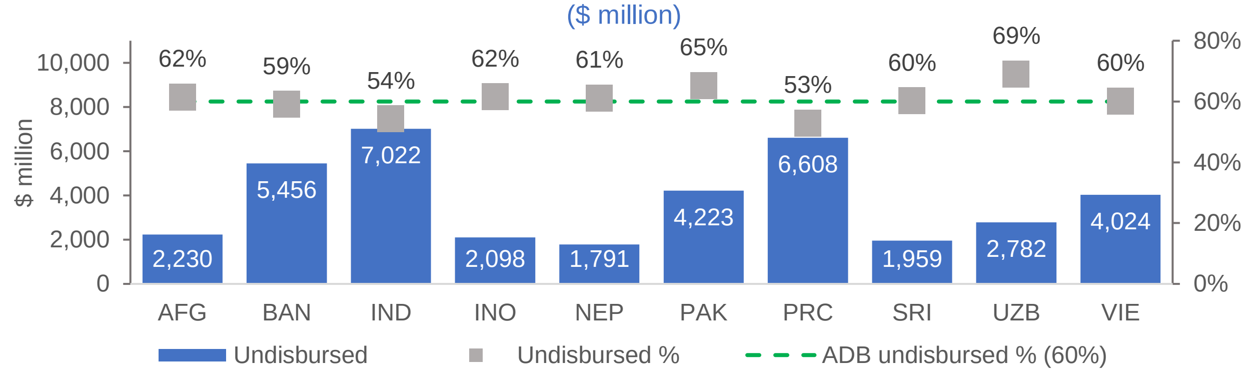




ADB = Asian Development Bank, CWRD = Central and West Asia Department, DR = disbursement ratio, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

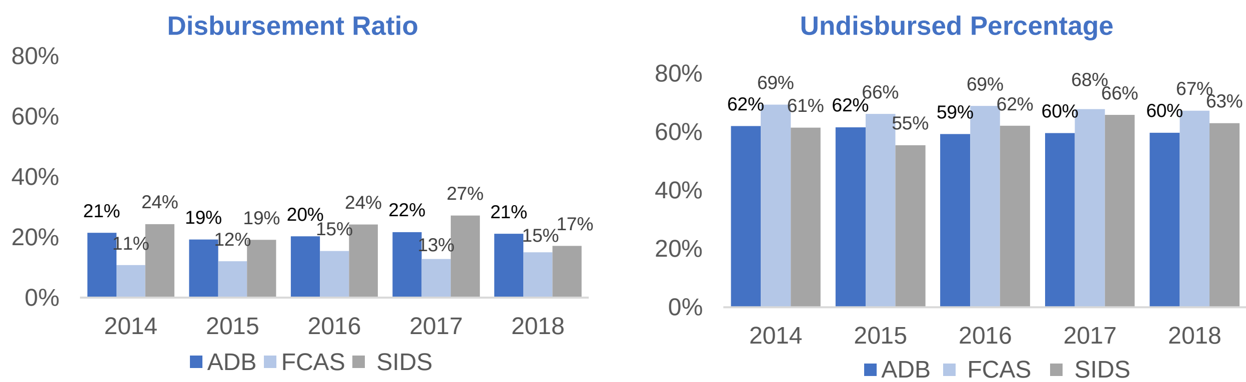
[9] Corporate target in the 2018 Development Effectiveness Review. ADB. 2019. *2018 Development Effectiveness Review*. Manila.
[10] The undisbursed percentage of the active committed portfolio was 59.6% ($43.4 billion) as of 2017, and 59.3% ($39.3 billion) as of 2016.
[11] Including $2.6 billion from results-based lending.

Figure 23: Undisbursed Balance and Percentage for Countries with Largest Project Portfolio, 2018
($ million)



AFG = Afghanistan, BAN = Bangladesh, IND = India, INO = Indonesia, PAK = Pakistan, NEP = Nepal, PRC = People's Republic of China, SRI = Sri Lanka, UZB = Uzbekistan, VIE = Viet Nam.
Source: Asian Development Bank data.

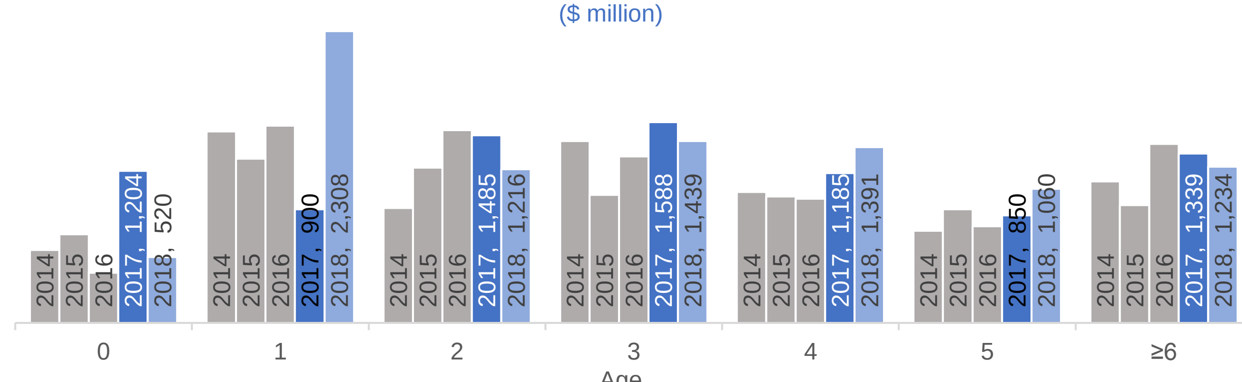
Figure 24: Fragile and Conflict-Affected Situations, and Small Island Developing States, 2014–2018



ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, SIDS = small island developing states.
Source: Asian Development Bank data.

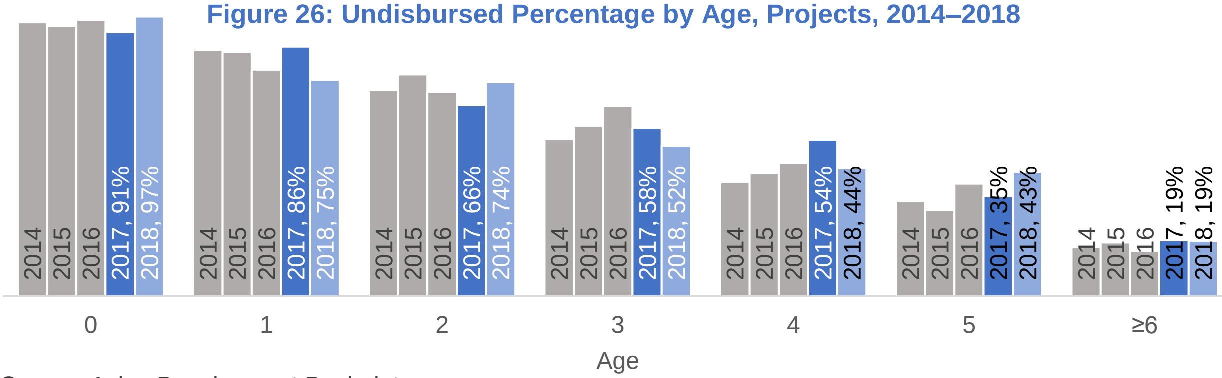
29. Similar to the contract awards, the 2018 disbursement age analysis shows that the age 1 projects had the highest disbursement at \$2.3 billion (25.2% of the year's achievement and 156.5% higher than in 2017) where age 3 projects had the largest share. The 2018 disbursement in age 1 was the highest since 2014 (Figure 25). This confirms that more and more projects are ready at loan signing. The disbursement trends across age 3 to age 5 were steady.

Figure 25: Annual Disbursement by Age, 2014–2018
($ million)



Source: Asian Development Bank data.

Figure 26: Undisbursed Percentage by Age, Projects, 2014–2018

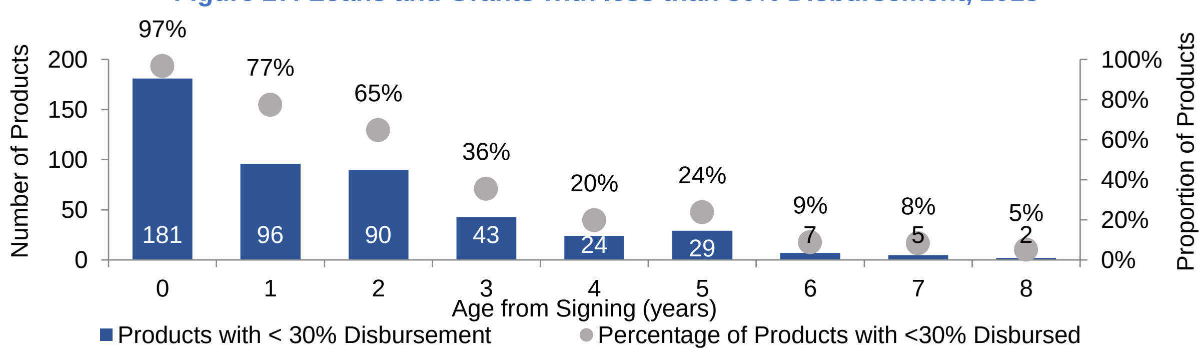


Source: Asian Development Bank data.

30. **Portfolio performance is affected by country situation**. Annual disbursement target, which is a key portfolio performance indicator, has been normally set using the 22% disbursement ratio which was anchored to the corporate results framework. A review of the 2016 to 2018 average achievement of 21.1% disbursement ratio shows that portfolio performance is uneven across the country groups (Table 1). Country situation and implementation challenges need to be factored in to ensure the project achieves the intended outcome and meets the country's development objectives. Contract award and disbursement performance also differs by country due to challenges such as a change in government priorities, security concerns, delays in counterpart funding, poor performing contractors, and weak implementation capacity. Taking into account historical implementation performance across the different regional groups, it is increasingly important to shift away from the current practice of applying a uniform disbursement ratio target across all regional departments. A recommended approach would be to use the historical 3-year average disbursement ratio when setting the corporate disbursement target. This can then be further cascaded to the regional departments and DMCs using a differentiated approach based on country grouping and historical performance. It is also imperative that ADB continues to take a proactive role in project implementation through diligent project oversight, quality review missions, comprehensive midterm reviews, timely restructuring of the project, and cancellation of surplus loan funds.

31. **Potential implementation delays of older projects**. The time taken from project signing to the first 30% disbursement flags potential implementation delays. An age analysis of the committed portfolio indicates a high number of projects that have yet to reach 30% disbursement. Projects that are 4 years or more into implementation should in theory be nearing completion. However, the 2018 data shows that 67 out of 421 (15.9%) loan and grant products have yet to reach the 30% mark. The proportion of such performers should be monitored (Figure 27).

Figure 27: Loans and Grants with less than 30% Disbursement, 2018



Source: Asian Development Bank data.

32. A project may achieve first disbursement within 12 months of commitment and then face delays. Therefore, it is useful to examine the time it takes to reach 30% disbursement, by which time advance account disbursements and mobilization payments have all been completed and all payments thereafter are linked to implementation milestones.

33. This is a clear signal that extra attention needs to be directed to such projects, and time-bound action plans are just one critical measure to help rectify the project's course. Some measures to enhance implementation and reach the 30% disbursement may call for some restructuring to address the issue of nonperforming, slow-disbursing projects and to realign their path toward better achievement of development objectives. One consideration would be to use the new PRF modality to finance all major safeguards' planning activities well in advance.

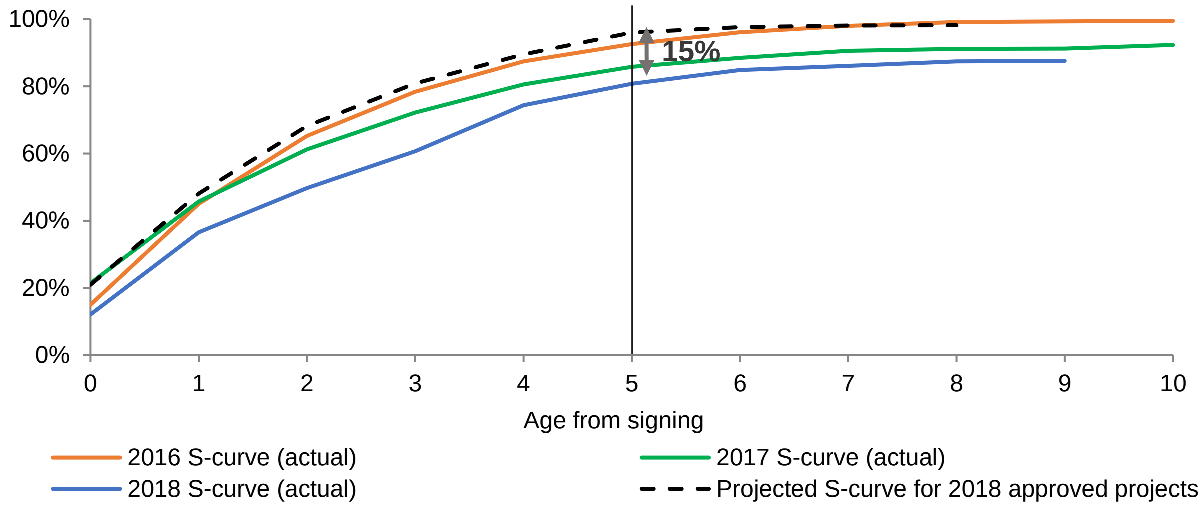
34. **Concessional fund performance steady.** The undisbursed balance of the ADF as a proportion of the total concessional assistance was 25.0%. The OCR balance on the other hand was 11 times the ADF ($3.1 billion) and almost fourfold the COL amount ($9.2 billion). The disbursement ratio of concessional assistance (19.8%) was at par with that of regular OCR (21.4%). Analyzing the three funding sources individually, the ADF performance steadily improved from a low disbursement ratio of 12.9% in 2014 to 18.5% in 2018, proving that intense capacity-building efforts are showing results. With regards to the CAR, OCR was 30.2% in 2014 and steady at around 27.7% in both 2017 and 2018. COL was 21.6% in 2018, lower by 5.8 percentage points than in 2017. ADF grants remain necessary to support countries that lack repayment capacity, which includes the FCAS and SIDS. Timely disbursement of concessional assistance in general is important for meeting development challenges.

35. **S-curves as constructive project management tool.** S-curves track the project's progress against planned activities defined in a project implementation schedule. Contract awards and disbursements are projected and achieved against it. The annual contract award and disbursement profiles of the portfolio are also compared with the S-curves of newly approved projects to (i) monitor that the implementation period of newly approved projects is designed with a more realistic implementation period and (ii) identify the variations against the annual performance in each age group.

36. The average S-curve for 88 projects approved in 2018 showed that some projects were designed beyond the standard 5 years' implementation period, signaling that more efforts are being made during project processing to set a more realistic implementation time frame. Most of these projects are in the agriculture, transport, and water sectors. However, a 15 percentage point difference is still observed in the age 5 projects (81%) when compared with the 2018 contract award profile, and a 24 percentage point difference against the 2018 disbursement profile in the same age group (Figures 28 and 29). This was an improvement from the gap noted in the projected disbursement S-curve of projects approved in 2017—30.9 percentage points. This implies that challenges during implementation should be considered and factored into the design to avoid overly optimistic implementation periods.

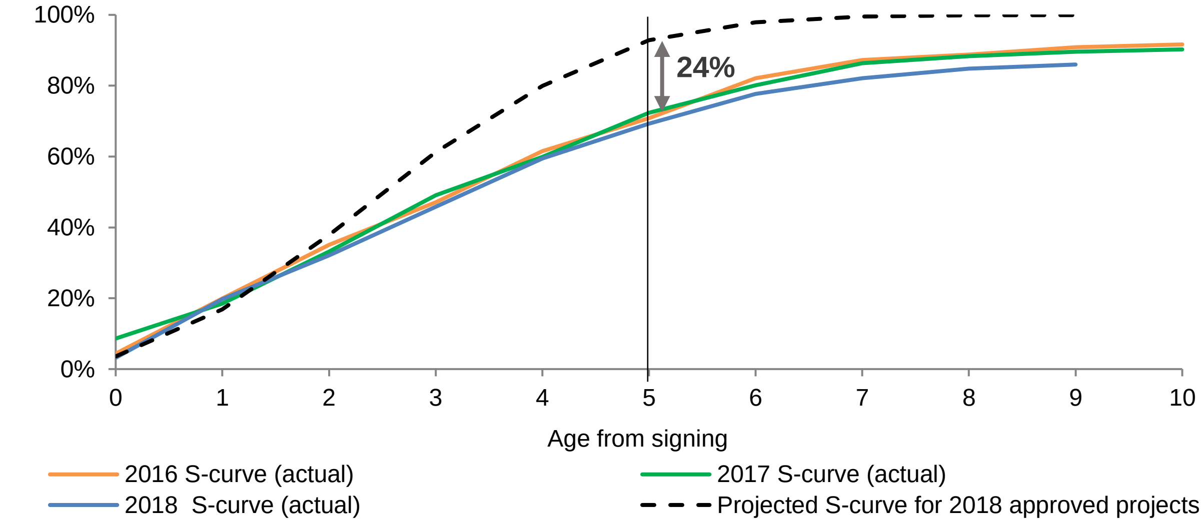
37. The actual 2018 contract award S-curve showed a lower achievement against its 2017 S-curve in ages 2 and 3, as also shown in the distribution of contract awards by age in Figure 29. A similar result was noted, although less evident, in the actual 2017 and 2018 disbursement profiles.

Figure 28: Contract Award S-Curve



Source: Asian Development Bank data.

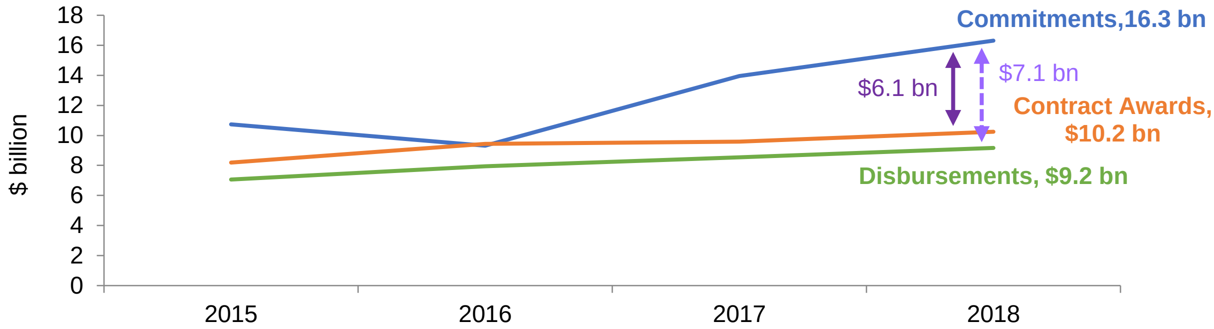
Figure 29: Disbursement S-Curve



Source: Asian Development Bank data.

38. **Need to sustain performance as commitments increase**. Although contract awards and disbursements have increased in the last 5 years, new commitments were also made. The gap between commitments and contract awards stood at $6.1 billion by year-end 2018, while the commitment and disbursement gap was $7.1 billion (Figure 30). Aging projects that continue to linger in the portfolio should be monitored more tightly. This can be seen in the various analyses by portfolio age presented in this report. Country and sector teams need to continue to maintain the momentum through country portfolio meetings and review missions to ensure that the project and portfolio quality is being maintained and that portfolio-wide problems are dealt with proactively.

Figure 30: Annual Commitments, Contract Awards, and Disbursements, 2015–2018

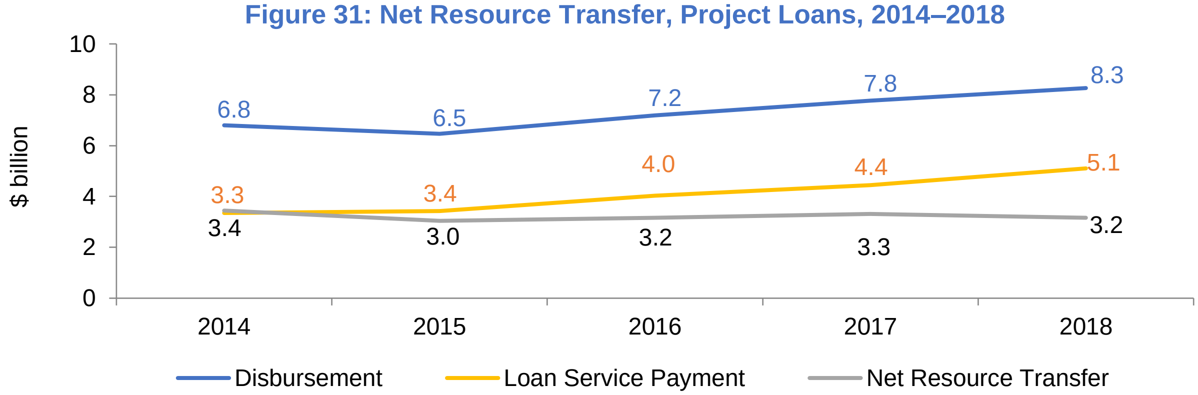


ADF = Asian Development Fund, bn = billion, COL = concessional OCR lending, OCR = ordinary capital resources.
Note: Covers sovereign ADF, COL, OCR projects and fully administered cofinanced loans and grants (excludes policy-based).
Source: Asian Development Bank data.

39. **ADB guarantee**. The disbursements described above do not include all major activities that have an impact on ADB objectives and country programs. An ADB guarantee can help mobilize several hundred million dollars of resources in support of country programs and projects. One noteworthy example is the Shah Deniz gas field expansion project in Azerbaijan, where an ADB partial credit guarantee of $500.0 million facilitated the raising of large-scale and long-term commercial financing from international lenders while improving transparency and governance in the country's oil and gas industry. ADB's presence helped the government continue the development of one of its largest revenue-generating assets.

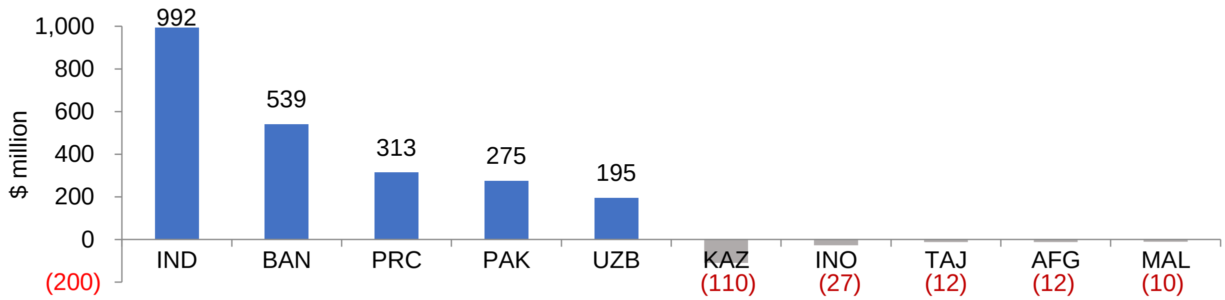
40. **Net resource transfer steady since 2014**. The annual net disbursements against scheduled repayments between 2014–2018 have been steady at an average of $3.2 billion (Figure 31). The four countries that also have the largest share of the overall portfolio—India, Bangladesh, the PRC, and Pakistan—had a combined net resource transfer of $2.1 billion or 67.1% of the total in 2018 (Figure 32).

Figure 31: Net Resource Transfer, Project Loans, 2014–2018



Source: Asian Development Bank data.

Figure 32: Countries with Highest and Lowest Net Resource Transfer, Project Loans, 2018



AFG = Afghanistan, BAN = Bangladesh, IND = India, INO = Indonesia, KAZ = Kazakhstan, MAL = Malaysia, PAK = Pakistan, PRC = People's Republic of China, TAJ = Tajikistan, UZB = Uzbekistan.
Source: Asian Development Bank data.

5. Project Performance Ratings

41. **Project ratings fractionally better in 2018.** The percentage of projects rated on track increased by 2.8 percentage points (26 projects) in 2018,[12] whereas the percentage of actual problem projects increased by less than 1 percentage point (two projects) (Figure 33). The percentage of projects with implementation risk also improved by almost 3 percentage points (16 projects). Project ratings are reported quarterly and are designed to help project teams better direct their future implementation efforts. Most sectors were well on track, and the ADB-wide average was 75.5% (Figure 34). The social sectors had a higher share of problem projects, indicating that smaller projects are not necessarily easier to implement.

42. **Problem projects.** Problem projects in 2018 numbered 57 out of 664. A project rated "actual problem" or marked red in the project performance rating (PPR) system alerts the project team that it needs to take steps to ensure that the project will meet its committed outputs. A combination of factors can be attributed to projects classified as problematic, such as delayed contract awards, poor contractor performance, and resettlement delays. Of the five indicators (contract awards, disbursements, technical, financial management, and safeguards), which collectively contribute to the overall quarterly rating, the leading causes in problem projects are generally contract awards and disbursement not meeting projections. In situations where projects are classified either as a "potential problem" or an "actual problem", proactive measures are necessary to resolve the implementation issues and bring the project back on track. A detailed and thorough review mission is the first step toward identifying such issues, followed by timebound actions.

43. **Review of project performance rating ongoing.** As recommended in the 2017 APPR, a PPR working group was established in the second half of 2018, tasked to strengthen the technical, financial management, and safeguards indicators. Contract awards and disbursement numbers, which are directly captured from ADB's financial systems, are not the subject of review. The Procurement, Portfolio and Financial Management Department (PPFD) leads the working group, which includes representatives from the regional departments; the Sustainable Development and Climate Change Department; the Strategy, Policy and Review Department; and the Office of Information Systems and Technology (OIST), which manages the PPR within the eOps system.

[12] ADB. 2018. Project Performance Monitoring. *Project Administration Instructions*. PAI 5.08. Manila.

44. The revised technical indicator will monitor the progress of each activity drawing on an output-based indicator and assess whether the progress of the project is satisfactory. This approach will be useful to identify potential delays at early stages of project implementation.

45. The financial management indicator needs to go beyond the current definition, which lies in confirming whether annual project and entity financial statements have been received. The financial management working group made recommendations that are under consideration. These include adopting a methodology aligned with existing financial management requirements and evaluation criteria that is objective and simple. The revised indicator is expected to assess project financial performance across five dimensions—audited project and entity financial statements, compliance with the financial management action plan and financial covenants, and submission of financial information in periodic progress reports.

46. The revised safeguard indicator will track project performance based on seven questions that are derived from key safeguard requirements and loan covenants. They cover critical safeguard performance linked to the (i) integration of safeguard requirements in contract awards; (ii) status of obtaining required clearances and permits prior to site access and/or civil works; (iii) status of any identified safeguard noncompliance and grievance issues; and (iv) the status of monitoring the submission and disclosure of reports.

47. The working group is closely collaborating with OIST on the overall system modifications, which will be necessary to eventually upgrade the PPR once the working group has finalized the recommendations for the three indicators and the end users have agreed to them. Regional departments will need to allocate adequate resources to update the eOps database of projects under the new definitions, during which OIST guidance will be sought proactively. The new PPR system will then be pilot-tested for an estimated period of at least six months, and results based on the revised PPR indicators will only be reported starting 2021.

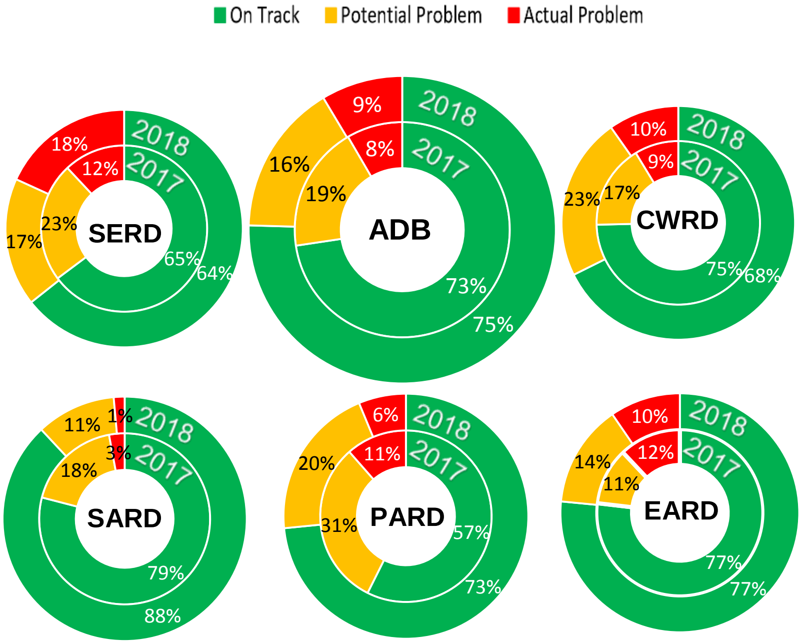
Box 5: Project Performance Rating versus Project Completion Rating

Project performance rating during implementation and project completion rating after project closure are two distinct ratings and independent of each other. After project approval, project teams will regularly update project performance information for each ADB administered project financed by loan(s) and/or grant(s). Project ratings are computed quarterly from effectivity and over the life of the project based on information provided in executing agency progress reports, ADB staff administration mission back-to-office-reports, outcomes of midterm reviews, and updated financial records. They distinguish between projects which are on track from those which are a potential or actual problem using a three-level traffic light applied to each indicator, and the aggregation of the individual indicators into a single project performance rating. Project performance ratings are dynamic and can change each quarter depending on the individual progress across the five indicators. It is normal for a project which is an “actual problem” to become “on track” within the timeframe of one quarter, and then change again thereafter.

Project completion ratings apply to projects which have been physically completed and financially closed. A project completion report is circulated after the project’s financial closure and serves as self-evaluation of the project outcome. In the project completion report, the overall success rating of the project will be based on the assessments of relevance, effectiveness, efficiency, and sustainability. This will then be further validated by the Independent Evaluation Department. Therefore, not only are the rating criteria uniquely different for projects under implementation from those which have been physically completed but they also do not impact each other. A project which may have been rated as actual problem at certain stages during implementation may still be rated as successful when evaluated on its achieved outcome.

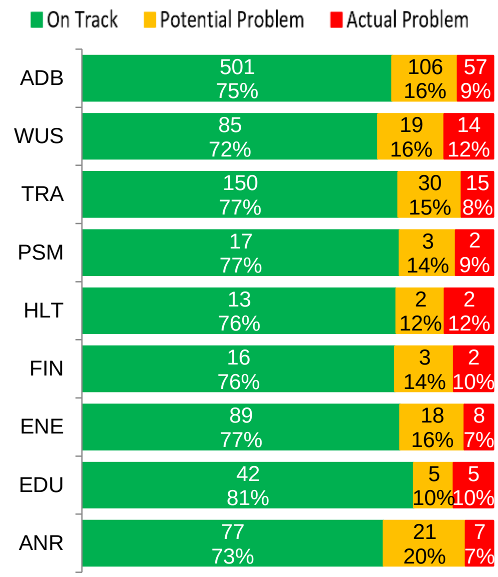
ADB = Asian Development Bank.
Source: Asian Development Bank data.

Figure 33: Portfolio Ratings by Department



ADB = Asian Development Bank, CWRD = Central and West Asia Department, EARD = East Asia Department, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

Figure 34: Portfolio Ratings by Sector



ADB = Asian Development Bank; ANR = agriculture, natural resources, and rural development; ENE = energy; EDU = education; FIN = finance; HLT = health; PSM = public sector management; TRA = transport; WUS = water and other urban infrastructure and services.
Source: Asian Development Bank data.

6. Financial Management

48. **Financial management action plan.** In December 2018, the President approved an action plan to strengthen ADB's financial management practices. Financial management fulfills one of ADB's key fiduciary responsibilities of ensuring accountability for ADB funds provided to DMCs. Strengthening capacity in this area helps DMCs improve their governance and contributes to the sustainability of ADB investments. In this regard, ADB will, among other things, support DMCs to strengthen financial management practices and adhere to the highest standards of transparency and accountability (Box 6).

49. The action plan is based on ADB's comprehensive review in 2018 of its financial management practices for sovereign operations. The review assessed (i) the role of financial management in the project cycle, (ii) financial management monitoring and reporting mechanisms, (iii) adherence to ADB's financial management requirements, and (iv) adequacy of financial management resources to mitigate fiduciary risks. In addition, ADB's financial management function was benchmarked against comparator multilateral development banks. The review found that ADB needs to enhance its financial management practices to better support DMCs in strengthening their institutional capacity and ensuring accountability for ADB funds.

50. This is aligned with a key operational priority of Strategy 2030: to strengthen governance and institutional capacity of its DMCs. The action plan aligns with Strategy 2030 in that robust ADB financial management practices will help DMCs strengthen their institutional capacity to plan, design, finance, and implement ADB-funded projects and programs, which will contribute to more successful project outcomes. Giving more attention to national public and private auditors would

also strengthen key accountability and governance institutions in the DMCs. If successfully implemented, the action plan will thus contribute to stronger governance and institutional capacity of ADB's DMCs.

Box 6: Financial Management Strengthening Action Plan

(i) **Increase number of staff dedicated to financial management.**

(ii) **Enhance ADB business processes to mainstream financial management throughout the project cycle**—financial management staff dedicated project team members, enhanced financial management monitoring indicators linked to Management dashboard, and enhanced eOps functionality.

(iii) **Strengthen ADB financial management capacity and knowledge sharing**—revision of financial management guidance materials, development of financial management accreditation program, enhanced training quality/ frequency.

(iv) **Centralize financial management oversight and monitoring by the Procurement, Portfolio and Financial Management Department**—annual financial management report to President and pilot functionally centralized financial management model.

(v) **Strengthen developing member countries' financial management capacity**—develop targeted/sustained capacity building technical assistance programs with executing agencies/ implementing agencies and national auditors.

ADB = Asian Development Bank.
Note: The Financial Management Strengthening Action Plan was approved by the President on 10 December 2018.
Source: Asian Development Bank, Procurement, Portfolio and Financial Management Department.

7. Terminations and Cancellations

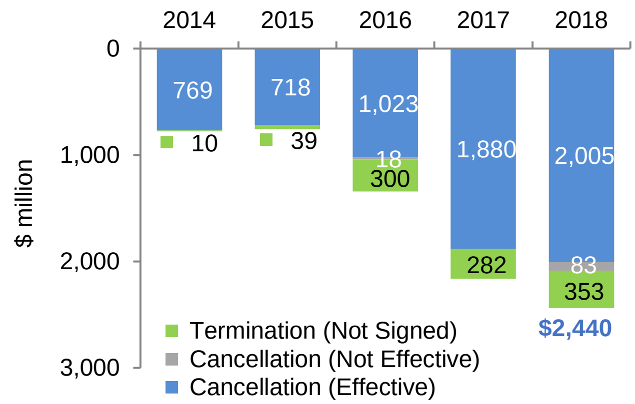
51. **Timely cancellation of surplus loan funds is good practice**. At the design stage, it is recommended to discuss what actions should be taken when faced with large savings. For example, in case of low bids, early discussion will enable prompt early action such as (i) using the surplus to finance additional subcomponents, (ii) undertaking partial cancellation, or (iii) increasing the quantities of goods with the same unit price. Figures 35 and 36 show the trend of cancellations since 2014 and the countries that had significant cancellations in 2018. The causes of surplus loan funds and managing their occurrence can be segregated into (i) within ADB control and (ii) outside ADB control (Table 2). It is recommended that cancellations, whether partial or full, should be assessed during midterm review missions and/or during joint country portfolio review meetings with the borrower and firmed up with an agreed action plan.

52. Terminations and cancellations[13] tripled from 2014 to 2018, although they accounted for less than 3% of the active committed portfolio. In 2018, across 185 loans and grants, $2.0 billion was cancelled after effectivity. About 60% of that total was from undisbursed balances at the time of closure. However, in terms of value, $402.2 million was savings as a result of low bids, which are now better handled through the new procurement framework; $358.3 million remained undisbursed at closing; and $312.5 million resulted from currency appreciation (Figure 37).

[13] Includes terminations and cancellations from policy-based loans and grants.

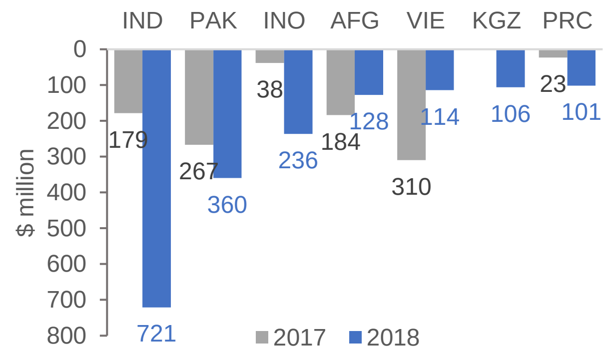
53. Some larger instances included a $348.0 million power transmission project in India, which was terminated because the government decided to invest in renewable energy generation instead. In Viet Nam, the government opted not to proceed with an $82.7 million policy-based loan after loan signing and issued domestic bonds instead. About $228.1 million was cancelled from the Java–Bali power transmission project at the government's request. A clean energy project for $213.5 million was also cancelled in India because the availability period of the MFF had ended.

Figure 35: Terminations and Cancellations, 2014–2018



Source: Asian Development Bank data.

Figure 36: Largest Cancellations, 2018



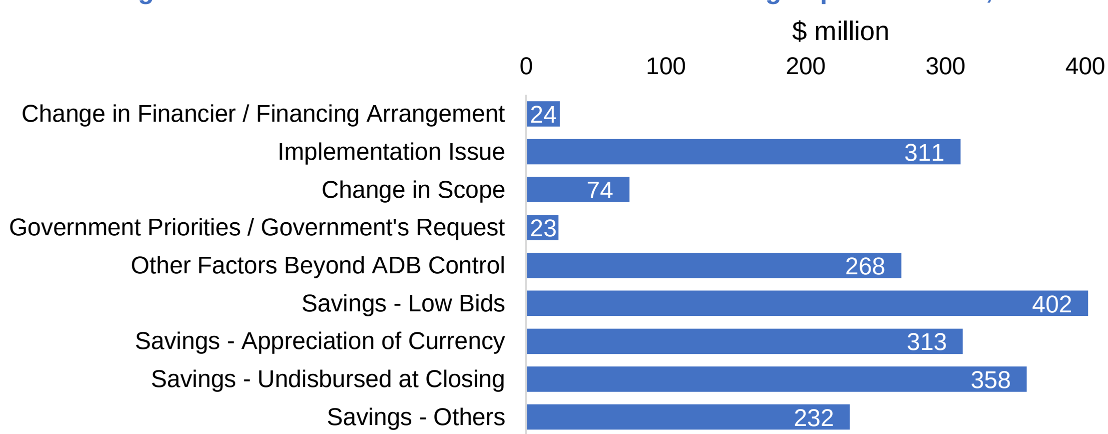
AFG = Afghanistan, INO = Indonesia, IND = India, KGZ = Kyrgyz Republic, PAK = Pakistan, PRC = People's Republic of China, VIE = Viet Nam.
Source: Asian Development Bank data.

Table 2: Recurring Reasons for Cancellation of Surplus Funds

Within ADB Control	Outside ADB Control
• Poor cost estimates • Poor project design • Weak project management by ADB • Complex additional financing process	• Currency fluctuation • Weak project management by executing and/or implementing agency • Changing government priorities • Government preference to use local funds over ADB funds • Cumbersome government process to request additional budget

ADB = Asian Development Bank.
Source: Asian Development Bank data.

Figure 37: Reasons for Cancellation of Funds During Implementation, 2018



ADB = Asian Development Bank.
Source: Asian Development Bank data.

8. Additional Financing

54. **Additional financing allows immediate response to existing projects requiring scope changes and for addressing financing gaps.** In 2018, 26 additional financing loans and grants were processed; for 2014–2018, the total was 121 (Table 3). Reasons for additional financing fall under one or more of three categories: change of scope, which accounted for 85.1% of additional financing, followed by cost overruns (24.8%), and financing gaps (9.9%). Examples of changes in project scope with additional financing include the widening of roads in Pakistan, enhancing sustainability in primary health centers in Bangladesh, and plugging shortfalls caused by underestimation of investment costs (also in Bangladesh).

55. Additional financing was used to expand the scope of individual tranches under an MFF and of subprojects that had not been appraised at approval, using the sector lending modality. The flexibility of additional financing served well in the case of a renewable energy project in Samoa, when the European Union and New Zealand agreed to supplement the ongoing project with a grant so as to expand the original scope and deliver greater benefits to the intended beneficiaries.

Table 3: Reasons for Additional Financing

Year	Change in Scope (no.)	Cost Overrun (no.)	Financing Gap (no.)	Total No. of Loans and Grants[a]	Approved Amount ($ million)
2018	25	4	1	26	893.2
2017	15	4	1	15	485.7
2016	19	6	2	25	1,057.1
2015	32	4	7	34	782.7
2014	12	12	1	21	446.2
Total	**103**	**30**	**12**	**121**	**3,665.0**

no. = number.
[a] Totals may not add up because of multiple reasons for additional financing.
Source = Asian Development Bank data.

9. Implementation Period and Extensions

56. **Seven percent of loan and grant portfolio at least 8 years old.** Projects do get extended and often for multiple reasons. Having a portion of projects longer than 8 years is possible considering that the average implementation time of loans and grants closed in 2018[14] was 6.5 years, compared with the average original implementation period of 4.3 years. The average time for those that closed in the last 5 years is consistent with 2018, i.e., an original implementation period of 4.4 years against an actual implementation period of 6.5 years. Therefore, projects that are 8 years old and above may signal the need for additional implementation support and oversight (Table 4). A review of these older projects highlights issues that cut across regions and executing agencies. Box 7 contains a sample of the more systemic issues.

[14] Excludes additional financing, project design advance, TA loans, and financial intermediation loans.

Table 4: Loans and Grants with Age ≥ 8 Years

	Number
Active loans and grants[a]	1,056
Age ≥ 8 years	73
% ≥ 8 years	7%
Within original closing date	1
Extended and within revised closing date	25
No extension but past original closing date	4
Extended but past revised closing date	43

[a] Includes policy-based loans and grants.
Source: Asian Development Bank data.

Box 7: Causes for Delay

(i) Overly optimistic implementation period at design stage.
(ii) Complex design which slows implementation progress and increases fiduciary risks.
(iii) Poor quality of detailed design requiring numerous contract variations during construction works.
(iv) Untimely restructuring of projects.
(v) Weak implementation and institutional capacity of the executing agency and in some cases of the developing member country.
(vi) Poor performance of implementation consultants.
(vii) Difficulty faced by executing agencies/implementing agencies in liquidating advance accounts.
(viii) Poor contractor performance selected based on the lowest evaluated and substantially responsive bidder without factoring quality and value for money.
(ix) Cumbersome and complex borrower procedures for processing withdrawal applications.
(x) Implementation extended due to country security situation such as in the case of Afghanistan.
(xi) Challenging geographical and topographical conditions such as the excavation of long tunnels requiring longer than expected times.
(xii) Implementation of projects in highly urbanized areas restricted to nighttime works only.
(xiii) Land acquisition and resettlement issues.
(xiv) Limited financial management capacity and poor maintenance of account records.
(xv) Insufficient counterpart funding delaying project-related payments.
(xvi) Lengthy domestic approval process of various subcomponents under a sector project such as in the case of the People's Republic of China.

Source: Asian Development Bank data.

57. As part of project administration and good portfolio management, cleanup of completed projects past their loan or grant closing date is needed to either financially close their account or extend the closing if necessary. As of 2018, 81 project loans and 56 grants were identified (Table 5).

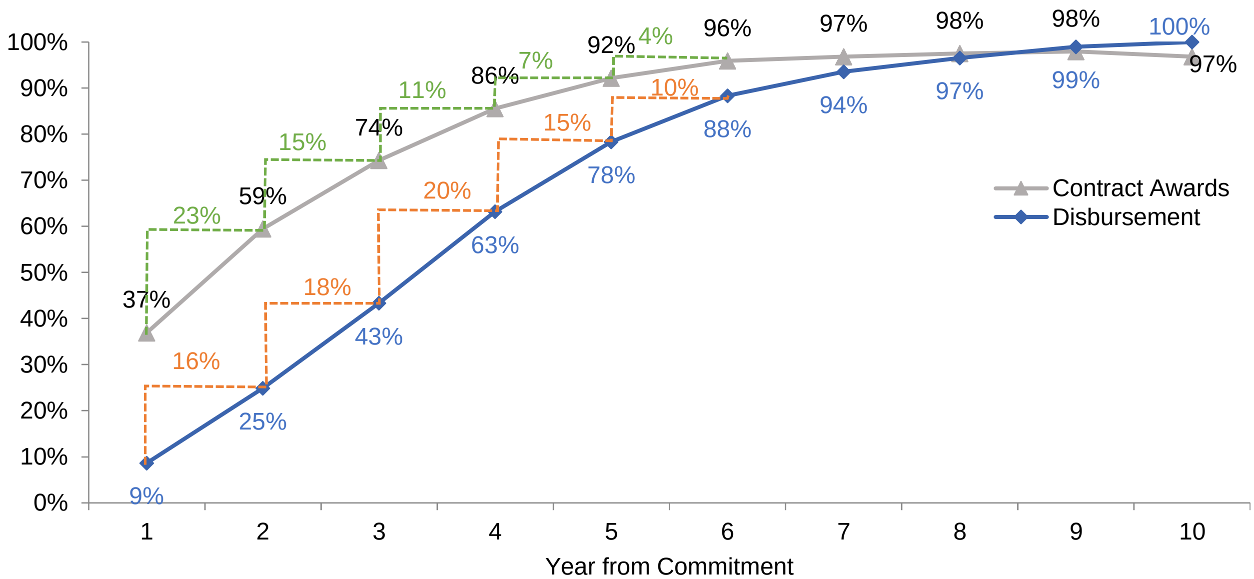
Table 5: Loans and Grants Past Closing Date

Loans	Number	81
	Net Amount ($ million)	9,334.1
Grants	Number	56
	Net Amount ($ million)	1,064.3

Source: Asian Development Bank data.

58. An analysis of 420 project loans and grants closed in 2014–2018[15] shows an actual implementation period of 6.1 years from effectivity, or 6.3 months from commitment. Within the sample, water sector projects took the longest from commitment to implementation (7.0 years), followed by agriculture (6.8 years) and health (6.8 years) projects. On the other hand, among the larger sectors, transport and energy projects both took 6.2 years. The S-curves from commitment show projects extending beyond 8 years even when disbursements have reached more than 95% (Figure 38). Attention is needed to monitor the cancellation of unutilized funds and promptly close the account. Reference to past performances, challenges, and implementation periods in each sector of a country is also recommended when processing new projects.

Figure 38: Contract Award and Disbursement Profile (Closed Loans and Grants 2014–2018)



Source: Asian Development Bank data.

59. **No correlation between project extensions and their outcome.** A sample of about 80 completed projects compared their extensions with their rating at completion in project validation reports published in 2017 and 2018. The analysis did not find any evidence that project extensions are correlated to the project efficiency or the project's overall rating at completion. Since post-performance ratings are based on the evaluation of many factors, the study does not suggest that extensions do not affect the project performance. However, it leads to a recognition that performance during implementation is not always correlated to ratings at completion. This result should not set a precedent among project teams for shifting their attention from the project implementation period, and efforts to complete the project within the stipulated implementation period must not be compromised.

10. Project Completion Report

60. **Late circulation may undermine purpose of reports**. An analysis of projects closed between 2010 and 2017 shows that 1.7% of the project completion reports (PCRs) had not been circulated within 2 years of project closure. Evaluations strengthen accountability and learning by rating projects according to various criteria and by identifying key lessons and recommendations

[15] Excludes additional financing, financial intermediation loans, TA loans, project design advance, and those implemented for more than 10 years.

for improving the development effectiveness of ongoing and future projects. The whole project is to be evaluated and rated, not just the ADB loan portion.

61. Delays in the circulation of PCRs affect the timely provision of information to ADB Board members, Management, and other stakeholders. Tracking PCR preparation and their circulation after project closure is important for reasons of transparency and timely provision of information on project implementation experience. PCRs are an important tool to document lessons, identify key issues, and make recommendations for the design of future interventions in the country and sector. Where PCRs are delayed for valid reasons such as ongoing attached assistance or a programmatic PBL with an outstanding subprogram, other ways exist to fill information gaps on the progress of work in the sector or country. Project progress is available through regular annual reports; progress reports on the implementation of an MFF, which are quite substantive; and country and sector assessments included as linked documents to the project proposals submitted for Board approval. These linked documents are useful tools to summarize lessons and provide valuable inputs into the design of the next investment. Having informal Board seminars to update progress on some of the large-scale interventions is another means of providing timely updates on ADB interventions.

62. A review of the 586 projects financially closed during 2010–2017 were matched against the circulation status of their respective PCRs. The analysis is in Box 8.

Box 8: Review of Project Completion Reports

The project completion report (PCR) is a tool which contributes to higher-level country, sector, corporate, and thematic evaluations. ADB requires that all public sector projects that have incurred ADB expenditures and are regarded as completed are subjected to self-evaluation by regional departments. PCRs are prepared for all completed investment projects, sector projects, policy-based loans, sector development programs, emergency assistance projects, financial intermediary loans, and MFF projects. PCRs are designed to provide assessments of project implementation experience. They are a rich source of lessons learned on a specific thematic group or a sector which can be used to better design and implement similar future interventions. They can provide a combination of project and program level lessons, sector and thematic level lessons, and more importantly general developmental lessons.

Out of 586 projects financially closed between 2010–2017, PCRs were circulated for 500 projects (85.3%). Of the remaining 86, there are 45 projects (52.3%) that do not require a PCR because they are either financed by the Asia Pacific Disaster Risk Fund or by the Japan Fund for Poverty Reduction whereas the remaining 41 projects do require one. There are 32 projects out of the 41 for which a PCR is not yet due because they are within the 24 months allowed period. There are 9 PCRs (1.7%) marked as delayed. However, of the 9, there are some projects where a PCR cannot be prepared because (i) the projects are waiting for completion of related projects, (ii) consultation with other development partners on PCR preparation is needed, and (iii) the anticipated conversion of a single tranche policy-based loan to a cluster approach was cancelled by the government.

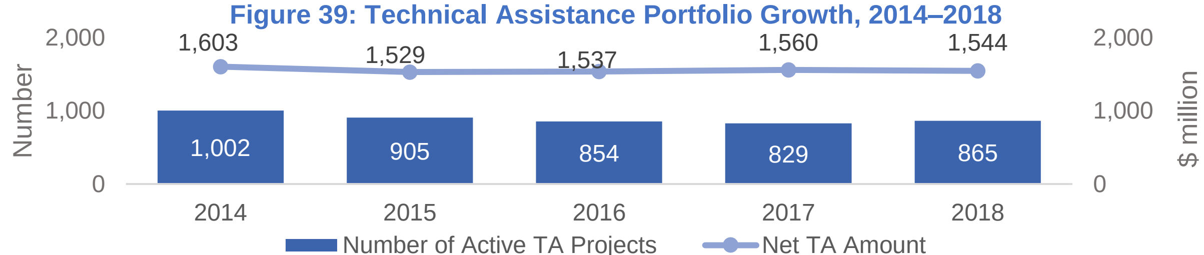
It is crucial that regional departments track PCR preparation more closely and ensure they are completed and circulated within 24 months after project financial closure. In the present version of the Project Administration Instructions 6.07a, there is room for more clarity on their preparation and circulation. Revisions have been initiated and are at an advanced stage by the timing of this APPR. These include mandating PCR circulation within 12 months of project financial closure, having separate PCRs for projects with attached assistance which is common across MFF facilities, and preparing the PCR within 24 months of completion of a subprogram in the event the successive subprogram is deferred or cancelled. Future quarterly PCR reporting will also include details on those which are potentially delayed. PPFD, in collaboration with OIST, will enhance the existing eOps system to trigger automatic alerts to project teams on timely PCR circulation.

ADB = Asian Development Bank, APPR = annual portfolio performance report, PCR = project completion report.
Source: Asian Development Bank data.

11. Technical Assistance Portfolio

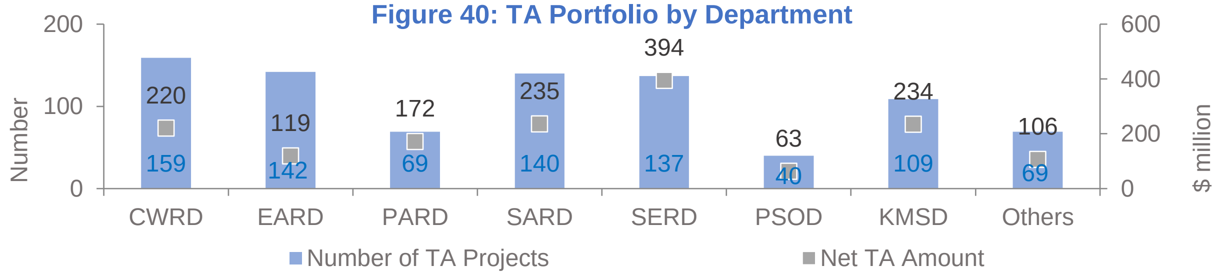
63. **Technical assistance is a primary instrument for delivering assistance to the DMCs.** The TA portfolio[16] declined in terms of the number of TA projects since 2014, but the overall portfolio remained fairly steady, indicating that some TA projects are larger in value (Figure 39) while others have simply closed. This is also a result of increasing efforts and attention given by departments to the timely closing of TA projects. In 2018, 206 TA projects totaling $306.1 million closed financially, compared with 222 TA projects ($237.0 million) in 2017. The TA reforms of 2017 also encouraged a programmatic approach to TA delivery through the use of TA facilities. TA projects serve as a channel to capture knowledge and to assist countries in tackling key development challenges.

Figure 39: Technical Assistance Portfolio Growth, 2014–2018



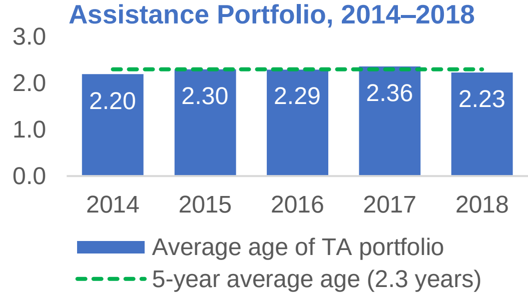
TA = technical assistance.
Source: Asian Development Bank data.

Figure 40: TA Portfolio by Department



CWRD = Central and West Asia Department, EARD = East Asia Department, KMSD = knowledge management and sustainable development departments, PARD = Pacific Department, PSOD = Private Sector Operations Department, SARD = South Asia Department, SERD = Southeast Asia Department, TA = technical assistance.
Source: Asian Development Bank data.

Figure 41: Average Age of Technical Assistance Portfolio, 2014–2018



Source: Asian Development Bank data.

64. The average age of the committed TA portfolio since 2014 was 2.3 years (Figure 41). The average implementation period of TA projects closed between 2014 and 2018 was 3.7 years, against a targeted design average of 1.7 years, which translates into an average delay of 2 years similar to loan and grant projects. TA projects on occasions require extensions as the TA scope or implementation arrangements may be changed to meet government requests.

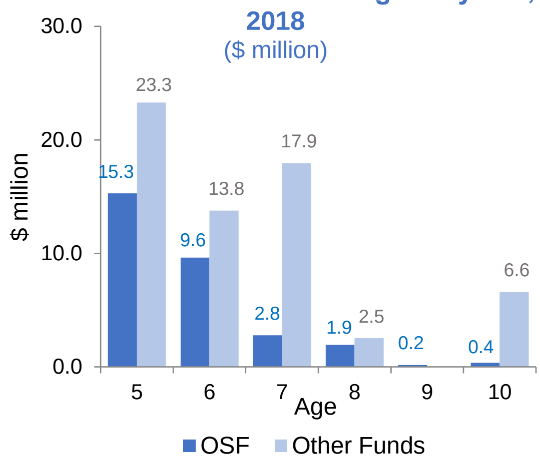
65. The portfolio also shows 75 TA projects aged 5 years or more with an agggregate uncontracted balance of $35.0 million. This translates into an average uncontracted amount of

[16] Includes nonsovereign TA projects.

more than $0.4 million per TA, compared with an average TA size of $1.8 million. TA projects require a similar degree of implementation oversight as do project investments because of their role in project preparation and knowledge services.

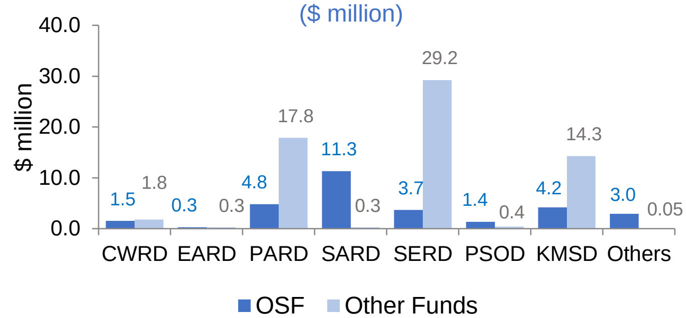
66. TA designs need to be practical and implementation periods should be realistic. Project teams need to review past TA projects of a similar nature and estimate the average implementation time for a TA of that nature. The TA amount should be aligned as closely to the outputs as possible, and contingencies should preferably be capped at 5%. TA review missions need to be conducted and, if possible, should be combined with project review missions. TA extensions can be necessary when minor changes of scope or implementation arrangements need to be accommodated or pending TA activities need to be completed. In situations where extensions are required to support the preparation of an ensuing project, it is feasible to weigh the options of an extension against processing of a new TA project.

Figure 42: Undisbursed Balance on Technical Assistance with Age ≥ 5 years, 2018
($ million)



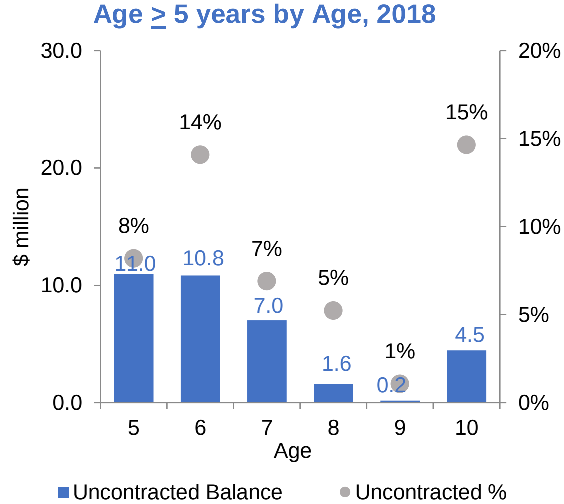
OSF = other special funds.
Source: Asian Development Bank data.

Figure 43: Undisbursed Balance on Technical Assistance with Age ≥ 5 years by Department, 2018
($ million)



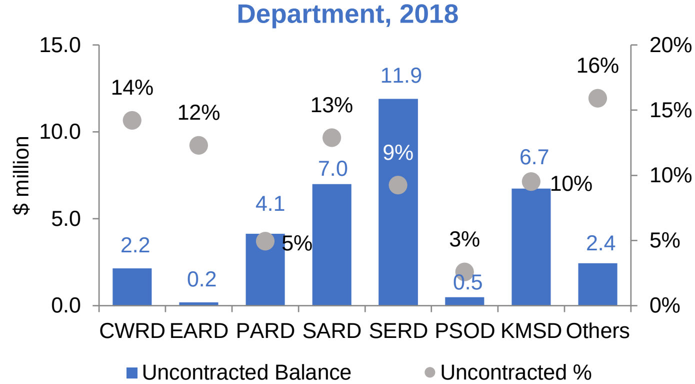
CWRD = Central and West Asia Department, EARD = East Asia Department, KMSD = knowledge management and sustainable development departments, PARD = Pacific Department, OSF = other special funds, PSOD = Private Sector Operations Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

Figure 44: Uncontracted Balance and Percentage on Technical Assistance with Age ≥ 5 years by Age, 2018



Source: Asian Development Bank data.

Figure 45: Uncontracted Balance and Percentage on Technical Assistance with Age ≥ 5 years by Department, 2018



CWRD = Central and West Asia Department, EARD = East Asia Department, KMSD = knowledge management and sustainable development departments, PARD = Pacific Department, PSOD = Private Sector Operations Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

12. Capacity Building

67. **Institutional strengthening programs further expanded in 2018.** A key priority of Strategy 2030 is governance and institutional strengthening. It was therefore necessary to substantially scale up training and capacity-building activities to better respond to this goal. This required new training initiatives and the reshaping of some existing programs to build the internal capacity of ADB staff. The themes ranged from capacity building for successful project design and implementation to training and outreach on the new procurement framework, to strengthening financial management in ADB projects. In 2018, PPFD expanded its capacity-building portfolio into a more diverse and relevant set of program topics to meet operational needs. The number of programs delivered increased threefold (from 42 in 2017 to 129 in 2018), the number of program categories rose from 6 to 14, and the number of participants doubled.

68. Two flagship events in 2018 were the ninth edition of the annual Business Opportunities Fair in March, which attracted more than 1,000 delegates, and the fourth forum on project implementation in October, which drew 95 delegates from 37 DMCs. Developing capacity through flexible and agile learning approaches is becoming increasingly important. ADB will continue to assist executing and implementing agencies as well as contractors in strengthening their capacity to plan, design, finance, and implement ADB projects, and to boost staff capacity for efficient project management. To improve the efficiency of project design and implementation, ADB, in collaboration with regional departments, resident missions, and other departments, also organized a wide range of capacity-building programs in the fields of procurement, project management, and financial management.

2018 SOVEREIGN PORTFOLIO

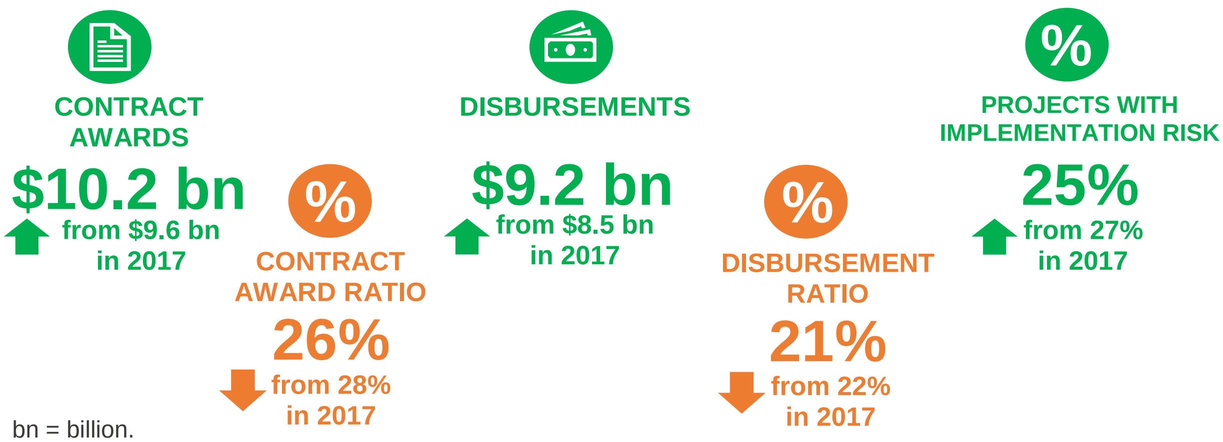
CONCLUSIONS AND RECOMMENDATIONS

C. Conclusions and Recommendations

1. Portfolio Performance

69. **Project portfolio performance on track in 2018.** The volume of contract awards achieved was the highest since 2014—25.0% higher than in 2014 and 6.8% higher than in 2017. Disbursement performance was equally impressive, the highest since 2014 and 7.2% higher than in 2017 (Figure 9). The portfolio grew by $9.0 billion in 2018, from $77.6 billion in January to $86.7 billion in December. The net change counted new commitments of $19.2 billion, closures of $8.2 billion, and cancellations of $2.0 billion. Significant achievements included an increase in contract awards from $9.6 billion in 2017 to $10.2 billion in 2018, and an increase in disbursements from $8.5 billion to $9.2 billion. Project monitoring also showed signs of improvement—the share of projects with implementation risk fell from 27.4% to 24.7% (15 projects less) in 2018.

Figure 46: 2018 Sovereign Portfolio Performance
($ billion)



bn = billion.
Source: Asian Development Bank data.

2. Lessons Learned

70. **Lessons learned from recurring challenges.** Recurring challenges faced during project implementation help draw lessons and recommendations for future projects:

(i) Continue the institutional strengthening of projects' executing and implementing agencies, as supported by TA resources for capacity building where feasible.
(ii) Further increase the number of design- and procurement-ready projects by using the PRF and SEFF modalities.
(iii) Consider further outposting and strategic placement in regional departments of procurement specialists to improve procurement support.
(iv) Continue to strengthen the financial management of ADB-financed projects by implementing the action plan in 2019 and beyond.
(v) Set differentiated annual disbursement targets across regional departments based on country grouping and historical performance.
(vi) Timely project completion reports are critical in identifying lessons in a country and sector context.

71. **Relevance to other regions**. Lessons learned at the departmental level are relevant across other regions. Box 9 captures lessons from all five regional departments. It summarizes the systematic approach of SARD, which has the largest portfolio among regional departments and shows consistently strong performance in contract awards and disbursements. PARD highlights the good practice of improving project readiness when providing support to small developing island states. EARD discusses its strategy, and the benefits, of delegating the procurement review of headquarters-administered projects to the PRC Resident Mission. SERD shares its experience in building borrower capacity in Myanmar, and CWRD is considering new modalities to enhance project readiness.

Box 9: Regional Lessons Learned in 2018

(i) Central and West Asia Department

a. Minimize project start-up delays by using new modalities such as project readiness financing and small expenditure financing facilities.
b. Support resident missions on delegated project administration, including transferring the project administration back to headquarters where appropriate.
c. Ensure that land acquisition and resettlement plans are well implemented before civil works begin.
d. ADB needs to work with borrowers early than late on loan surplus, if any, to reduce commitment charges
e. At project design stage, executing and implementing agencies need to be familiar with the available options in the event of procurement and contract disputes.

(ii) East Asia Department

a. Disbursement caps in Mongolia can be relaxed through continuous dialogue with the government.
b. Lack of project readiness resulting from legislative challenges in Mongolia and the People's Republic of China should encourage ADB to engage in policy dialogue with both countries to create a mind shift.
c. More frequent reminders from the procurement review systems help improve end-to-end procurement times in the East Asia Department.
d. The East Asia Department will further engage with counterparts in the People's Republic of China on streamlining the process for selecting and approving new subprojects to minimize implementation delays.

(iii) Pacific Department

a. The Pacific Department will maximize the use of new instruments such as project readiness financing, in addition to using grant financing for detailed designs, to enhance project readiness.
b. Continue taking steps to improve the capacity of executing and implementing agencies for project implementation and use technical assistance resources where available.
c. Consider further outposting of international staff to Pacific developing member countries to improve procurement efficiency and provide hands-on support.

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(iv) South Asia Department

a. Despite the stringent project readiness review process, revisit how the measurement data can better reflect the benefits of retroactive financing and advance contracting.
b. Continue efforts to optimize the end-to-end time, especially for complex procurement cases.
c. Consider extending the use of the Bangladesh Resident Mission's online procurement activity monitoring tool across all projects, both for the executing and implementing agencies and ADB.
d. Reduce the turnaround period for reviews of bid documents and bid evaluation reports for critical contract packages.
e. Strengthen the executing and implementing agencies' capacity for procurement processes and further improve the performance through a systematic program with dedicated capacity development resource centers in resident missions.
f. Set targets in 2019 based on detailed assessments of procurement progress and explore ways to increase disbursements on large, ongoing contracts.
g. Additional financial management resources to be made available to further improve financial management compliance, enhance its monitoring process, and the capacity building of government and ADB staff.

(v) Southeast Asia Department

a. Reinforce strong government ownership of the ADB lending program.
b. Sustain capacity-building efforts in Myanmar.
c. Establish project management units well before project start-up.
d. Overlapping oversight arrangements between technical assistance-financed consultants and project implementation consultants can be beneficial to project implementation.
e. Advance actions on consultant recruitment is essential.
f. Prepare accurate cost estimates and provide tailored procurement training to executing and implementing agencies to minimize low-bid scenarios.
g. Contract packaging must be appropriate and attractive for qualified and quality contractors or suppliers.
h. Always maintain policy dialogue with the executing and implementing agencies and use it as a platform to tackle issues that may encounter resistance.
i. Assess and monitor the performance of loan-financed consultants despite the fact that they are not within ADB control and establish internal ways to assess their performance.

ADB = Asian Development Bank.
Source: Asian Development Bank, regional departments.

3. Actions to be Taken in 2019

72. Regional departments proposed a set of actions to be taken in 2019 to improve portfolio performance (Box 10).

Box 10: Actions to be Taken in 2019

(i) Central and West Asia Department

a. Achieve the following quantitative results: (i) project transfer ratio increased (baseline 46%); (ii) at least 85% of the portfolio rated satisfactory; (iii) at least 60% design readiness achieved; (iv) at least 40% procurement readiness attained; (v) at least $2.1 billion in contracts awarded; (vi) at least $1.9 billion disbursed; (vii) end-to-end procurement time reduced (baseline: 389 days).
b. Pilot at least two new financing modalities that enable quicker project start-up—project readiness financing PRF and small expenditure financing facility.
c. Pilot EA/IA recognition programs whereby ADB and the respective Ministry of Finance recognizes exceptionally performing project monitoring units through resident mission-led appreciation awards.
d. Increase the involvement of project administration unit heads in quality assurance during project processing to enhance project readiness.
e. Explore local business opportunity seminars in developing member countries.

(ii) East Asia Department

a. Continue discussions with the Government of Mongolia to support the amendment of the procurement law, to enable advance contracting and improve project readiness.
b. The Mongolia Resident Mission to engage in dialogue with the government on not applying a disbursement cap in 2019.
c. In PRC, continue the dialogue with the Ministry of Finance during country portfolio review mission and country programming mission over actions to improve project readiness.
d. For the newly approved projects in the PRC, more attention will be given to start implementation immediately after loan approval.

(iii) Pacific Department

a. Continue efforts to improve project readiness through the use of new products—i.e., PRF, SEFF, and cofinanced grants—for detailed design and procurement support. Strengthen the project readiness sheet to monitor readiness of projects at all stages of processing.
b. Work on EA/IA capacity to improve project implementation in procurement and safeguards, and to better manage real-time project implementation issues. Funding for Regional Technical Assistance for Improving Project Implementation Capacities will be increased to continue its support to Pacific DMCs.
c. Rigorously monitor projects with high risk and high value to improve their rating and reduce uncontracted and undisbursed balances.
d. Additional resources to be added to strengthen the department's financial management team to monitor compliance and improve financial management practices.

(iv) South Asia Department

a. Continue to further achieve better results from the 2018 actions.
b. Consider the political economy, such as changes in government administration or elections, in project processing, implementation, and portfolio management.
c. Continue to aim at high project readiness wherever possible through advance procurement actions, including actions on safeguard compliance and monitoring, EA/IA staff resources, and risk management.
d. Prepare more accurate cost estimates for each project, reflecting the recent trends in the construction industry.

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e. To improve financial management compliance, additional financial management resources will be made available. Financial management staff will provide support during processing and implementation, enhance monitoring, conduct country studies, and strengthen the financial management capacity of government institutions.

(v) Southeast Asia Department

a. Continue the One-ADB/One-SERD approach to portfolio management and project administration.
b. Further improve portfolio business processes and the integrated management information system.
c. Continue working with DMCs to help achieve project readiness and institutionalize the processes, where possible; and improve financial management and safeguard compliance through regular monitoring, capacity building, and close coordination with PPFD.
d. Tighten monitoring through regular review of procurement plans and procurement package milestones, including for small packages, to ensure timely contract awards and disbursement.
e. Continue to train project teams to effectively implement the new procurement framework and increase the number of staff accredited under the Procurement Accreditation Skills Scheme.
f. Monitor technical assistance portfolio performance with "no extension" policy and close at least 20 non-project-preparatory technical assistance projects by the end of 2019.
g. Continue to conduct constructive tripartite portfolio review missions.

ADB = Asian Development Bank, DMC = developing member country, EA = executing agency, IA = implementing agency, PPFD = Procurement, Portfolio and Financial Management Department, PRF = project readiness financing, SEFF = small expenditure financing facility, SERD = Southeast Asia Department.
Source: Asian Development Bank, regional departments.

4. Issues and Recommendations

73. Four key issues and corresponding recommendations for portfolio monitoring and performance in 2019 and beyond should be noted**.**

(i) **Issue 1**: Project and portfolio quality is increasingly critical because of the widening gaps between annual commitments and contract awards, and disbursements.

Recommendations:

a. Quality design of new projects using lessons learned from the country and sector perspective cannot be compromised.
b. Ensure that cost estimates are robust and reflect market conditions to minimize excessive loan savings.
c. Conduct frequent review missions and robust midterm reviews for problematic projects to ensure that systemic issues are dealt with early.
d. Hold timely discussions with the borrower on loan savings and their possible use to expand the project scope, or on early cancellation to reduce commitment charges for the borrower.

(ii) **Issue 2**: The implementation period set at project design should be realistic, and not ambitious, to better manage expectations.

Recommendations:

a. A review of country and sector performance needs to be fed into the project design to assess a realistic implementation period and have it endorsed at the quality review meeting.
b. The design and procurement readiness momentum should be sustained to enable more contract awards and disbursements in the early life of the project.
c. The financial closure of a project should be completed within 6 months of the loan closing date, to the extent possible.
d. Project teams need to take constant proactive measures to minimize project implementation delays, rather than rely on quarterly project performance ratings as a trigger to respond.

(iii) **Issue 3**: The present methodology of setting annual disbursement targets does not accurately reflect a country's capacity and situation and needs rethinking.

Recommendations:

a. Future annual corporate target setting for the purposes of the Planning Directions should consider the historical 3-year average disbursement ratio.
b. Starting 2020, targets at the regional department and country level should adopt a differentiated approach based on historical performance linked to country grouping.
c. Disbursement projections for the midyear preparation of the next 3-year work program and budget framework will use the proposed 90% achievement of annual targets in the future corporate results framework as the starting point.

(iv) **Issue 4**: The guidelines on preparing and circulating PCRs need to be further enhanced to ensure the reports' timely circulation, supported by a comprehensive tracking system to avoid potential delays.

Recommendations:

a. Each regional department needs to establish a strong PCR tracking system at the divisional level, to be monitored by the front office, to minimize preparation delays.
b. Regional departments need to undertake stocktaking and spring cleaning of potentially overdue PCRs and include them in the 2019/2020 program.
c. The Project Administration Instruction needs to be strengthened to improve the clarity of PCR preparation, including circulation time frame, impacts of delays on counterpart funding, programmatic PBLs, and attached support to projects and MFFs.
d. Introduce an automatic reminder in the present eOps system to prompt PCR preparation.

2018 NONSOVEREIGN PORTFOLIO

II. NONSOVEREIGN PORTFOLIO

A. Portfolio Growth and Composition

74. **Developing Asia posted strong but moderating growth in 2018.** Despite rising headwinds, growth in aggregate gross domestic product slowed only slightly from 6.2% in 2017 to 5.9% in 2018 as global trade and economic activity decelerated at the end of the year, affecting many economies in the region. With growth in the PRC continuing to moderate, regional growth will soften further to 5.7% in 2019 and to 5.6% in 2020. Excluding the newly industrialized economies, growth will slow from 6.4% in 2018 to 6.2% in 2019 and to 6.1% in 2020. The primary risks still center on the PRC–United States (US) trade conflicts. Uncertainty is heightened by protracted negotiations and disagreements, which could curtail investment and growth in the region.[17]

75. The impact in 2018 of these adverse macroeconomic and geopolitical developments on the nonsovereign portfolio was minor. Currency depreciation had a major impact on projects with local currency revenues based on fixed tariffs (e.g., utilities) and US dollar borrowings. In addition, some countries with less-developed derivative markets have limited possibilities to hedge foreign currency risks.

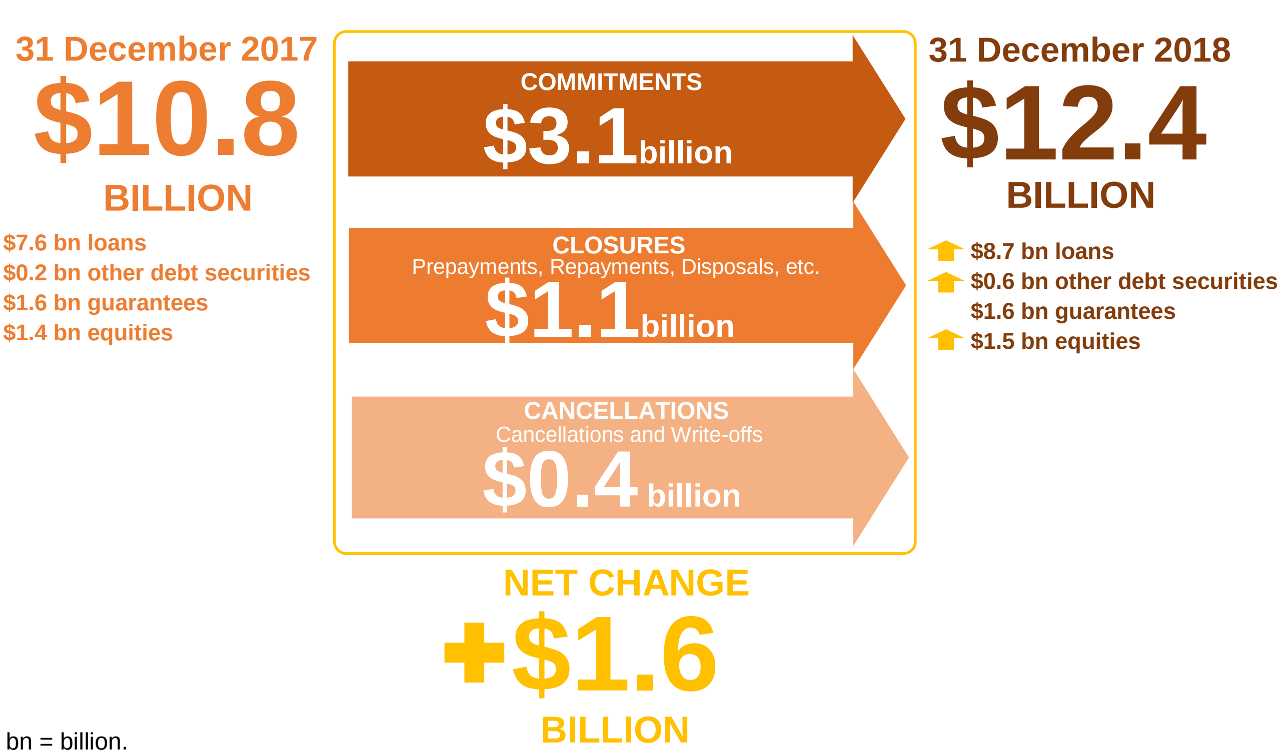
76. **Total committed portfolio.** Nonsovereign operations (NSOs) include loans, other debt securities, guarantees, and equities. The total committed portfolio,[18] which includes all of ADB's ongoing projects, continued to expand rapidly—by 14.5%—during 2018. At the end of 2018, the committed portfolio totaled $12.4 billion ($10.8 billion in 2017) and consisted of 182 projects (177 at the end of 2017) with loans and other debt securities constituting the largest share at 75.0% (72.3% in 2017) (Figure 47). Nonsovereign committed loans and other debt securities totaled $9.3 billion ($7.8 billion in 2017), committed guarantees totaled $1.6 billion ($1.6 billion in 2017), and committed equities totaled $1.5 billion ($1.4 billion in 2017) (Figure 49). The top two sectors—energy and finance— continued to account for 85.8% of the committed portfolio (85.8% in 2017), and the top two countries—India and the PRC— accounted for 37.2% of the committed portfolio (38.0% in 2017). The total outstanding portfolio[19] increased by 6.6% to $8.8 billion at the end of 2018 ($8.2 billion at the end of 2017, and the total undisbursed portfolio increased by 39.6% to $3.6 billion ($2.6 billion in 2017). The sharp increase in the 2018 commitments led to an increase in the undisbursed portfolio by $1.0 billion in 2018.

[17] ADB. 2019. *Asian Development Outlook 2019: Strengthening Disaster Resilience*. Manila.

[18] The committed loan, other debt security, and equity portfolio consist of outstanding balances plus undisbursed balances. The committed guarantee portfolio consists of outstanding balances on executed guarantees plus non-executed commitments.

[19] The total outstanding portfolio is the disbursed loans, other debt securities, and equity investments (on the balance sheet) plus executed guarantees (off the balance sheet).

Figure 47: Nonsovereign Portfolio at a Glance

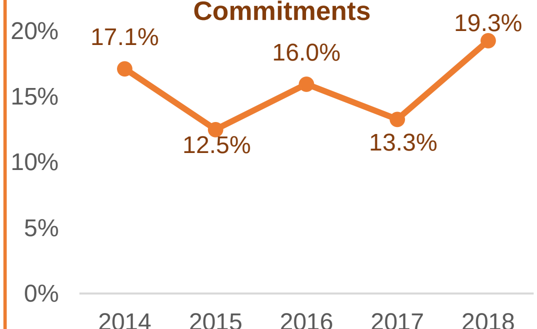


bn = billion.
Source: Asian Development Bank.

77. **Commitments.** Commitments in 2018 increased by 37.1% to $3,135.8 million compared to 2017, exceeding the 2018 planning target for NSO of $2.7 billion by 16.1%. Loan and other debt security commitments totaled $2,862.0 million, or 91.3% of total commitments, and equity commitments totaled $273.9 million, or 8.7% of total commitments. There were no guarantee commitments in 2018.[20] In 2018, nonsovereign commitments as a percentage of regular OCR commitments increased to 19.3% (13.3% in 2017) (Figure 48).

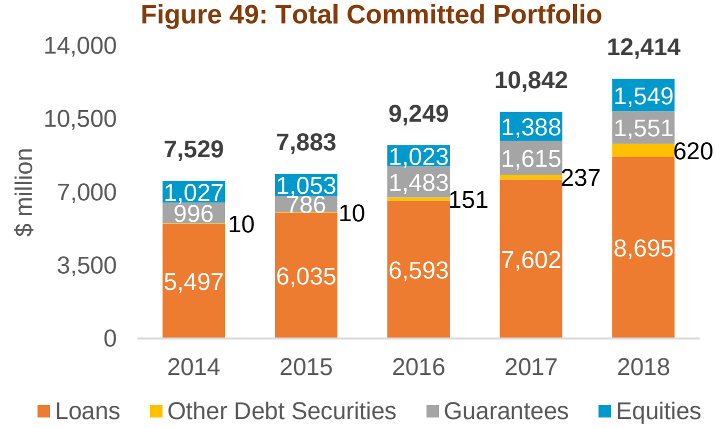
“Commitments increased by 37.1% to $3,135.8 million, exceeding the planning target by 16.1%.”

Figure 48: Nonsovereign Commitments as Percentage of Regular OCR Commitments



OCR = ordinary capital resources.
Source: Asian Development Bank data.

Figure 49: Total Committed Portfolio

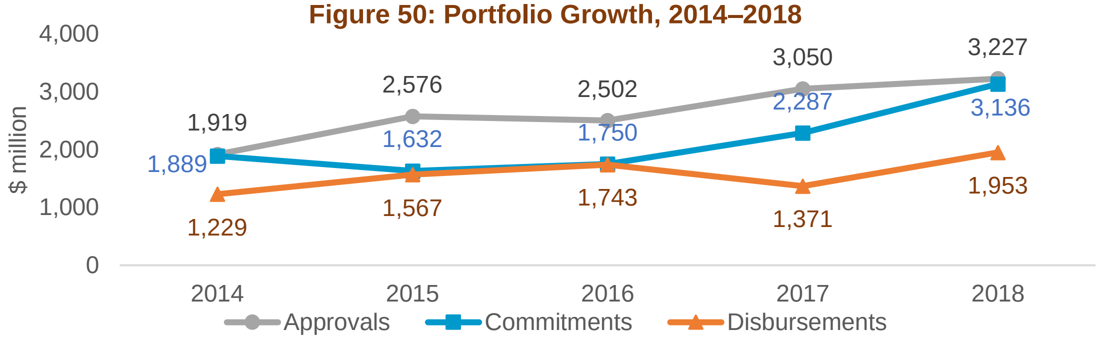


Source: Asian Development Bank data.

[20] Guarantee Programs (TFPs, Supply Chain Finance, Microfinance Programs) are excluded from the total commitments.

78. **Disbursements.** Disbursements in 2018 increased by 42.4% to $1,952.7 million, 95.7% of the 2018 planning target for NSO of $2,040 million. Loan and other debt security disbursements totaled $1,809.7 million, or 92.7% of total disbursements, and equity disbursements totaled $142.9 million, or 7.3% of total disbursements. Figure 50 provides an overview of the growth in approvals, commitments, and disbursements since 2014.

Figure 50: Portfolio Growth, 2014–2018



Source: Asian Development Bank data.

79. **Droppages and cancellations.** Droppages and cancellations totaled $815.6 million in 2018, from $605.7 million in 2017. Droppages totaled $426.8 million ($334.8 million in 2017). Cancellations totaled $388.7 million ($270.9 million in 2017) (Figure 51). In 2018, droppages were 13.2% of approvals and cancellations were 12.4% of commitments, within the 10%–15% guidance limit established in the 2015 APPR. Of the $388.7 million in cancellations, $309.0 million were full cancellations. **[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]** Over the 5-year period from 2014 to 2018, loan droppages averaged 12.5% of approvals, equity droppages averaged 14.1%, and guarantee droppages averaged 68.5%.[21] Loan cancellations averaged 15.7% of commitments, equity cancellations averaged 25.3%, and guarantee cancellations averaged 61.7%.[22]

80. **Loan prepayments.** Loan prepayments[23] on seven loans in 2018 totaled $287.9 million ($385.6 million in 2017). All of them were voluntary prepayments initiated by the borrowers, and five were full prepayments amounting to $157.0 million. Of the $287.9 million in prepayments, $283.5 million was prepaid by borrowers the who were able to refinance at better terms, and the remaining $4.4 million by borrowers who had sufficient internal cash generation. **[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]**

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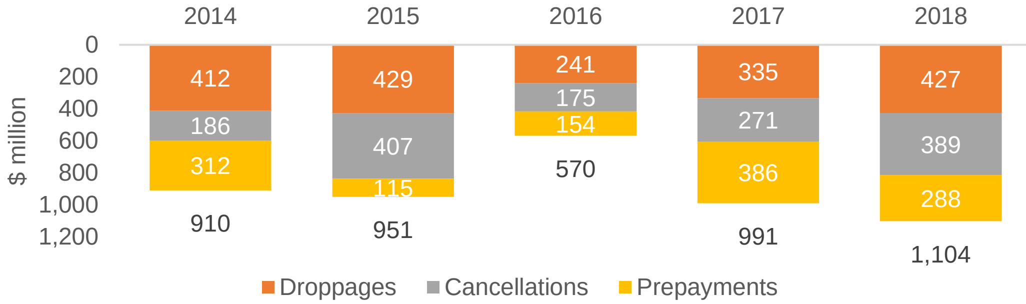
[21] Droppage percentages are the sum of droppages in the 5 years from 2014 to 2018 over the sum of approvals in the 5 years from 2013 to 2017.

[22] Cancellation percentages are the sum of cancellations in the 5 years from 2014 to 2018 over the sum of commitments in the 5 years from 2013 to 2017.

[23] A loan prepayment occurs when a borrower repays the loan principal balance in full or in part ahead of the agreed principal repayment schedule. Prepayment can be initiated by the borrower or can be as contemplated in accordance with the terms of the loan agreement.

Figure 51: Droppages, Cancellations and Prepayments, 2014–2018



Source: Asian Development Bank data.

81. **Nonsovereign public.** In 2018, two nonsovereign public sector transactions[24] of $320.0 million were signed ($1.0 billion on two nonsovereign public sector transactions in 2017). At the end of 2018, the total committed nonsovereign public sector totaled $1,933.6 million, of which $460.1 million was outstanding ($526.1 million outstanding at the end of 2017). It remained modest compared with the nonsovereign private sector outstanding portfolio of $8.2 billion.

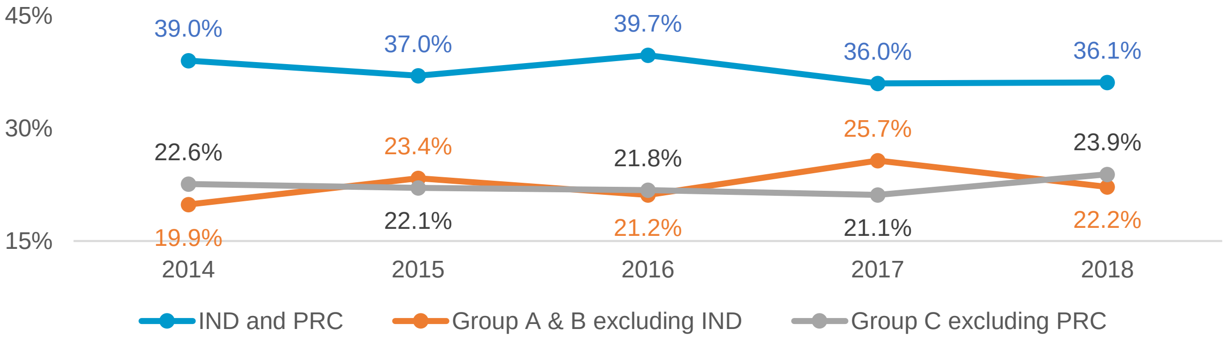
82. **Operations by product.** In 2018, the loan and other debt securities portfolio continued to grow faster than the equity portfolio. Loan and other debt security commitments increased by 43.1% to $2,862.0 million, and equity commitments decreased by 4.6% to $273.9 million. As a result, the share of equities in the total committed portfolio continued to decrease to 12.5% (13.6% at the end of 2014).

83. **Operations by country group.** In 2018, commitments in Group A countries decreased to $50.0 million ($139.6 million in 2017).[25] Commitments in Group B countries decreased to $894.6 million ($979.6 million in 2017). Commitments in Group C countries increased to $1,788.2 million ($996.3 million in 2017). Regional commitments increased to $403.0 million ($171.2 million in 2017). Commitments in the PRC and India accounted for $1.3 billion or 41.7% of total commitments ($1.1 billion or 47.6% in 2017). Commitments in Group A and B countries (excluding India) totaled $445.0 million or 14.2% of total commitments ($249.6 million or 10.9% in 2017). **[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]**

[24] [This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]

[25] Countries that received nonsovereign project assistance from ADB in: Group A: Afghanistan, Bhutan, Cambodia, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, and Tajikistan; in Group B: Bangladesh, India, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam; and in Group C: Armenia, Azerbaijan, Georgia, Indonesia, Kazakhstan, Malaysia, Philippines, PRC, and Thailand.

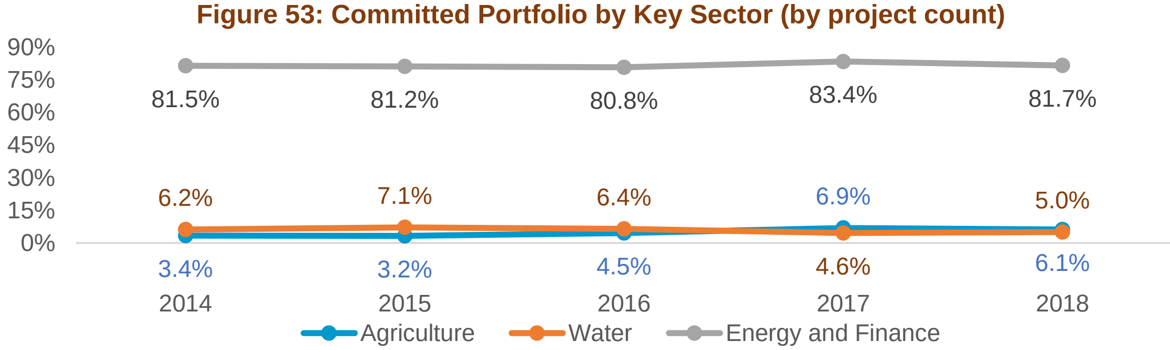
Figure 52: Committed Portfolio by Country Group (by project count)



IND = India, PRC = People's Republic of China.
Source: Asian Development Bank data.

84. **Operations by sector.** In 2018, the energy and finance sectors continued to dominate with 86.8% of commitments—energy at $1,700.5 million ($1,487.7 million in 2017) and finance at $1,021.0 million ($474.4 million in 2017). The water sector totaled $200.0 million in commitments ($200.0 million in 2017); agriculture totaled $200.0 million ($78.1 million in 2017); health $14.3 million (nil in 2017). No commitments took place in information and communication technology, transport, and education. NSO's committed portfolio remained highly concentrated in terms of sectors. As shown in Figure 53, the concentration[26] in the top two sectors (energy and finance) by project count stayed fairly stable since 2014, at around 81.8%. The committed portfolio in the agriculture sector increased from 3.4% in 2014 to 6.1%. The committed portfolio in the water sector decreased from 6.2% in 2014 to 5.0%.

Figure 53: Committed Portfolio by Key Sector (by project count)



agriculture = agriculture, natural resources, and rural development; water = water and other urban infrastructure and services.
Source: Asian Development Bank data.

85. **Direct value-added cofinancing (based on commitments).** In 2018, direct value-added (DVA) commercial cofinancing totaled $7.2 billion, a 20.5% increase from $5.9 billion in 2017. The composition of commercial cofinancing changed significantly in 2018. Parallel loans totaled $2,042.1 million, up from $476.4 million in 2017. Parallel equities totaled $505.0 million, down from $1,413.6 million in 2017. Trade Finance Program (TFP) cofinancing totaled $3.7 billion, up from $2.8 billion in 2017. B loans totaled $135.0 million, down from $240.4 million in 2017. Total commitments (ADB plus DVA cofinancing) increased by 25.2% in 2018 to $10.3 billion ($8.2 billion in 2017). The mobilization rate decreased marginally to 1.86, from 1.89 in 2017.[27]

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[26] Concentrations by project count excluding Trade Finance and Supply Chain Finance guarantees.
[27] The mobilization rate is the ratio of total DVA cofinancing approvals to total ADB approvals.

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]

B. Portfolio Quality and Financial Performance

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]

2018 NONSOVEREIGN PORTFOLIO

CONCLUSIONS AND RECOMMENDATIONS

C. Conclusions and Recommendations

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]

2018 ANNUAL PORTFOLIO PERFORMANCE REPORT

APPENDIXES

2018 SOVEREIGN PORTFOLIO: KEY INDICATORS

	Active Portfolio ($ million)[a]		Contract Award Ratio (%)[b]		Uncontracted (%)[b]		Disbursement Ratio (%)[b]		Undisbursed (%)[b]		PPR Rating: On Track (%)		PPR Rating: Implementation Risk (%)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
OPERATIONS	**86,313**	**77,288**	**26**	**28**	**39**	**37**	**21**	**22**	**60**	**60**	**75**	**73**	**25**	**27**
CWRD	**21,105**	**19,831**	**24**	**23**	**42**	**40**	**18**	**19**	**63**	**62**	**68**	**75**	**32**	**25**
Afghanistan	3,645	3,144	9	28	38	30	16	10	62	64	46	75	54	25
Armenia	605	719	11	35	22	21	11	15	56	53	86	80	14	20
Azerbaijan	1,655	2,507	43	25	24	19	35	41	42	33	75	100	25	-
Georgia	1,496	1,201	50	34	22	32	20	19	56	57	94	86	6	14
Kazakhstan	820	817	29	39	35	44	24	25	49	66	67	100	33	-
Kyrgyz Republic	643	710	32	23	45	51	11	10	77	72	78	75	22	25
Pakistan	6,545	6,666	35	18	41	47	19	19	65	66	63	62	38	38
Regional	55	46	-	-	-	-	-	-	-	-	100	100	-	-
Tajikistan	783	563	37	40	28	19	26	19	56	53	90	89	10	11
Turkmenistan	503	0	-	-	100	-	-	29	100	-	100	-	-	-
Uzbekistan	4,356	3,458	12	18	59	55	15	23	69	68	59	64	41	36
EARD	**13,892**	**12,340**	**19**	**22**	**44**	**43**	**23**	**24**	**54**	**57**	**77**	**77**	**23**	**23**
China, People's Republic of	12,542	11,349	19	22	43	42	23	25	53	56	78	82	22	18
Mongolia	1,338	976	12	16	61	57	23	14	70	73	72	57	28	43
Regional	12	15	-	-	-	-	-	-	-	-	-	-	-	-
PARD	**2,949**	**2,629**	**41**	**28**	**31**	**44**	**17**	**27**	**63**	**66**	**73**	**57**	**27**	**43**
Cook Islands	57	30	20	78	47	12	42	50	68	46	-	100	100	-
Fiji	191	225	9	32	88	67	1	36	96	75	50	33	50	67
Kiribati	51	42	8	70	47	14	37	74	56	22	100	-	-	100
Marshall Islands	32	20	26	11	59	65	21	33	79	82	67	33	33	67
Micronesia, Federated States of	36	37	13	4	20	23	5	74	24	26	50	50	50	50
Nauru	84	17	65	-	34	0	155	58	93	33	100	100	-	-
Palau	69	54	2	80	12	7	36	33	33	53	50	50	50	50
Papua New Guinea	1,587	1,383	50	23	27	54	16	25	64	73	82	60	18	40
Regional	151	148	-	11	89	76	0	7	94	81	-	67	100	33
Samoa	118	115	40	4	11	15	40	35	20	30	60	25	40	75
Solomon Islands	63	76	39	15	31	45	14	31	45	47	75	80	25	20
Timor-Leste	289	284	26	54	25	18	17	10	69	66	100	60	-	40
Tonga	81	76	44	58	20	12	37	44	44	34	83	40	17	60
Tuvalu	35	19	2	114	54	2	9	344	80	60	100	100	-	-
Vanuatu	104	103	46	27	20	42	29	28	46	64	67	71	33	29

2018 SOVEREIGN PORTFOLIO: KEY INDICATORS															
											PPR Rating				
	Active Portfolio ($ million)[a]		Contract Award Ratio (%)[b]		Uncontracted (%)[b]		Disbursement Ratio (%)[b]		Undisbursed (%)[b]		On Track (%)		Implementation Risk (%)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
SARD	**30,222**	**26,927**	**35**	**39**	**30**	**28**	**25**	**26**	**57**	**58**	**88**	**79**	**12**	**21**
Bangladesh	9,525	7,690	27	29	39	38	24	26	59	60	94	92	6	8
Bhutan	327	262	46	26	21	22	18	9	68	76	100	63	-	38
India	13,680	13,005	45	54	22	17	29	29	54	54	89	72	11	28
Maldives	109	75	15	65	49	22	30	21	62	63	75	67	25	33
Nepal	2,978	2,464	32	38	31	31	18	23	61	61	89	89	11	11
Regional	70	73	114	39	-	15	15	46	-	17	67	33	33	67
Sri Lanka	3,534	3,358	33	25	36	43	20	23	60	61	75	75	25	25
SERD	**18,145**	**15,562**	**17**	**21**	**50**	**45**	**17**	**16**	**63**	**62**	**64**	**65**	**36**	**35**
Cambodia	1,469	918	16	30	56	38	23	18	73	63	70	68	30	32
Indonesia	3,951	3,572	20	16	58	67	21	31	62	70	63	63	38	38
Lao PDR	790	692	19	23	51	49	18	14	67	66	64	70	36	30
Malaysia	-		-	-	-	-	-	-	-	-	-	-	-	-
Myanmar	1,264	659	4	6	82	69	10	10	89	86	54	58	46	42
Philippines	3,365	2,324	28	24	49	51	30	16	58	57	62	60	38	40
Regional	291	280	16	47	31	38	67	16	22	67	56	40	44	60
Thailand	97	6	98	11	2	87	5,038	7	2	90	50	-	50	100
Viet Nam	6,918	7,110	10	24	39	32	11	13	60	57	68	71	32	29
NON-OPERATIONS	**340**	**348**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**86,653**	**77,636**	**26**	**28**	**39**	**37**	**21**	**22**	**60**	**60**	**75**	**73**	**25**	**27**

CWRD = Central and West Asia Department, EARD = East Asia Department, Lao PDR = Lao People's Democratic Republic, PARD = Pacific Department, PPR = project performance rating, SARD = South Asia Department, SERD = Southeast Asia Department.

- = nil, 0 = amount less than $0.5 million or percentage less than 0.5%.

Notes:

1. The 2017 figures do not tally with figures presented in the 2017 APPR because of (i) shift of reporting to commitment-based, and (ii) adjustments after year-end.
2. Totals may not sum precisely because of rounding.

[a] Covers loans, grants, technical assistance, equities, and guarantees.

[b] Covers project loans and grants only.

Source: Asian Development Bank data.

STATUS OF THE PORTFOLIO PERFORMANCE ACTIONS RECOMMENDED IN 2017

Table A2.1: Sovereign Section

2017 APPR Recommendations (Immediate)	Status as of 2018
Increase project readiness above the 45% achievement of 2017.	The share of procurement-ready projects increased year-on-year from 31% in 2014 to 46% in 2018, while design-ready projects also had a 15 percentage point increase from 65% in 2014 to 80% in 2018.
Ensure realistic loan implementation periods instead of the 5-year default by reviewing average implementation periods per sector.	During project processing, project teams assessed past historical performance in the sector to determine a realistic implementation period. Of 88 projects approved in 2018, the average implementation period was 5.7 years, excluding policy-based loans.
Strengthen seamless collaboration across sector divisions and resident missions for both delegated and non-delegated projects.	Seamless collaboration across sector divisions and resident missions was strengthened, such as by (i) theme-based operations instead of sector-based ones, (ii) smoother transfer of project delegations, and (iii) participation of resident mission staff in project processing.
Expand the use of the new procurement framework to future contracts of ongoing projects (approved before the adoption of the new procurement framework).	As of the end of 2018, the average number of projects that qualify for the new procurement framework is about 110.
Strengthen the financial management of all projects to target full compliance.	In December 2018, the President approved an action plan to strengthen ADB's financial management practices in sovereign operations. The action plan is aligned with one of Strategy 2030's key operational priorities—strengthening governance and institutional capacity—and focuses on enhancing the financial management capacity both within ADB and its DMCs. Implementation of the action plan is expected to contribute to more robust ADB financial management practices and in turn more successful project outcomes. Reflecting the increased focus on financial management, the quarterly operations review meetings in 2018 included specific discussions on financial management-related issues.
Reenergize the networks of project administration unit heads within and between the regional departments to share best practices and lessons	The PAU heads' network meetings were held regularly within regional departments and between regional departments and PPFD, and best practices and lessons were shared.
Bolster the partnership between regional departments and PPFD.	Portfolio network meetings held monthly with representatives from regional departments, PPFD, and other relevant departments. PPFD also intensified procurement collaboration with the regional departments, with 9 procurement specialists outposted to the resident missions and 10 strategically placed across sector divisions.
Set sector- and country-specific service level standards to boost the response time on project administration matters.	Regional departments established a monitoring system and regularly monitor documents with tracking systems.

2017 APPR Recommendations [Medium to long term (continuous)]	Status as of 2018
Maintain a high-level dialogue with governments to address issues beyond ADB's control.	High-level portfolio review meetings were held between ADB and DMC governments to discuss issues, especially on projects rated with potential and actual problems, and on the external factors influencing project implementation.
Build capacity to promote the use of country systems for safeguards, procurement, and financial management in collaboration with other multilateral development banks.	Capacity building training and workshops on safeguards, procurement, and financial management were conducted at many levels. Power Grid Corporation of India's systems for safeguards and procurement are an example on the use of country systems at the agency level.
Continue to make further efforts to reduce end-to-end procurement time from 2017 level.	The average end-to-end procurement time in 2018 improved by 22 days to 348 days, from 370 days in 2017.
Review the project performance rating system.	A bank-wide working group, chaired by PPFD, was established in mid-2018 to redefine three of the five indicators: financial management, safeguards, and technical indicators. Adjustments to the respective criteria are being considered to strengthen the robustness of project ratings and address the gaps. The existing procurement and disbursement indicators are well defined and well captured by the current project monitoring system (eOps) and are not within the scope of the review. The revised technical indicator will monitor progress of each activity, drawing on an output-based indictor, and identify the delay of projects at an early stage. The financial management indicator needs to go beyond the current definition, which is confirming whether annual project and entity financial statements have been received. The financial management working group has made recommendations that are under consideration. These include adopting a methodology aligned with existing financial management requirements and evaluation criteria, which is objective and simple. The revised indicator is expected to assess project financial performance across five dimensions—audited project and entity financial statements, compliance with the financial management action plan and financial covenants, and submission of financial information in periodic progress reports. The revised safeguard indicator will track project performance based on seven questions that are derived from key safeguard requirements and loan covenants. They cover critical safeguard performance linked to (i) integration of safeguard requirements in contract awards; (ii) the status of obtaining required clearances and permits prior to site access and/or civil works; (iii) the status of any identified non-compliance with safeguard and grievances issues; and (iv) the status of monitoring reports' submission and disclosure. There is strong collaboration with the Office of Information Systems and Technology on upgrading the existing project performance system within eOps. The new PPR system will be pilot-tested for an estimated period of at least six months, and results based on new PPR system will only be reported starting 2021.
Strengthen information technology systems for portfolio and data management (Procurement Review System, eOperations, Consultant Management System).	Operational and support departments provided input to the design of relevant components of the Digital Agenda.

ADB = Asian Development Bank, APPR = annual portfolio performance report, CWRD = Central and West Asia Department, DMC = developing member country, PAU = project administration unit, PPFD = Procurement, Portfolio and Financial Management Department, SARD = South Asia Department, SERD = Southeast Asia Department.
Source: Asian Development Bank data.

Table A2.2: Nonsovereign Section

[This information contains sensitive financial information subject to disclosure restrictions per paragraph 5, exception (viii) of ADB's Access to Information Policy.]

SOVEREIGN OPERATIONS GLOSSARY

Active portfolio	All loans, grants, technical assistance (TA), equities, and guarantees committed and not financially closed (i.e., disbursement ended) as of the end of the financial year. The active portfolio includes funding from ordinary capital resources (OCR), concessional OCR lending (COL), the Asian Development Fund (ADF), other special funds, fully administered cofinanced loans and grants, and TA projects fully administered by the Asian Development Bank (ADB).
Advance action	Initiation of the process for procuring goods, services, and works before the effective date of the financing agreement.
Age	Refers to the average time from the date of product signing (commitment) to the end of the reporting period for active (committed) products.
Cancellation (effective)	Refers to the amount of partial or full reduction from the principal amount of effective products.
Cancellation (not effective)	Refers to amount of products signed but cancelled prior to product effectiveness.
Closing date or closure	The last date for the borrower to withdraw from the account.
Contract award ratio	The ratio of total contracts awarded during the year to the total value for contract awards available at the beginning of the year, including newly committed projects (loans and grants) during the year.
Commitment (signing)	The financing approved by ADB's Board of Directors or Management, for which the financing agreement has been signed by the borrower or recipient and ADB.
Delay (actual)	Refers to the time from original product closing to the actual financial closing.
Disbursement ratio	The ratio of total disbursements during the year (including disbursement from newly committed operations during the year) to the undisbursed balance at the beginning of the year.
Effective (date)	The date on which ADB dispatches to the borrower or recipient notice of accepting supporting evidence of the satisfaction of project (loan or grant) effectiveness conditions set out in the financing agreement.
Implementation period (original / actual)	Refers to the time from product commitment (signing) to the original product closing (for original implementation period) or actual financial closing (for actual implementation period).

Multitranche financing facility (MFF)	A financing instrument through which ADB provides assistance programmatically by aligning the provision of financing with project readiness and the long-term needs of a client.
Net resource transfer	Defined as loan disbursements less principal repayments or prepayments and interest or charges received.
Product (or instrument)	The generic means of providing financing—debt (mostly loans), equities, guarantees, grants, or TA.
Project	Defined by its unique design and monitoring framework regardless of the number of its financing instruments or sources. It refers to a project or program with a common outcome (one design and monitoring framework) regardless of which financing instrument or source ADB has agreed to provide.
Project performance rating	Projects are rated using five performance indicators: technical, contract awards, disbursement, financial management, and safeguards. A three-level traffic light rating system applies: green is on track, amber is potential problem, and red is actual problem (at risk).
Processing time for procurement contracts (≥$10 million)	Refers to the average number of days from the date of the first receipt of a draft bidding document by ADB to the contract signing. Covers all contracts signed during the year.
Procurement time (from receipt of the bid evaluation report [BER] to ADB's approval)	Refers to the average number of days from the date of the first receipt of the BER to ADB's approval of the BER. It includes the time spent for any clarification and revision needed to finalize evaluation of the BER.
S-curve	The project S-curve shows the project contract award and disbursement over its life and is a useful graphical presentation of project performance. The portfolio S-curves represents the annual contract award and disbursement profiles of the loan and grant portfolio by age.
Special funds	Asian Development Fund, Technical Assistance Special Fund, Japan Special Fund, Asian Tsunami Fund, Pakistan Earthquake Fund, Regional Cooperation and Integration Fund, Climate Change Fund, Asia Pacific Disaster Response Fund, Asian Development Bank Institute Special Fund, and Financial Sector Development Partnership Special Fund.
Terminated	Refers to amount of products approved but terminated prior to signing of agreement.
Tranche (MFF)	Loan, grant, guarantee, or ADB-administered cofinancing for a project or a component under an MFF.

Uncontracted balance	Amount available for contract awards at the end of the year for active project loans and grants.
Uncontracted percentage	Uncontracted balance as a percentage of the total value to be awarded.
Undisbursed balance	Amount available for disbursement at the end of the year for active project loans and grants.
Undisbursed percentage	Undisbursed balance as a percentage of the net loan or grant amount.

NONSOVEREIGN OPERATIONS GLOSSARY

Approval	An investment approved by the Board of Directors of the Asian Development Bank (ADB) or by the President through Faster Approach to Small Nonsovereign Transactions (FAST).
B-loan	A loan made by ADB funded by a third party or parties without the borrower or third parties having any recourse to ADB. It involves the prearranged transfer to commercial lenders of participation in an ADB complementary loan, but without credit recourse to ADB for debt service. ADB is the lender of record since the B-loan is made in the name of ADB.
Cancellation	Undisbursed committed balance of an equity investment, loan, guarantee, or other debt securities cancelled by the mutual consent of ADB and an investee company or borrower or counterparty.
Carrying value (of an equity)	Value at which an equity is carried on the balance sheet. The carrying value depends on the accounting method used (cost method, equity method, market value method, or fair value method).
Closed-out loan	Loans that are fully repaid and/or prepaid.
Collective loss allowance	An allowance for existing probable losses resulting from risks that cannot be identified with specific investments. Also called "unallocated loss allowance" or "general loss allowance."
Commitment	An investment approved by ADB's Board of Directors for which the investment agreement has been signed by the investee company and ADB.
Commitment fees	Fees charged for entering into an agreement that obligates the entity to make or acquire a loan or to satisfy an obligation of the other party under a specified condition.
Cost of funding	Interest charges incurred for borrowed funds (e.g., ADB bonds) used in the lending activities (also called interest charges).
Default status	A loan in default is a loan on which payments (principal, interest, or fees) are overdue by more than 1 day.
Direct value-added (DVA) commercial cofinancing	Cofinancing with contractual or collaborative arrangements between ADB and financing partners. DVA commercial cofinancing includes B-loans, parallel loans, parallel equities, Trade Finance Program cofinancing, guarantee cofinancing, and risk transfer.
Direct equity	An equity investment (e.g., common, preferred, or other capital stock) that gives the buyer direct ownership interest in an entity.

Droppage	An investment approved by ADB's Board of Directors or the President but which failed to become a signed agreement. Also called "termination."
Equity	A security representing an ownership interest in an entity.
Equity income	Income from equity investments, including dividends and realized and unrealized capital gains and/or losses.
Fair value (of an equity)	Current market value (i.e., realizable sales value) of an equity. For a direct public and liquid equity, this is the current market price on a public exchange (also called "market value"). For a direct private equity and direct public but illiquid equity, this is an estimate of the realizable sales value based on valuation methods.
Guarantee	A formal pledge to pay a borrower's debt (in part or in full) in the case of default by the borrower.
Impairment status	A loan in impairment status is a loan for which the borrower is unlikely to pay its credit obligations in full and a probable loss is identified, against which a specific loan-loss allowance has been established.
Internal rate of return (IRR)	A measure of an investment's financial performance over the entire holding period. The IRR takes into account both the amount and timing of disbursements and cash receipts. In the case of an outstanding equity investment, an estimated valuation of the investment is included as an element in calculating the IRR.
Direct public equities	Equity investment in a company whose shares are traded on a public exchange.
Loan-loss provision	The charge against income that is the net result of increases and decreases in loan-loss allowances on specific investments, plus the increase or decrease in collective loan-loss allowance.
Loss allowance	The accumulation of charges to income made to accommodate significant and relatively permanent declines in the value of specific investments (specific loss allowances) and to cover portfolio risks that cannot be identified with specific investments (collective loss allowance).
Nonaccrual status	Transactions in arrears for more than 180 days where ADB recognizes interest income on a cash basis and no longer on an accrual basis.
Nonperforming loan (NPL)	A loan classified as impaired.
Outstanding guarantee	A committed guarantee for which the underlying instrument has been issued and which is earning fees for the risks being guaranteed. Also called an "executed guarantee."

Other debt securities	An instrument that can be bought or sold between two parties, direct public equity or direct private equity, convertible or non-convertible that is acquired for operations and not for liquidity purposes. A debt security represents borrowed funds that must be repaid by the borrower to the holder of the debt security. It includes government bonds, corporate bonds, municipal bonds, preferred stock, and collateralized securities.
PD-WARR	Probability of Default-Weighted Average Risk Rating is calculated by (i) determining the probability of default for each borrower or transaction based on its rating, (ii) calculating the weighted average probability of default weighted by projected exposure at default, and (iii) mapping the weighted average probability of default to a rating on ADB's 14-point scale.
Pooled IRR	The IRR of a group of equities calculated by pooling the cash flows.
Prepayment	A loan paid in full or partial amount ahead of the original amortization or repayment schedule.
Private equity funds	Refers to partnerships, unincorporated joint ventures, and limited liability companies.
Repayment	Periodic or one-time receipt of principal amount due from a loan according to the amortization or repayment schedule.
Rate of return	Portfolio income, representing total income before imputed cost of funds or capital divided by the average outstanding portfolio for the year (calculated either before or after specific loan-loss provisions and charges, impairment losses, and charges and expenses).
Risk participation	Where one party offloads and/or assigns its exposure in a loan or other receivable and/or obligation to another party in order to reduce the former's risks.
Risk rating	A rating that indicates the risk that a borrower may default. An ADB rating of 1 (>A-) indicates the lowest risk and 14 (default) the highest risk.
Risk transfer	The debt service risk of a borrower is offloaded through a risk participation agreement with a third party. The third party effectively guarantees the debt service. Hence, the risk becomes the credit risk of the third party.
Total committed portfolio	Committed (disbursed and undisbursed) loan and other debt securities, guarantees, and equity investments net of repayments, prepayments, sales, and cancellations.
Undisbursed	Signed but not yet disbursed amount of a loan, other debt security, and equity investment.

Weighted average risk rating (WARR)	Average risk rating weighted by exposure (outstanding or outstanding net of risk transfer).
Write-off	An accounting procedure used when an asset is determined to be uncollectible, considered to be a loss, and taken off the balance sheet.