Funds for the Poor

Special Evaluation Study: Asian Development Fund VI–VII Operations
Abbreviations

ADB  Asian Development Bank
ADF  Asian Development Fund
CAP  country assistance plan
COS  country operational strategy
CPF  country program framework
CSP  country strategy and program
DMC  developing member country
EIRR economic internal rate of return
ESW  economic and sector work
GAD  gender and development
GDP  gross domestic product
GNP  gross national product
IFAD  International Fund for Agricultural Development
Lao PDR Lao People’s Democratic Republic
LTSF  long-term strategic framework
MDG  Millennium Development Goal
MTSF  medium-term strategic framework
NGO  nongovernment organization
OCR  ordinary capital resources
OED  Operations Evaluation Department
PCR  project completion report
PF  project framework
PPAR project performance audit report
PPR  project performance report
PRC  People’s Republic of China
RRP  report and recommendation of the President
SDO  strategic development objective
TA  technical assistance
WID  women in development

NOTE
In this report, “$” refers to US dollars.
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The report was prepared by a team within the Operations Evaluation Department (OED) under the supervision of Graham Walter and overall direction of Vladimir Bohun. The team was led by Naomi Chakwin (author) and Ken Watson. Case studies were prepared by Christopher Bender (governance–Kyrgyz Republic), Ben Boyd (energy–Kyrgyz Republic), Bruce Mathews (education–Sri Lanka), David Pyle (health–Sri Lanka), Colin Steley (agriculture–Vietnam), and Ken Watson (Samoa and Vanuatu). The report benefited from comments and guidance of peer reviewers, George Bestari, Stephen Curry, and Walter Kolkma. Technical and research assistance was provided by Patricia Lim (statistical annex) with assistance from Agnes Anabo and Joji Tubadeza. Invaluable secretarial support was provided by Marivic de la Cruz.

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Acknowledgment

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Foreword

The Asian Development Fund (ADF) has played an instrumental role in helping countries meet their development challenges. The fact that the Asia and Pacific region is home to about 755 million poor living on less than $1 a day, underscores the need to effectively channel these funds into sustainable activities that will improve the quality of life of the poor in the region. Meeting this challenge throughout the 1990s has been complicated by the shock of transition for the countries of the former Soviet Union and an unprecedented financial crisis in East Asia.

To assess the performance of ADF and draw lessons from past experience, donors requested an independent review. This report covers a 9-year period (1992-2000) for ADF VI-VII.

In broad terms, the message from the ADF VI-VII replenishment commitments was that resources should be used to support sustainable economic growth, poverty reduction, and increased assistance to the social sectors. Given the increasing complexity of development activities, the Asian Development Bank’s (ADB’s) satisfactory compliance with the major 10 replenishment commitments is significant. It has required a full commitment to reorient the institution and its business processes. In addition, this review establishes that ADF has significantly improved its portfolio performance, become more selective in its lending allocations, recast its mission to address poverty reduction, and strengthened the country focus of operations. More effort is needed in linking country assistance strategies to project selection and poverty outcomes, ensuring greater consistency in program lending, dedicating sufficient funds to environmental activities and incorporating gender in projects.

Drawing together lessons of development based on 9 years of experience with ADF VI-VII is a challenging task. Many factors, some internal and some exogenous, have contributed to shaping the outcomes of the replenishment undertakings. Nevertheless, one of the biggest lessons for the future is that ADF is scarce and should be used more strategically for bigger impacts in poverty reduction.

In conclusion, ADF VI represented an important break from the earlier replenishments. For the first time, there was a Donors’ Report that outlined certain conditions, indicated priorities, and made specific requests. ADB adopted a demanding development agenda and reoriented its operations toward social development in general and poverty reduction in particular. Under ADF VII, ADB expanded this development agenda to include governance among other crosscutting themes. Replenishment commitments have been highly relevant and timely, encouraging the use of the ADF in meeting new development challenges in the region. In looking forward, ADB needs to consolidate its progress and focus on results and monitoring for impact.
Introduction

The Asian Development Bank (ADB) was founded in 1966 as a multilateral development finance institution to foster economic growth in its developing member countries (DMCs) in the Asia and Pacific region. One of ADB’s key instruments for promoting growth and thereby reducing poverty has been concessional lending to DMCs with low per capita gross domestic product (GDP) and limited debt repayment capacity. The Agreement that established ADB authorized Special Funds for this purpose. The Special Funds offered various terms and conditions, but all supported loans with longer maturities, longer grace periods, and lower interest rates than those applicable to loans from ADB’s ordinary capital resources (OCR). In April 1973, ADB incorporated the Special Funds into one consistent framework, with standard terms and conditions, called the Asian Development Fund (ADF). The initial contributions to ADF were designated ADF 1. Subsequently, ADF has been replenished seven times; therefore, the current ADF period is ADF VIII. Typically, a replenishment period is 4 years. This report covers ADF VI–VII that spanned from 1992 to 2000 during which ADB approved 336 loans totaling $12 billion for 318 projects, constituting one fourth of ADB’s total lending during that period.

This report provides an assessment of how effectively ADB has been able to harness ADF to meet the challenges facing the region over the last decade and what the impact of ADF has been. It seeks to answer the following key questions:

(i) Has ADB fulfilled its obligations and the commitments made during the ADF VI and VII replenishment discussions?
(ii) Has ADB reoriented its overall strategy and operational priorities to support poverty reduction, while continuing efforts to stimulate broad-based and sustainable economic growth? and
(iii) What lessons can be drawn from ADB’s experience during this period?

To address these questions the report evaluates projects, processes, and policies against ADF VI–VII obligations and commitments. The evaluation was conducted based on the Operations Evaluation Department’s (OED) assessments including project performance audit reports (PPARs), special and impact evaluation studies, and country assistance program evaluations. The report drew on evidence from ADB’s Loan Financial Information System, and project performance reports (PPRs), and project completion reports (PCRs) prepared by operations departments. Further, information was obtained from ADB’s strategy and program documents such as medium-term strategic frameworks (MTSFs), relevant policy papers, country assistance programs and operational strategies, publications, handbooks, working papers, Guidelines on Operational Procedures, and project administrative instructions.

The report was prepared from January to December 2002 and finalized in March 2003. Country case studies were accompanied by consultations with governments, project beneficiaries, representatives from the private sector, and other bilateral and multilateral aid agencies. Appendix 2 de-
scribes the approach and methods used for this report, including the coverage of data by lending modality, DMC, and strategic development objective (SDO). In interpreting the findings of this report, it is important to recognize that as of December 2002, of the 318 projects approved under ADF VI–VII, almost 60% were still under implementation; and PCRs with ratings were available for 102 projects, and PPARs for 21 projects.

In terms of relevant policies, 6 were approved under ADF VI, and 11 in the later part of the ADF VII period. Table 1 provides a time line for the adoption of these key policies and illustrates the considerable effort and ongoing commitment of ADB to implement the core elements of the ADF VI–VII framework. The full influence of the policies adopted at the end of ADF VII will continue to grow in future years.

<table>
<thead>
<tr>
<th>Table 1: Key Policies</th>
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<tbody>
<tr>
<td>Policy Paper</td>
</tr>
<tr>
<td>1. Bank Support for Regional Cooperation (May 1994)</td>
</tr>
<tr>
<td>5. Establishment of an Inspection Function (Dec 1995)</td>
</tr>
<tr>
<td>8. Cooperation Between ADB and NGOs (Apr 1998)</td>
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<td>10. Anticorruption Policy (Jul 1998)</td>
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<tr>
<td>11. A Graduation Policy for the Bank’s DMCs (Dec 1998)</td>
</tr>
<tr>
<td>12. Policy for the Health Sector (Feb 1999)</td>
</tr>
<tr>
<td>15. Private Sector Development Strategy (Mar 2000)</td>
</tr>
<tr>
<td>16. Performance-Based Allocation for ADF Resources (Mar 2001)</td>
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</tbody>
</table>

ADB = Asian Development Bank, ADF = Asian Development Fund, DMC = developing member country, NGO = nongovernment organization.

Development Context and Environment

Cumulatively, ADF I–VII has played an instrumental role in assisting DMCs in meeting their development challenges and supporting their economic growth. The fact that the Asia and Pacific region is home to about 755 million poor living on less than $1 a day has induced pressure on ADF to be increasingly channeled to promote poverty reduction and improve the quality of life in the poorer DMCs. In judging the performance of ADF VI–VII, however, it has to be recognized that the region

(i) has benefited from official development assistance from different sources under different terms and conditions. Overall, ADF constituted 12% of the total official development assistance flows to DMCs. Between 1992 and 2000, ADF VI–VII accounted for only 4% of the net public and private resource flows to the 26 recipient DMCs. Only in six of them—Bangladesh, Kyrgyz Republic, Lao People’s Democratic Republic (Lao PDR), Mongolia, Nepal, and Sri Lanka—did the share exceed 10%. Consequently, attribution of the development impact of ADF is a complex task;

(ii) has undergone a turbulent decade. In the early 1990s, a number of countries became independent of the former Soviet Union and began the transition to market economies. In the second half of the 1990s, the region faced an unprecedented financial crisis in East Asia followed by the Russian crisis that wiped out a part of the economic gains of the previous decade. This also detracted from the long-term development agenda in many DMCs as the imperative to address short-term needs and prevent people from sliding back into the poverty trap became the priority. Although the region has recuperated and rebounded given its inherent resilience, it is necessary to bring the crisis-affected DMCs to a higher and sustainable growth path with adequate risk mitigation strategies;

(iii) exhibits huge diversity and challenges in terms of its history, geography, cultures as well as types of economies. These characteristics have implications for eligibility and access to ADF and its allocation, choices of development strategies, lending modality, project selection, design, and absorptive capacity.

ADF VI–VII operated during a period of high average growth in Asia, with large gains in trade and domestic and foreign investment. The remarkable performance was influenced by the continued dynamism of the People’s Republic of China (PRC), strong fundamentals in Singapore and Hong Kong, China, and economic liberalization in India. Among ADF-eligible countries, South Asia3 and the Mekong subregion4 showed relatively stable performance, averaging over 6% growth per annum during the 1990s, while the shock of transition in Central Asia5 coupled with growing vulnerabilities, resulted in negative growth. Expectations were high at the beginning of the 1990s for the DMCs in Southeast Asia,6 but the financial crisis in 1997 dampened growth to less than 4% per annum during the 1990s. The small ADF-eligible Pacific countries7 continued to struggle with challenging development issues and their growth averaged about 2% per annum in that period.

Sources of ADF and Cumulative Resources

There was $4.1 billion contributed to ADF VI and $2.7 billion to ADF VII and $2.3 billion to ADF VIII, averaging $3.0 billion per replenishment. Contributions have thus been declining over time, especially in real terms.

Contributions and reflows from interest and principal payments resulted in the growth of ADF resources—from a little under $15 billion at the beginning of 1992 to over $23 billion by the end of 2000. The total loan portfolio increased rapidly. Start-
ing at less than $14 billion in 1992, the portfolio expanded to over $21 billion by 2000. Assets held in liquid form almost doubled during the same period from $1.2 billion to $2.3 billion.

Overview of the ADF

Since its establishment, ADF has financed a substantial portion of ADB operations and continues to be necessary to allow ADB to undertake a range of activities in keeping with its development objectives as stated in its Charter. Nevertheless, the share of ADF in total lending has been declining because of the increasing scarcity of ADF resources (Figure 1). ADF, however, remains a crucial resource for a segment of the lower income DMCs.

Table 2 shows the top ten ADF VI–VII recipient DMCs. Because of the large number of people living below the poverty line, Bangladesh and Pakistan received almost 40% of the $12 billion (although Pakistan received considerably less from ADF VII). Two other DMCs, Sri Lanka and Nepal, also received considerable funds making South Asia by far the largest regional recipient of ADF. Another striking feature is the emergence of Viet Nam as a major ADF borrower during this period. ADB was one of the first agencies to resume lending to Viet Nam in 1993. ADF provided resources for the considerable efforts needed for reconstruction after a protracted civil war.

Figures 2 and 3 show the sector distribution of ADF VI–VII by loan amount and number of projects. In line with the ADF mandate, agriculture and natural resources and the social sectors combined accounted for 56% of the lending and 62% of the total number of projects. The infrastructure and energy sectors followed with the combined

<table>
<thead>
<tr>
<th>Country</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
</tr>
<tr>
<td>1. Bangladesh</td>
<td>1,351.1</td>
<td>20.0</td>
<td>1,056.4</td>
</tr>
<tr>
<td>2. Pakistan</td>
<td>1,689.9</td>
<td>25.0</td>
<td>603.8</td>
</tr>
<tr>
<td>3. Viet Nam</td>
<td>937.5</td>
<td>13.9</td>
<td>1,012.1</td>
</tr>
<tr>
<td>4. Sri Lanka</td>
<td>517.6</td>
<td>7.7</td>
<td>689.1</td>
</tr>
<tr>
<td>5. Nepal</td>
<td>386.2</td>
<td>5.7</td>
<td>355.3</td>
</tr>
<tr>
<td>6. Lao People’s Dem. Rep.</td>
<td>384.9</td>
<td>5.7</td>
<td>241.1</td>
</tr>
<tr>
<td>7. Cambodia</td>
<td>246.0</td>
<td>3.6</td>
<td>237.6</td>
</tr>
<tr>
<td>8. Indonesia</td>
<td>284.7</td>
<td>4.2</td>
<td>195.0</td>
</tr>
<tr>
<td>9. Kyrgyz Republic</td>
<td>160.0</td>
<td>2.4</td>
<td>292.2</td>
</tr>
<tr>
<td>10. Mongolia</td>
<td>284.8</td>
<td>4.2</td>
<td>154.6</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>6,242.7</strong></td>
<td><strong>92.4</strong></td>
<td><strong>4,837.2</strong></td>
</tr>
<tr>
<td>Others</td>
<td>506.0</td>
<td>7.6</td>
<td>432.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,748.7</strong></td>
<td><strong>100.0</strong></td>
<td><strong>5,269.7</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.
Source: Asian Development Bank’s Loan Financial Information System.
shares of 33% of lending and 23% of projects respectively.

Figure 4 illustrates the shifting emphasis in ADF VII. Compared with ADF VI, more resources were directed toward poverty reduction and less resources were used to support economic growth. This resulted in a more balanced portfolio, broadly reflecting the intentions of donors to the ADF VI–VII replenishments.

ADF VI (1992–1996) represented an important break from the earlier replenishments. For the first time, the donors' report outlined complex policy commitments, indicated priorities, and made specific requests of ADB. Appendix 3 contains a matrix of 10 broad categories of replenishment commitments for ADF VI–VII. The donors asked that resource allocations to DMCs take into account their performance in addition to their needs. Also, from 1992 onward, ADB imposed a demanding development agenda upon itself by identifying five SDOs: economic growth, promoting human development, poverty reduction, enhancing the role of women in development (WID), and improving the environment. The SDOs were to assist in the classification, design, monitoring, and evaluation of projects. This system was instrumental in reorienting operations toward social sector development in general and poverty reduction in particular.

Under ADF VII (1997–2000), the development agenda expanded to include the adoption of policies on indigenous peoples, cooperation with nongovernment organizations (NGOs), mainstreaming gender and development (GAD), anticorruption, coun-
try graduation from ADF, and poverty reduction. In addition, the Asian financial crisis spurred greater efforts to improve governance in all project and technical assistance (TA) operations.

Summary of Findings

In broad terms, the message from the ADF VI–VII replenishment commitments was that resources should be used to support sustainable economic growth, poverty reduction, and increased assistance to the social sectors.

Ten broad areas were targeted: (i) stimulating economic growth, (ii) assisting in family planning and human development activities, (iii) reducing poverty, (iv) addressing gender concerns, (v) improving environmental protection and natural resource management, (vi) strengthening policy adjustments that contribute to growth, (vii) implementing a more strategic planning process, (viii) improving the quality of projects, (ix) adopting a policy on country graduation, and (x) introducing a more formal process for ADF allocation.

There is evidence of good progress in meeting the ADF VI–VII replenishment commitments. Compliance has been satisfactory though uneven, with some areas making progress much faster than others. The area of greatest improvement has been in strategic planning. Progress in addressing gender concerns in projects has been below expectations.

**Highly Satisfactory.** A medium-term framework for strategic planning was adopted and has become an integral part of the institutional culture. Country-based programming has been improving each year and project selection and design have been following the strategic directions.

**Satisfactory.** Project investments directed toward stimulating balanced economic growth have been continuing and show solid economic internal rates of return (EIRRs). Efforts to address project-related issues that affect the poor, such as resettlement, have improved during the report period, and are continuing to improve with experience. While family planning activities have not been sustained at the level anticipated at the time of ADF VI–VII commitments, investments in human development
(in the social sectors) have continued to expand. Indeed, one of the concerns is that they have expanded in too many directions straining capacity within ADB and blunting the impact of this support. Effectively reaching the poorest is a big challenge for development assistance. Poverty reduction investments have been steadily improving with experience, a greater institutional understanding of the issues, and more defined targets and goals. While there is still much room for improvement in this area, significant changes and institutional commitment are evident. ADF project quality and performance has improved. More work is, however, needed in the area of project monitoring and management. The resource allocation has been relatively efficient for ADF VI–VII and in line with the formal performance-based measures adopted for ADF VIII.

**Partly Satisfactory.** Improving environmental management has proceeded unevenly within ADB. While formal processes for environmental classification of projects and inclusion of mitigation measures have been mainstreamed, the number of projects directly addressing environmental issues has not quite met expectations. ADB’s lending for policy reforms—program lending—has had mixed success during the report period. Reform programs sometimes have been over-ambitious and governments have lacked the capacity, or the will, to implement difficult reforms. There have been some notable successes and lessons have been learned. The approach of the more recent programs has been much more focused on specific critical reform measures needed. The country graduation policy has addressed some immediate concerns and some DMCs have formally graduated from ADF. However, changes in access criteria have had little effect on DMC borrowing patterns. In addition, an assessment of the coherence of objectives of the graduation policy and the performance-based allocation policy would be desirable.

**Unsatisfactory.** A policy on WID was adopted by ADB in 1985. However, incorporating gender concerns has continued to be a challenge. Project selection and design did not effectively support this development objective, partly because of “donor congestion” in WID-related activities. Thus far, mainstreaming gender concerns under the GAD policy has had limited impact. As the policy was introduced in 1998, there is insufficient empirical basis for assessing its effectiveness at this time. A full evaluation of the results is scheduled for 2004, when there will be a more solid basis for assessing the impact of the GAD framework.

**Organization of the Report**

Following this introduction (Section I), the report further defines the five SDOs, and assesses project performance and impacts within this context (Section II). It then presents findings on policy-based lending (Section III). Institutional change is considered in terms of internal processes and the adoption of specific policies in the 1990s (Section IV). Finally, the lessons learned from ADF VI–VII are discussed (Section V), and conclusions presented (Section VI). Statistics underpinning the evaluation are provided in the statistical annex to the online report that is available at [http://www.adb.org/Evaluation/reports.asp](http://www.adb.org/Evaluation/reports.asp)
Strategic Development Objectives

In March 1992, at the start of ADF VI and following the report of the Task Force on Strategic Planning (June 1991), ADB published its first MTSF (1992–1995). Based on the goals and objectives identified in the MTSF, guidelines for classifying projects by SDO were issued in December 1992 (Appendix 4). The development agenda was based on the premise that economic growth was a necessary, but not sufficient condition, to improve living standards and the quality of life in the region.

As targeted interventions were considered necessary to address the social and environmental objectives, ADB adopted two main approaches: (i) projects directly aimed at these concerns, and (ii) economic growth projects that also targeted, as a secondary SDO, social and environmental concerns. These objectives were confirmed in three subsequent annual MTSFs to 1995 and continued to be ADB's strategic objectives in ADF VII.

At the end of the ADF VII period, an international consensus emerged on the importance of meeting certain development targets within a reasonable time. Along with other international agencies, ADB endorsed the Millennium Development Goals (MDGs). Both ADF and non-ADF countries have made progress toward meeting the MDGs (Appendix 5). However, equally apparent are the wide disparities in living standards that exist among the DMCs in the Asia and Pacific region. These disparities suggest that targeted strategies are needed to enhance the impact of development assistance. The use of the SDO classification system was a start in this direction.

There have been important demographic changes in the region over the past decade such as a marked slowing of population growth, a rising life expectancy, and decreased child mortality. These trends may be attributed in part to rising levels of education, increased female participation in the labor force, a greater awareness of family planning and contraceptive methods, and greater access to health services. ADF has played a crucial role in helping to bring about these changes over the past decade and is a valuable resource that is needed to meet the challenge of the MDGs.

Lending to Achieve the Strategic Development Objectives

Table 3 shows the distribution of ADF VI–VII resources by SDO. Economic growth projects accounted for 50% of ADF VI–VII project approvals and 57% of ADF VI–VII lending. The last column shows that ADF accounted for all of the total primary ADB lending (i.e., both OCR and ADF) for WID, and a significant portion of such lending for human development and poverty reduction.

The process of integrating the SDOs and goals gradually filtered through from the MTSF, to country strategies, to project design and ultimately project implementation. In 1992, almost all of the projects supported growth objectives. However, by the end of the ADF VII period in 2000, there was much greater diversity in the ADF portfolio. Although all the SDOs were considered of equal importance, lending for projects with a primary focus on poverty reduction increased from 6% in ADF VI to 15% in ADF VII and
poverty reduction was by far the largest secondary SDO in terms of the number of projects under ADF VI–VII (Table 4). Indeed, during ADF VII, ADB committed to having at least 50% of ADF projects by number, and 40% by dollar volume, directly targeted at social and environmental objectives. The result was that 50% of ADF VI–VII projects by number and 42% by loan amount were classified as having such primary objectives.

In both ADF VI and VII, disbursements for projects with primary SDOs of poverty reduction, environment, and WID lagged, amounting to less than 10% of the total (Table 5). The slow implementation can be primarily attributed to the complexity of issues these projects address and working with new or multiple executing and implementing agencies. It is anticipated that disbursement performance will improve with more project implementation experience in these areas and greater familiarity of such agencies with ADB processes and procedures.

In addition to lending, support for SDOs was provided by the TA Special Fund, especially through advisory TA for capacity building and institutional strengthening in DMCs (Table 6).

<table>
<thead>
<tr>
<th>SDO</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Total</th>
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<tbody>
<tr>
<td></td>
<td>Primary SDO</td>
<td>Secondary SDO</td>
<td>Primary SDO</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>93</td>
<td>0</td>
<td>66</td>
</tr>
<tr>
<td>Human Development</td>
<td>48</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>Poverty Reduction</td>
<td>19</td>
<td>45</td>
<td>21</td>
</tr>
<tr>
<td>Women in Development</td>
<td>3</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Environment/Natural Resources</td>
<td>11</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>174</td>
<td>84</td>
<td>144</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, SDO = strategic development objective.

Notes:
- Figures may not add up to total because of rounding.
- Source: ADB’s Loan Financial Information System.
components that were not captured by the classification system. The same is true for the other SDOs.

The development of human resources, protection of the environment, and enhancement of the status of women are important instruments of poverty reduction. Therefore, separating projects using the SDO classification provides an approximation rather than a full account of ADB’s activity in these strategic areas.

**Economic Growth**

**Commitment 1: Stimulating Growth and Improving Poverty Impacts**

Donors to ADF VI–VII urged ADB to use these funds in support of broad-based economic growth and the development of market economies. They also encouraged ADB to take a balanced approach to efforts to stimulate growth while including poverty reduction measures and investments to the social sectors.  

Poverty reduction can be achieved in two ways: through economic growth and through the redistribution of resources. Of the two, economic growth has often, although not always, been the more effective and sustainable engine of poverty reduction. Even where redistribution is urgently needed, it is generally easier to redistribute resources (such as through directly targeted interventions) toward the poor in a growing economy than it is in a stagnant or declining one.
Defining Economic Growth
Unlike the other SDOs, there were no specific criteria for growth to be designated as a primary SDO. The assumption that all projects could be categorized as supporting economic growth, without qualification, was also reflected in the decision not to assign economic growth as a secondary objective. This principle was followed during ADF VI–VII with one exception. The categorization (primary economic growth/not primary economic growth) did not capture the fact that some projects may make an exceptional contribution to economic growth (broadly defined as the rate of increase in GDP), and some less so. To establish the relative return to the national economy, ADB set a minimum threshold of 12% for projects for which an EIRR is calculated, i.e., whose benefits can be clearly identified, quantified, and valued.

Lending for Economic Growth
From 1992 to 2000, ADB provided $35.8 billion from OCR and ADF for projects with primary or secondary economic growth objectives. This constituted 72.1% of total public sector lending volume or an equivalent of $4.0 billion per year.

There were 159 ADF-supported projects with primary economic growth objectives that accounted for $6.9 billion (58%) of total ADF VI–VII lending. Nearly $2.6 billion (38%) was for infrastructure; followed by agriculture and natural resources (24%); energy (19%); governance, finance, trade, and industry (11%); others (7%); and social sectors (1%) (Figure 5). South Asia and the Mekong region, especially Bangladesh, Pakistan, Sri Lanka, and Viet Nam, were the largest ADF borrowers for economic growth projects, although Cambodia, Kyrgyz Republic, Lao PDR, and Mongolia were active as well. In terms of subsectors, transport, irrigation and rural infrastructure, power, and emergency assistance accounted for the largest number of such projects (Table 7).

Since ADB adopted the five SDOs, substantial progress has been made in directing lending to social and environmental areas. The proportion of ADF projects devoted primarily to economic growth fell from 66% in 1992 (the first year when projects were classified by SDO) to 32% in 2000. Some DMCs, however, such as Sri Lanka and several group A countries including Bhutan, Maldives, and the Pacific Island economies, retained economic growth as the key strategic objective because macrolevel growth and stability concerns were their highest priority. On the other hand, project selection in the country assistance plan (CAP) for some other DMCs, most notably Bangladesh and Cambodia, still focused on economic growth even though social indicators were extremely poor.

While there was a considerable amount of investment for growth projects in traditional sectors, there were some noticeable shifts in the scope and design of projects over the period. For example, road projects increasingly focused on road rehabilitation, secondary roads to spread benefits of highway development, rural roads, and roads that supported regional cooperation activities (Box 1). This shift reflected an increasing focus on addressing the problems of rural poverty, and facilitating regional growth through closer cooperation. One of the main contributions of ADF projects to developing market-based economies in DMCs was the increased emphasis on the financial sector and governance. There were 13 projects after the financial crisis of 1997 that focused...
on developing stronger regulatory environments. Project objectives included increasing accountability and transparency through better financial reporting, use of international standards for accounting and auditing, and diversifying risk in the financial sector.

About 90% of all ADF program lending during 1992–2000 pursued economic growth objectives. The 30 programs were used to support policy reforms in all sectors. Some of the common elements of these reforms were the introduction of market-based practices by rationalizing pricing policies, strengthening financial management systems and cost recovery, and building capacity and enhanced governance systems in government and enterprises. Some programs also supported much-needed reforms in state-owned enterprises and privatization. Program objectives and related policy conditions were often very ambitious (Box 2). Program lending is further discussed in Section III.

The other noticeable feature is the level of emergency assistance and lending for natural disasters such as cyclones and floods and postconflict situations. Twenty-two ADF growth-oriented projects were in these areas (Table 7), underscoring how vulnerable many DMCs are to such situations and disasters. Four of these projects under ADF VII were in new DMCs: Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.

### Table 7: Number of ADF VI–VII Projects That Had Economic Growth as the Primary Strategic Development Objective, by Type of Project

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>No. of Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport (airports, bridges, railways, roads, seaports)</td>
<td>39</td>
</tr>
<tr>
<td>Irrigation, Rural Infrastructure</td>
<td>38</td>
</tr>
<tr>
<td>Power Generation or Distribution</td>
<td>23</td>
</tr>
<tr>
<td>Emergency Assistance, Natural Disasters, Postconflict</td>
<td>22</td>
</tr>
<tr>
<td>Financial Sector, Corporate Governance</td>
<td>8</td>
</tr>
<tr>
<td>Development Finance Institutions, Microcredit</td>
<td>9</td>
</tr>
<tr>
<td>Public Sector Administrative Reform</td>
<td>6</td>
</tr>
<tr>
<td>Industry, Small Business</td>
<td>4</td>
</tr>
<tr>
<td>Fisheries</td>
<td>3</td>
</tr>
<tr>
<td>Land Survey and Registration, Housing</td>
<td>3</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2</td>
</tr>
<tr>
<td>Tourism</td>
<td>1</td>
</tr>
<tr>
<td>Forestry</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>159</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.

The Performance of Economic Growth Projects

As of December 2002, 93 economic growth projects had been completed, and 65, ongoing. Among the former, PCRs were available for 72 projects. Of these, 57 were rated generally successful, 14 partly successful, and 1 unsuccessful.

The new systems that were implemented to improve project preparation and design, and to ensure more rigorous review at every stage in the project cycle, seem to have borne fruit. The good performance may also reflect that ADB has had the most ex-
perceived as an institution with this type of projects. The same is true for DMC counterparts. One can observe that project quality and impact increase when there is a follow-on project building on the reforms initiated in the first project. Quality improves with experience and experience leads to better quality. Therefore, one might expect the performance under this SDO to be better than that under some of the other SDOs.

The project performance of the 65 projects under implementation, 49 of which were from ADF VII, was mostly satisfactory as of December 2002. Three projects were rated highly satisfactory, 53 satisfactory, and nine partly satisfactory in the PPRs due to implementation delays.

**Impact of ADF Operations on Economic Growth**

As ADF is only a small part of the public finances of most DMCs, looking for a clear statistical relationship between ADF and GDP growth would be, in most cases, difficult if not impossible. Examining the impact of growth on poverty reduction is a formidable development challenge. As a proxy, EIRR calculation attempts to determine whether a particular project gives an acceptable level of economic benefits to an economy relative to the economic costs.

The EIRR was calculated for 42 of the 102 completed projects with PCRs as of December 2002. Projects are split with 21 having EIRRs greater than anticipated at appraisal and 21 below appraisal estimates (Table 8). One of the leading causes for lower-than-anticipated EIRRs was implementation delays. For nearly all postevaluated projects, delays were reported that reduced the anticipated economic growth impact. This was particularly true of projects in Bangladesh, Nepal, and some of the transition economies. Nevertheless, even for projects with lower-than-expected EIRRs, the average was 17.8%, well above the 12% threshold.

Evidence available to date from the PCRs and PPARs generally reflects positive impacts on economic growth. These projects are distributed across all DMCs and sectors. Some of the factors that have been identified as essential for high impact are understanding the country context and incorporating lessons learned in subsequent projects, providing inputs that are critical for growth and development, and designing projects that support the government reform strategy. Project examples from Bangladesh, Lao PDR, and Mongolia that highlight the importance of these factors are described below.

Three projects in Bangladesh have been successful by addressing priority needs, adapting to the country context, and benefiting from lessons in earlier projects. The success of an earlier irrigation project encouraged the Government to expand activities under the follow-up project. Irrigated agricultural production through the dry season increased and the EIRR was a robust 25.0%. Farmer incomes in the project areas increased on average by more than 100% compared with nonproject areas. Policy reforms led to the removal of restrictions such as a high import tax on small diesel engines.
that resulted in increased farmer use of these engines for minor irrigation. These engines were also used to expand creek excavations benefiting local people through higher fish production, easier transit of boats carrying merchandise, and a reduction in health hazards from stagnant water. A flood protection project that centered mainly on the densely populated areas of towns and included components for drainage, sanitation, solid waste management, and slum area improvements led to better environmental and health conditions. Depending on the town, the EIRRs ranged from 15.1% to 41.8%, all above appraisal estimates. As a result of demand, the scope of the flood protection and drainage components was expanded and the project area increased. The number of beneficiaries exceeded appraisal estimates as a result of a responsive project implementation team and effective administration by ADB. The Jamuna Bridge Project was the most capital-intensive and technically one of the most challenging transport projects ever attempted in Bangladesh. Cofinanced by the Overseas Economic Cooperation Fund of Japan and the World Bank, the Project connected the eastern and western halves of the country to foster economic development. Freight, passengers, electricity, natural gas, and telecommunications are all more economically and efficiently transported and delivered. The Project is also having a substantial development impact by providing improved connections to northwestern Bangladesh, with its more than 30 million people, most of them poor. The EIRR was estimated in the PCR at 16.8%, above the appraisal estimate of 14.5%. This is the result of higher than anticipated bridge traffic despite the higher tolls set by the Government to meet future debt-service obligations.

In 1988, the Lao PDR was largely a subsistence economy lacking sufficient infrastructure and human development capacity to advance development. Two projects in the power sector were part of the Government’s broad strategy for the development of electricity infrastructure to increase foreign exchange earnings and encourage private sector activity. Under the Nam Ngum-Luang Prabang Power Transmission Project, the objective was to extend the transmission of electricity generated in a hydropower plant to northern provinces and thereby promote economic development, while saving foreign exchange that was being spent on imported fuel for lighting and diesel power. The actual outputs achieved or exceeded what was

<table>
<thead>
<tr>
<th>Item</th>
<th>Above Appraisal</th>
<th>Below Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Projects</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Average EIRR (%)</td>
<td>24.5</td>
<td>17.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A. Regional Distribution of Projects</th>
<th>Number</th>
<th>%</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>East and Central Asia</td>
<td>4</td>
<td>19</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Mekong</td>
<td>7</td>
<td>33</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Pacific</td>
<td>3</td>
<td>14</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>South Asia</td>
<td>6</td>
<td>29</td>
<td>12</td>
<td>57</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td>100</td>
<td><strong>21</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Sectoral Distribution of Projects</th>
<th>Number</th>
<th>%</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>8</td>
<td>38</td>
<td>9</td>
<td>43</td>
</tr>
<tr>
<td>Energy</td>
<td>5</td>
<td>24</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>4</td>
<td>19</td>
<td>6</td>
<td>29</td>
</tr>
<tr>
<td>Social Sectors</td>
<td>3</td>
<td>14</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td>100</td>
<td><strong>21</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, EIRR = economic internal rate of return.
As of December 2002. Arithmetic average; excludes projects whose EIRRs were given as ranges.
Sources: Project completion reports for ADF VI–VII projects.
have been insufficient to serve the growth in tourism in these areas, and the income benefits from employment and business opportunities would not have been as large. Without energizing the lightning shield wire, village households would have been denied access to electricity as well as the opportunity to reduce their average monthly expenditure on lighting by 50% and improve their quality of life. The EIRR for the project is 14.3%. The objective of the Theun-Hinboun Hydropower Project was to support economic growth by enhancing foreign exchange earnings through the export of electricity to Thailand. The Project has achieved its intended purpose. It is currently the largest foreign exchange source in the Lao PDR. Electricity exports of the Lao PDR to Thailand increased from $21 million in 1997 to $106 million in 2001. This helped reduce the current account deficit as a percentage of GDP from 16.5% in 1997 to 6.9% in 2001. The project EIRR is 18.5%. The financing of the Project was a pioneering effort in promoting private sector participation and the largest commercial financing package arranged so far in the Lao PDR. ADB, as the lead coordinating agency, provided financial and legal advice (Box 3). ADB also helped develop the policy framework, including the methodology for evaluating private sector proposals.

In the early 1990s, Mongolia started its transition to a market economy. Three projects have been critical in providing the infrastructure needed to connect this landlocked country with the outside world and also to connect the widely dispersed population with the few urban centers in the country. Effectively linking markets and people is a fundamental building block underpinning economic growth and development. The first two projects, Ulaanbaatar Airport Project and National Air Navigation Development Project, supported international and domestic air links. Since their completion, the operation of the Ulaanbaatar Airport has greatly improved and overflight traffic has significantly increased following the introduction of new, advanced technology air traffic control systems. In 2001, Ulaanbaatar Airport served 0.3 million passengers, re-
Reflecting an annual growth rate of around 5% since 1994. New routes to Europe and polar routes to North America were introduced, with further routes being developed and overflight traffic forecast to increase to about 36,000 aircraft by 2005, from 16,000 in 1996. The EIRR for the Ulaanbaatar Airport Project is 12.7% and for the National Air Navigation Development Project 64.9%, due to up-front payments under commercial agreements negotiated with a number of international airlines for overflight charges. The third project was the Roads Development Project, which was rated successful in the PCR. It successfully rehabilitated selected sections of the road network while enhancing the Government’s capability to plan, administer, and implement road sector policies, programs, and projects. The EIRR is 15% as a result of the significant improvement in road transport services and sector reform, particularly privatization. The project has contributed significantly to the development of domestic trade in the project area, which is over 30% of the population and accounts for over 60% of Mongolia’s GDP.

The generally positive results of projects with the primary SDO of economic growth are echoed in the findings of the case study on growth in Appendix 6. Three projects in the Kyrgyz Republic, in three different sectors (governance, finance, trade, and industry; energy; and infrastructure [roads]), have been assessed as successful and having a strong development impact.

**Box 3: Theun-Hinboun Power Company: A Successful Public-Private Sector Collaboration**

A public-private partnership, the Theun-Hinboun Power Company (THPC) Limited, was formed in 1993 to plan, finance, construct, own, and operate the power plant project. Electricité du Laos, the state-owned power utility, contributed 60% of the share capital, and two foreign investors, MDX Lao Public Company Limited and Nordic Hydropower AB, 20% each. Assisting the transition to a market economy by supporting such private sector participation, the Asian Development Bank (ADB) acted as the lead coordinating agency for the Government’s negotiations with the foreign investors and provided legal and financial advice in the form of a technical assistance grant. A power purchase agreement was signed with the Electricity Generating Authority of Thailand in 1996, guaranteeing an off-take of 95% of THPC’s power generation estimated to average 1,645 gigawatt-hours per annum. The use of the Asian Development Fund (ADF) for an essentially commercial project was questioned within ADB at the formulation stage, but it was agreed that it would be appropriate to approve a concessional loan provided earnings from the Project were used to increase the social expenditure allocation in the national budget. The expectation was that the lending of ADF to the Lao PDR to finance the Project would indirectly lead to a 20% increase in expenditures to the social sectors. The Government met this expectation with a 21% increase in social sectors expenditures in 2001.
Human Development

**Commitment 2: Human Development**

**ADF VI**
Assistance for population activities should be expanded. Priority areas for ADB support should include family planning and maternal-child health care, education, research in contraceptive methods, demographic analysis, and training.

**ADF VII**
Increase investments in human capital, especially education, vocational training and health, and increased and sustainable access for the poor to social infrastructure—especially primary health care, family planning, preventive public health measures such as access to clean water and sanitation.

Investing in people, especially poor people, is extremely important both to economic development and poverty reduction. Investments in human capital include those in health and its determinants (such as access to food, shelter, and clean water), education, skills development, and, to an extent, human resources as part of institutional development.28

The emphasis in the human development SDO shifted considerably during ADF VI–VII. First, the name of the objective was changed from population planning in the first MTSF (1992–1995)29 to human resource development and then to human development in subsequent strategies. This shift did not necessarily provide the guidance and clarification sought for this SDO. The reality was that many projects in the beginning of the ADF VI period were not strategically focused on human development, especially a large contingent of municipal works projects. Human development objectives became integrated in these projects as ADB gained experience and articulated a more coherent focus. Second, this strategic objective was quite broad encompassing projects in education, health, and social infrastructure.

Requests of ADF donors emphasized action for population control in ADF VI and social infrastructure/clean water and sanitation in ADF VII (Commitment 2). Social infrastructure is essential in all DMCs, and family planning is important in many. Un-
nder the human development SDO, the focus on population activities may have been lost. This is unfortunate for DMCs where the needs in this area are still acute.

**Defining Human Development**

ADB’s changing focus from population planning to human development was based in part on the coverage and growing use of a broader definition of human development. ADB recognized that the agenda of reform needed to be broader than population planning. Fundamental issues such as expanding human choices by building human capabilities, creating conditions for a long and healthy life, being educated, having access to the resources needed for a decent standard of living, and being able to participate in the life of one’s community were important human development objectives. Therefore, projects supporting such objectives focused on access to education, health services, and infrastructure to provide housing, and clean water and sanitation, usually in urban areas. In addition to activity in these areas, almost all projects during this period included capacity-building components supported by TA.

**Lending for Human Development**

From 1992 to 2000, ADB provided $11.4 billion from OCR and ADF for projects with primary or secondary human development objectives (Table 9). This constituted 22.9% of total public sector lending volume or an equivalent of $1.3 billion per year. About 27% of ADB’s support for human development went to urban development and housing, followed by education (24%), water supply and sanitation (19%), and health and population (14%).

There were 87 ADF-supported projects with a primary human development objective that accounted for $2.8 billion (24%) of total ADF VI–VII lending. Nearly $2.7 billion (94%) was for the social sectors, followed by agriculture and natural resources (3%), energy (2%), and others (1%) (Figure 6). Most of the projects were in South Asia, followed by Pacific DMCs (see Appendix 7 for country case studies on the Pacific), Mekong, and East and Central Asia.

The largest single borrower for human development projects was Pakistan, which borrowed twice as much as each of the next three most active borrowers, namely Bangladesh, Sri Lanka, and Viet Nam. Taken
together, these four DMCs accounted for 66% of human development borrowing. In contrast, four small DMCs did not borrow from ADF for this purpose—Solomon Islands, Tajikistan, Tonga, and Tuvalu.

Most of the projects (82 of 87) involved three types of activities. There were 36 education projects of which 9 were for elementary education or basic skills; 30 water supply and urban development projects; and 16 health projects of which 5 had substantial population components.

**Education Projects Classified as Human Development.** Projects to support education were scattered across various education levels in both ADF VI and ADF VII (Table 10). With this level of activity in so many subsectors and across so many diverse DMCs, ADB’s own capabilities were spread thinly. In addition, covering all levels of education across many different DMCs made it difficult for ADB to develop and nurture expertise in any one area or to introduce real innovation that comes from in-depth sector expertise. Five education projects were, to a certain extent, innovative human development efforts in this sector.30

**Health Projects Classified as Human Development.** The 1990s may prove to be the crucial decade during which the HIV/AIDS epidemic took hold in Asia. ADB was slow in responding to needs in this area and other preventive health activities although there were small health components in some projects and limited TA (Table 11). ADB’s activity in the health sector is relatively new, with the health sector policy adopted in February 1999. Few staff have the requisite training. If ADB is to participate meaningfully in this sector, it must develop a project pipeline and recruit more qualified health professionals.

**Water Supply and Urban Development Projects Classified as Human Development.** A number of these projects were in poorer areas of cities and provincial towns and had poverty dimensions that were not effectively captured by the SDO classification (Table 12). They included improvement of living conditions, provision of housing, and improvement of health and sanitation in project areas. There were sig-

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**Table 10: Number and Type of Education Projects Classified as Human Development in ADF VI–VII**

<table>
<thead>
<tr>
<th>Focus</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Education Sector</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Primary/Basic/Nonformal</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Secondary, Vocational, Technical</td>
<td>6</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Tertiary</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Facilities, Teacher Training</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>17</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.  

**Table 11: Number and Type of Health Projects Classified as Human Development in ADF VI–VII**

<table>
<thead>
<tr>
<th>Focus</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Health Sector</td>
<td>4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Maternal and Child Health</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Population Control</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Health Personnel Training</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Health Facilities Construction</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9</strong></td>
<td><strong>7</strong></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.  
nificant environmental benefits from these projects (Appendix 8), especially those for solid waste management, drainage, and sewage treatment.

**Other Human Development Projects.** Other human development projects were related to district heating, or development of new innovative activities such as social services delivery (Table 13).

### The Performance of Human Development Projects

As of December 2002, 31 human development projects had been completed. PCRs were available for 24 projects, all of them started under ADF VI. Eighteen projects were rated generally successful, five partly successful, and one unsuccessful.31

Fifty-five projects were still under implementation as of December 2002.32 Five projects were making highly satisfactory progress according to their respective PPRs, 46 satisfactory, and 3 partly satisfactory. One project was reporting significant implementation delays and was at risk.33 The major issue in this project was the low capacity of the project management unit or government counterparts. Other factors that have constrained good implementation performance were lack of qualified staff to operate the project management unit, mismanagement of imprest funds, contractual issues over civil works, and insufficient counterpart funds.

### Impact of ADF Operations on Human Development

One of the biggest changes in the social sectors has been the way projects are designed. After 1995, more attention was given to developing investments in conjunction with sector policies needed to support the investments; that is, projects became broader, addressing more complex issues, often including components that supported sector reforms and involving additional executing or implementing agencies. The initial results show that these types of projects have had greater development impact and a greater probability of sustainability. Two case studies reveal how important policy elements can be to project success (Box 4).

---

**Table 12: Number and Type of Water Supply and Urban Development Projects Classified as Human Development in ADF VI–VII**

<table>
<thead>
<tr>
<th>Focus</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Supply/Sanitation/Housing</td>
<td>9</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Drainage/Flood Control</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Rural/Village/Small Town</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Supply/Sanitation</td>
<td>8</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>12</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

**Table 13: Number and Type of Other Human Development Projects in ADF VI–VII**

<table>
<thead>
<tr>
<th>Focus</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Organization/Social</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Services Delivery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business/Industry Training</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>District Heating</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Other Social Infrastructure</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.

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Appendix 9 includes an assessment of these two projects.

Including broader policy dimensions in investment projects has been a challenge for government counterparts, often requiring cooperation among different directorates or ministries as well as increased coordination among international agencies. One of the most ambitious investments in this regard has been the Social Action Program (Sector) Project in Pakistan. The Government, assisted by external agencies, formulated a comprehensive action plan where increased public investment was expected to produce the greatest improvement in well-being—primary education, primary health care, population welfare, and rural water supply and sanitation—and to reduce or eliminate urban-rural and gender disparities. The Project involved the participation of communities, NGOs, and the private sector. It also recognized that a number of policy re-
forms would be required and that public sector institutions would need to be strengthened. Support for the project came from ADB, the World Bank, and a number of bilateral agencies. Although the project was rated in the PPAR as only partly successful—as the complexity and number of issues that needed to be addressed were formidable—it did achieve some breakthroughs: (i) incremental expenditure targets were largely met, (ii) girls’ enrollment increased, (iii) provision of health services improved, (iv) the contraceptive prevalence rate improved, (v) a uniform policy on rural water supply services was adopted, and (vi) coordination of external funding was good. Continued efforts are required to address the (i) opposition to the

Poverty Reduction

Commitment 3: Poverty

ADF VI
- Increase coordination with national strategies and policies and activities for poverty reduction.

ADF VII
- Improve poverty-targeted investments including the gender dimensions of poverty.
- Increase participation and coordination through NGOs and other grassroots level organizations to provide assistance to the most disadvantaged groups.
- Intensify efforts to address poverty and social inequality in countries including efforts to reach the poorest and most disadvantaged segments of society.
- Adopt a policy on poverty reduction.

There are many different ways to measure poverty. Using the international threshold of $1 a day, there are about 755 million poor people in the region, 56% of them living in India, 30% in the PRC, 5% in Pakistan, and
Defining Poverty Reduction

A project qualified as a primary poverty project under the SDO system if its principal aim was to directly impact on poverty reduction through improving access of the poor to income and employment opportunities or to human development services. In addition, the project had to meet the criterion that at least two thirds of its beneficiaries were poor, or that one or more components designed specifically to benefit the poor accounted for more than 50% of its total cost. These criteria did not capture the multidimensional nature of poverty. Poverty is primarily a matter of inadequate income, but there are other dimensions that interact with low income to magnify or to lessen its effects.

The first face of poverty is where whole countries are poorer than they could be. They may need more investment under more competent economic management and better governance. In these cases, poverty reduction is primarily a matter of maintaining economic growth sufficiently above the rate of population growth for a sufficient length of time. The second face of poverty is want alongside plenty. Even if average incomes are relatively good, a substantial portion of the population may be extremely poor. In these cases, the causes may not be remedied by general economic growth, except perhaps over several generations. The extremely poor tend to be illiterate, in ill health, and without employable skills in the wage economy. Their problems may be compounded by discrimination, oppression, and exploitation on the basis of ethnicity, class or caste, religion, gender, age, or region. Improving the growth rate of the general economy will not quickly improve the lives of these people. A rising economic tide cannot be relied upon to lift all boats if some of them are anchored to the bottom. This may be considered core poverty. The third face of poverty has to do with public goods including those of a regional and global nature. Air and water pollution, industrial contamination, and unsanitary conditions, for example, afflict the whole population and are not immediately part of income poverty. However, the poor find it more difficult than the affluent to protect themselves against the loss or degradation of these key public goods and the loss has immediate negative implications for the quality of their life.

During ADF VI and the first part of ADF VII, ADB addressed these poverty reduction issues primarily in terms of access to employment opportunities and social services, mainly in a rural context. However, its thinking about how to reduce poverty was evolving. In 1999, ADB adopted a new policy with three pillars of poverty reduction: pro-poor sustainable economic growth, social development, and good governance. By the end of the ADF VII period, ADB sought poverty reduction partnership agreements with each borrowing DMC. Among other things, such agreements would define national, rural, and urban poverty lines for that DMC. In addition, poverty analyses were started in most DMCs, and high-level forums on poverty reduction were held in some of them. As of December 2000, poverty reduction partnership agreements were signed with two DMCs rather than with the planned seven. However, as of December 2002, the number increased to 17 (Bangladesh and

Box 5: Poverty in Asia

If one uses nationally defined poverty lines, the total number of poor people in 20 ADF-eligible countries is approximately 582 million. The proportions by country change somewhat because different countries have taken different approaches to defining their poverty threshold. Indonesia, for example, bases its poverty calculations on the income needed to avoid extreme hunger. In India, there are two sets of poverty lines, an all-India poverty line defined by the central Government, which is based on a daily consumption level of 2,100–2,400 calories, and the different poverty lines defined by the states. Sri Lanka defines its poverty line by the income a family needs to meet socially acceptable minimum norms.

**Lending for Poverty Reduction**

From 1992 to 2000, ADB provided $8.1 billion from OCR and ADF for projects with primary or secondary poverty reduction objectives. This constituted 16.3% of total public sector lending volume or an equivalent of $0.9 billion per year.

There were 40 ADF-supported projects with primary poverty reduction objective that accounted for $1.2 billion (10%) of total ADF VI–VII lending. Over 0.9 billion (78%) was for the agriculture and natural resources sector; followed by the social sectors (14%); energy (4%); infrastructure (2%); others (2%); and governance, finance, trade, and industry (1%) (Figure 7). South Asia, followed by the Mekong region and Southeast Asia, were the largest borrowers.

Virtually all of the primary poverty reduction projects in ADF VI–VII were rural and most—30—were in agriculture (Table 14). The number of projects primarily targeting poverty reduction did not change much from ADF VI (19) to ADF VII (21), but the loan amount increased from $394 million (6% of the total amount approved) to $794 million (15% of the total amount approved). Poverty reduction expenditures thus became a larger part of the ADF pie. Projects that had poverty reduction as their secondary SDO remained at the same level—45 in ADF VI (about $1.6 billion) and 44 in ADF VII (about $1.5 billion). If one combines the primary and secondary poverty reduction projects, the proportion of lending aimed at this SDO increased from 29% in
ADF VI to 45% in ADF VII.

Apart from agriculture, secondary poverty reduction activities were prominent in the social sectors, infrastructure, and special and emergency assistance. These efforts reflected the increasing poverty focus in the design of projects during this period. About 41% of the projects approved between 1992 and 2000 included primary and secondary poverty reduction efforts.40

A growing number of projects moved beyond a stand-alone investment approach to address both policy issues and other concerns such as physical well-being, access to resources, and knowledge. Linking efforts in health, nutrition, and education to improve early childhood development was one of the more innovative approaches used (Box 6).

The Performance of Poverty Reduction Projects

It is difficult to judge the poverty reduction performance of ADF VI–VII operations because project objectives were not well defined in terms of relevant indicators, specific targets, and baseline data, and few poverty reduction projects have been completed. Indeed, primary poverty reduction projects had

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**Table 14: Number of ADF VI–VII Projects That Had Poverty Reduction as the Primary Strategic Objective, by Type of Project**

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Number of Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture (irrigation/drainage, smallholders,</td>
<td>18</td>
</tr>
<tr>
<td>cooperatives, integrated area)</td>
<td></td>
</tr>
<tr>
<td>Agricultural Research, Crop Diversification</td>
<td>4</td>
</tr>
<tr>
<td>Rural Microenterprise, Credit, Savings</td>
<td>6</td>
</tr>
<tr>
<td>Rural Infrastructure (roads, electrification)</td>
<td>6</td>
</tr>
<tr>
<td>Rural Health, Education</td>
<td>5</td>
</tr>
<tr>
<td>Livestock</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.

---

**Box 6: Strategic Poverty Reduction**

The support for early childhood development is a good example of the Asian Development Bank’s efforts to adopt a broader development approach. Project inputs in the Philippines were designed to reinforce each other to reduce the (i) mortality rate in children under the age of 5, (ii) low birth weight, (iii) malnutrition in children under the age of 5, and (iv) iron-deficiency anemia. In addition, vitamin A and iodine were provided to young children to improve school readiness. The objective was to reduce primary school dropout rates. Regional grant helped develop a similar framework for central Asia in 2001. The implementation is at the local level and includes food fortification programs along with teacher training activities to boost scholastic achievements.

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ADF = Asian Development Fund; ANR = agriculture and natural resources; GFTI = governance, finance, trade, and industry.
Source: Asian Development Bank’s Loan Financial Information System.

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**Figure 7: ADF Lending for Primary Poverty Reduction Objectives, by Sector**

ADF VI to 45% in ADF VII.
the second slowest completion rate—after WID projects—among the five categories of ADF VI–VII operations. Only 6 of 40 poverty reduction projects were complete as of December 2002, representing about $0.1 billion out of $1.2 billion. This may be due to two factors. The most obvious is that poverty reduction projects may be more complex and, therefore, more difficult to implement than some of the more traditional projects with emphasis on civil works. The former may take longer to implement and require more experience. Implementation support needs to be better designed to accommodate this factor. Second, the lack of experience with such projects may have caused ADB and governments to under-estimate implementation difficulties and over-estimate the capacity of the executing and implementing agencies. Implementation delays in poverty reduction projects need to be avoided as they may result in EIRRs below appraisal estimates, making the projects relatively more costly to the Government.

Of the six completed poverty reduction projects, four had PCRs as of December 2002. Three were rated generally successful, and one, partly successful. PPRs assessing progress of the 34 projects still under implementa-
tion judged 1 to be highly satisfactory, 30 satisfactory, and 3 partly satisfactory—altogether very positive self-evaluation results.

A special evaluation study by OED toward the end of ADF VII, which assessed the impact rather than implementation progress, was less positive: “None of the projects (included in the study) produced results for all four dimensions of poverty (well-being, access to resources, knowledge, and rights), which is not surprising given the absence of a conceptual framework or operating guidelines. Almost all projects showed some effects or impacts on the resource situation of the beneficiaries (who may or may not have been relatively poor), be it by creating employment or stimulating productive activities, generating income, providing microcredit or infrastructure, or affecting the prices of services. Fewer projects affected the well-being of the beneficiaries, cutting across nutrition, health, access to safe water, or general living conditions. Even fewer projects addressed knowledge issues; if any did, it is only in the form of basic skills training. Impacts on rights, such as creating an enabling environment to ensure social inclusion, were hardly observed at all.”

All of the study sample projects were under implementation at the time. It is hoped that the early feedback from this OED study has contributed to the positive results in the PPRs.

Impact of ADF Operations on Poverty Reduction

The 40 primary poverty reduction projects during ADF VI–VII represented approximately $1.5 billion in total project investment over 9 years; $1.2 billion ADF plus an average 20% contribution for group A countries. Based on the respective reports and recommendations of the President (RRPs), these projects were expected to benefit over 39 million people living below the poverty line. If one assumes 50% of the project benefits went to these people, then the development impact on the poor would be equivalent to an investment of $750 million, generating a social return of, say, 20% per annum net of costs—an imputed increment
of income of around $150 million per annum or under $4 per poor person in the project area per annum, not enough to change their poverty status. This calculation is only illustrative to show the difficulty of attempting to reduce poverty solely through direct investments. Something more strategic, with more leverage, is needed to shift resources toward the poor.

However, strategic thinking in regard to designing poverty reduction projects has started relatively recently with the adoption of the poverty reduction strategy in 1999. Most projects with a poverty objective during the ADF VI–VII period were in agriculture (see Appendix 10 for the country case study on poverty reduction). The intensity of labor use in agricultural and rural infrastructure projects, and the focus on the rural poor whose cash incomes are low, make agriculture projects seem attractive under certain assumptions. However, the concentration of lending in agriculture raises several issues. First, the prevalence of poor landless agricultural laborers in the project area does not mean that project benefits will necessarily accrue to them. For example, there have been many irrigation projects, but the added value normally accrued mainly to landowners, who may be few and more affluent.

Second, one of the main routes out of poverty has been migration to towns and cities where higher-value opportunities and higher wages are available. Poverty can be reduced in a sustainable manner by raising productivity levels. However, there is a segment of the poor that is simply not amenable to raising productivity. These are old or displaced persons for which a different approach will have to be adopted.

Rural credit for microenterprise was second to agriculture in primary poverty reduction lending in ADF VI–VII. The idea that public or cooperative credit agencies can succeed in small enterprise lending, without the commercial discipline of the private sector, proved illusory. As a recent evaluation report for Bangladesh succinctly states, investments in rural credit activities “have lacked sustainability.” Specifically, the provisions for loan losses have generally been an order of magnitude greater than those of commercial lenders, and these losses have required continual capital subsidies to prevent operational collapse. Moreover, there have been unresolved issues with benefit capture by more affluent groups and indebtedness problems when people without commercial skills and without any cushion for higher-than-expected business costs have unwisely borrowed for unsustainable enterprises.

One example of a successful rural microfinance finance project was in the Philippines. Its design was based on the Grameen Bank model. Cofinanced by ADB and the International Fund for Agricultural Development (IFAD), the project was based on the premise that providing access to financial services is a critical factor in helping break the cycle of poverty. The primary objective was to reduce poverty and the secondary objective was to support WID. It was hoped that the project would create employment opportunities and enhance incomes of the lowest 30% of the rural population. Credit was channeled through banks, rural cooperatives, and other NGOs. The Grameen Bank approach of extending credit to joint liability groups of five women was used.

Drawing on the IFAD assessment of this project, all key performance targets have
been exceeded by a wide margin, such as 435,654 microenterprise clients with increased employment (target 300,000), and establishment or expansion of 92,504 self-help groups (target 50,000) in 14,828 centers and 447 branches (target 305). Recorded collection ratio are very high (over 95%) and the past due rate is only 6%. There has also been a discernible increase in income, assets, and employment generation. A 28% income differential between borrowers and nonborrowers was identified from the ADB impact survey. There has also been a steady increase in most household incomes with successive loan cycles. Likewise, there have been increases in microenterprise activity, employment generation, and empowerment of women. This aspect is very discernible as 98% of the clients have been women (against the target of 90%).

There are significant lessons to be learned from this experience that will aid in the design of future microenterprise projects. The success of this project will contribute to the design of future projects in rural microfinance.

The third largest area of poverty intervention during ADF VI–VII was rural road building, and other small infrastructure such as village electrification. These projects were sometimes classified as having primary poverty reduction objective, because their outputs were expected to lead to increased economic opportunities through growth. Some of the additional benefits were temporary employment for unskilled labor—although unskilled day labor may already be available to the working poor—and would last only as long as the construction labor jobs continued (Box 7).

In summary, the focus of poverty reduction projects in ADF VI–VII was to support agricultural infrastructure, particularly drainage and irrigation and rural roads, and to a lesser extent, to provide rural credit for microenterprises (Box 8). When well-executed, it has some good points as a short-term strategy for an economy in dire circumstances. In the longer term, however, experience shows that investment returns in agriculture may be relatively poor compared with those in alternative sectors. Policies supporting equal access to social services for all (education, health, pensions) is a sound income redistribution strategy particularly if reinforced by growth with equity.

In addition, there were some obvious gaps in the reach of ADF-supported poverty reduction projects: (i) no primary poverty reduction project was targeted directly at
the urban poor; (ii) 11 of 26 borrowers in ADF VI–VII had no projects that aimed primarily at poverty reduction; and (iii) the largest populations of poor people in the PRC and India, comprising 86% of the poor in the region, were not reached at all by ADF VI–VII. Recent efforts within ADB toward more strategic project designs reflect a growing understanding of the interrelated complexity of the issues that must be addressed.

Women in Development and Gender and Development

Commitment 4: Women in Development and Gender and Development

ADF VI
■ Ensure that gender issues are more systematically addressed in all programs and projects;
■ Pay greater attention to the effects of ADB projects on women;
■ Prepare a strategic Plan of Action that includes recommendations on integrating WID issues into the planning and implementation of programs and projects; the allocation of appropriate resources, including staff resources; and training of professional and senior level staff. This Plan should guide ADB in the implementation of its policy on WID; and
■ Implement WID activities more fully by considering WID aspects at every stage of the programming and project cycles and ensure that women are targeted much more effectively in operations, both as donors and beneficiaries.

ADF VII
■ Reinforce efforts to improve the status of women by increasing lending to targeted WID projects, further mainstreaming gender considerations in all operations, and deepening ADB’s understanding of gender issues.
■ Increase lending to targeted WID projects and mainstream gender considerations in all operations.

The development community became increasingly aware that unequal treatment of men and women creates an important impediment to development, and that many projects allocate resources and generate benefits disproportionately to males. In both ADF VI and VII, donors asked ADB to increase activities that directly benefit women and girls (Box 9) and to ensure that all ADF projects take gender issues into account (Commitment 4).

Box 7: Poverty Impact of Rural Roads

A recent study by the Operations Evaluation Department on the poverty impact of rural roads suggested that without any form of land, it is clearly difficult for households to graduate from poverty, as they have no capital other than their labor nor any skills or education. Without land, most of the productive time is spent in wage labor to meet the subsistence needs of the household, and there are few opportunities to accumulate savings as rates for wage labor are at subsistence levels. A lack of land also means that the poor and very poor are unlikely to have much to trade or sell outside the community and are, therefore, less likely to use a road, no matter what its condition. Among all survey respondents in all of the study areas (project and control sites), 26% of respondents do not farm any land whatsoever, either as owners or tenants, and most of those who do farm use extremely small plots of land that are barely sufficient to meet their needs. One area where rural roads have had a great impact on the poor is in the provision of services from the cities, or secondary towns. Health, education, and agricultural extension services were able to reach the very poor as a direct result of rural roads. Indeed, these roads allow access to villages that were previously excluded from government programs on immunization, special education, training, etc. This access has had a lasting and direct impact on the lives of the people in remote villages served by the rural roads.

Box 8: Agriculture Infrastructure Development in Viet Nam

The Irrigation and Flood Protection Rehabilitation Project (IRP) was the first Asian Development Bank loan to become effective following Viet Nam’s reunification. It was followed by the Red River Delta Water Resources Sector Project (RDP) and the Rural Credit Project (RCP). IRP and RDP responded to the Government of Viet Nam’s Water Resources Investment Plan, that emphasized rehabilitation of priority infrastructure, and RCP addressed acute supply constraints to meet the demand for credit unleashed by the renovation reforms. The objectives of IRP and RDP were to prevent key structural failures and increase irrigated agricultural production. RCP was to increase production and agricultural diversification to generate rural employment. All three projects were considered successful although there was considerable variation within the subprojects. The IRP Hanoi Dike Component was highly successful, RDP irrigation subprojects were successful and RDP drainage and IRP irrigation components were partly successful. Agricultural interventions were more complicated and challenging with variable success partly as a result of a lack of policies specific to irrigated agriculture. Water resources policies tend to emphasize engineering infrastructure while agriculture sector policies generally do not distinguish between irrigated and rainfed agriculture, for example, in the provision of credit. Poverty is closely associated with rice cultivation and irrigated agriculture remains an important source of employment, income generation, and poverty reduction in Viet Nam. The RCP did not target poor rice producers and less than 5% of credit lines were specifically targeted to support lending to poor members of the credit fund. The RCP was successful in generating employment in rural areas but less efficient from financial and process perspectives because (i) the design misjudged credit demand; (ii) diversification, agro-processing, and employment did not eventuate as anticipated; and (iii) credit demand remains unsatisfied.


a From Appendix 10 country case study on poverty.
Defining WID/GAD

ADB first developed a policy on WID in 1985. It focused on women as a special target group for projects, mainly in the social sectors of health and education. Under ADF VI in 1992, WID became one of ADB’s five SDOs. However, there were no explicit targets for the type, number, or location of WID projects. All projects were to take gender into account in their design, but there were no mandatory processes and very little accountability within ADB.

In 1998, ADB adopted a new policy addressing gender issues. This GAD policy reinforced ADB’s WID mainstreaming strategy that was already partly in place. All ADB projects and programs were to be assessed from a gender perspective. However, since mandatory processes and checks did not support these intentions, they were only weakly observed. Under this policy, there were no explicit targets for the number and type of GAD interventions, and no mandatory requirements for gender analysis or gender sign-offs before project approval. On the positive side, ADB formulated a GAD framework, which was a list of projects with components targeting women and girls, built up a roster of domestic GAD specialists and established positions for them in some of the resident missions, and constituted an advisory group of GAD experts called the External Forum on Gender.

Lending for WID/GAD

From 1992 to 2000, ADB provided $1.7 billion from OCR and ADF for projects with primary or secondary WID/GAD objectives. This constituted 3.4% of total public sector lending volume or an equivalent of less than $0.2 billion per year.

Projects with primary WID/GAD objectives accounted for $251 million (2%) of total ADF VI–VII lending, by far the smallest amount of lending in support of any of the SDOs. Nearly $206 million (82%) was for projects in the social sectors, followed by agriculture and natural resources (18%)

Very few ADF VI–VII projects had WID as their primary SDO—only 3 out of 174 in ADF VI, and 5 out of 144 in ADF VII (Table 15). In ADF VI, 1% of disbursements were for primary WID projects and in ADF VII, 2%. These eight projects were approved in five DMCs—Bangladesh, Lao PDR, Nepal, Pakistan, and Philippines. They were evenly divided between group A and group B1 countries. Six of them were in South Asia. Two regions, East and Central Asia and Pacific, had no primary WID projects. WID was a secondary SDO in 16 projects in ADF VI and 9 projects in ADF VII.

In summary, during 1992–2000, 2.5% of ADF VI–VII projects had WID as their primary strategic objective, and 7.9% had WID as a secondary SDO. Therefore, around 10% of all ADF VI–VII projects had some female-specific components (Table 16). In no year from 1992 to 2000 were there more than two primary WID projects approved by ADB, and in some years—1992, 1995, and 2000—there were none.

Figure 8: ADF Lending for Primary WID/GAD Objectives, by Sector

The Performance of WID/GAD Projects

One ADF VI primary WID project was completed in 2002. The PCR is scheduled for 2004. The PPRs for the remaining seven projects indicate that as of December 2002, one was making highly satisfactory progress, and six satisfactory progress.

In 2001, OED completed a special evaluation study on GAD to explore what lessons ADB has learned about mainstreaming gender. The study was based on nine projects in three ADF-recipient DMCs (Bangladesh, Nepal, and Viet Nam). One of the nine projects had WID as its primary SDO, and one had WID as a secondary objective. The remaining seven projects were chosen as examples of how gender was being mainstreamed in projects and programs that were not specifically identified as having WID objectives. The study raised a number of important issues for good practices in gender (Box 10). Project designs were found to be based on inadequate gender-related baseline data and overall project provisions for gender tended to be vague. Project designs also did not recognize important gender issues and the attempt to target assistance to women and girls was ineffective. The gender assessments now required for all projects should help address such shortcomings.

In 2002, ADB conducted a review of progress in incorporating gender considerations into all its planning, implementation, and evaluation activities since the new GAD policy was adopted in June 1998. The period of review covered the final 2.5 years of ADF VII. The review looked at whether gender issues were addressed in ADB planning and loan documents, rather than at project impacts as many are still in the early stages of implementation. The results of mainstreaming gender activities were dis-

Table 15: Primary WID Projects During ADF VI–VII

<table>
<thead>
<tr>
<th>Loan No./Country</th>
<th>Title</th>
<th>ADF</th>
<th>Sector</th>
<th>Amount ($)</th>
<th>Approval Year</th>
<th>SDO 1</th>
<th>SDO 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1237 NEP</td>
<td>Microcredit for Women</td>
<td>VI</td>
<td>ANR</td>
<td>5.0</td>
<td>1993</td>
<td>WID</td>
<td>HD/POV</td>
</tr>
<tr>
<td>1331 PHI</td>
<td>Women’s Health and Safe Motherhood</td>
<td>VI</td>
<td>SS</td>
<td>54.0</td>
<td>1994</td>
<td>WID</td>
<td>HD</td>
</tr>
<tr>
<td>1454 PAK</td>
<td>Second Girls Primary School Sector</td>
<td>VI</td>
<td>SS</td>
<td>45.0</td>
<td>1996</td>
<td>WID</td>
<td></td>
</tr>
<tr>
<td>1524 BAN</td>
<td>Participatory Livestock Development</td>
<td>VII</td>
<td>ANR</td>
<td>19.7</td>
<td>1997</td>
<td>WID</td>
<td>POV</td>
</tr>
<tr>
<td>1538 BAN</td>
<td>Urban Primary Health Care</td>
<td>VII</td>
<td>SS</td>
<td>40.0</td>
<td>1997</td>
<td>WID</td>
<td>POV</td>
</tr>
<tr>
<td>1621 LAO</td>
<td>Basic Education (Girls)</td>
<td>VII</td>
<td>SS</td>
<td>20.0</td>
<td>1998</td>
<td>WID</td>
<td>HD</td>
</tr>
<tr>
<td>1650 NEP</td>
<td>Rural Microfinance</td>
<td>VII</td>
<td>ANR</td>
<td>20.0</td>
<td>1998</td>
<td>WID</td>
<td>POV</td>
</tr>
<tr>
<td>1671 PAK</td>
<td>Women’s Health</td>
<td>VII</td>
<td>SS</td>
<td>47.0</td>
<td>1999</td>
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<td>Women’s Health and Safe Motherhood</td>
<td>VI</td>
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<td>Second Girls Primary School Sector</td>
<td>VI</td>
<td>SS</td>
<td>45.0</td>
<td>1996</td>
<td>WID</td>
<td></td>
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<tr>
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<td>Participatory Livestock Development</td>
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<td>ANR</td>
<td>19.7</td>
<td>1997</td>
<td>WID</td>
<td>POV</td>
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<td>Urban Primary Health Care</td>
<td>VII</td>
<td>SS</td>
<td>40.0</td>
<td>1997</td>
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<td>POV</td>
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<td>VII</td>
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<td>Women’s Health</td>
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<td>SS</td>
<td>47.0</td>
<td>1999</td>
<td>WID</td>
<td>HD</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, ANR = agriculture and natural resources, BAN = Bangladesh, HD = human development, LAO = Lao People’s Democratic Republic, NEP = Nepal, PAK = Pakistan, PHI = Philippines, POV = poverty, SDO = strategic development objective, SS = social sectors, WID = women in development.


Table 16: Number of ADF VI–VII Projects That Had WID as Primary or Secondary SDO, by Type of Project

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Primary SDO</th>
<th>Secondary SDO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maternal and Child Health, Family Planning</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Girls Elementary, Basic, or Nonformal Education</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Girls Secondary, Science, or Vocational Education</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Teacher Training</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Employment Generation, Small Agriculture, Rural Development</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Microcredit/Microenterprise</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Social Action</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, SDO = strategic development objective, WID = women in development.

The relationship between men and women is given little consideration in the projects, and lack of success in implementing gender provisions is often attributed to women’s lack of education and social backwardness. More accurate assessments need to take account of specific conditions of female social and economic inequality and powerlessness.

There may be structural barriers of a cultural or religious nature restricting women’s participation or limiting benefits reaching women. Structural barriers to gender equity are very important and cannot be addressed at the level of a single project, but must be part of the design of a whole country portfolio of projects and programs, part of the country strategy, and part of policy dialogue between the Asian Development Bank and the borrower.

Developing member country supervision of gender provisions, where included in projects, needs to be strengthened through greater sense of ownership and participation.

Lack of women field workers limits the effectiveness of interventions. Women in executing agencies are an integral component of all rural development projects, and the borrower should directly recruit, train, and deploy women field staff for better development impact.

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**Box 10: Good Practices in Gender**

- The WID/GAD qualification threshold can be argued that WID/GAD is a special category, specifically to benefit women “more than 20% of expenditures targeted specifically to benefit women” may not be well suited to meet the policy objectives. It can be argued that WID/GAD is a special category. While it may be acceptable for a project to be 20% devoted to environmental protection and 80% to other objectives, it is not similarly acceptable for a project to result in 20% benefits for females and 80% benefits for males.

**Box 11: Supporting Gender and Development with Technical Assistance**

Starting in 1994, the Asian Development Bank (ADB) has followed a long-term strategy for achieving the goal of improving the lives of women in Cambodia that has included three types of activities: capacity building, targeting women in development (WID) programs, and monitoring macroeconomic policies from a WID perspective. This strategy has yielded substantial results through three technical assistance projects that helped establish the Secretariat of State for Women’s Affairs, later upgraded into the Ministry of Women’s and Veteran’s Affairs. In addition to this institution building, ADB assistance has resulted in (i) a draft national policy for women that was endorsed by the Government, (ii) the Government’s Socio-Economic Development Plan (2001–2005) now includes gender issues linked to both sustainable broad-based economic growth and social and cultural development, (iii) a national poverty reduction strategy which includes a broad strategic goal for gender equality and the empowerment of women, and (iv) a review of legislation affecting the status of women, and the drafting of the Domestic Violence Law. In the past few years, the Ministry has been receiving assistance also from 8 other multilateral and 15 bilateral aid agencies in the WID-related areas of capacity building, gender and advocacy training, legal protection, health, education, and economic empowerment. This “donor congestion” raises the issue of coordination, cost effectiveness, duplication of efforts, and absorptive capacity. It also demonstrates the difficulties faced by ADB in finding suitable opportunities for its WID activities.

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**Impact of ADF Operations on WID/GAD**

Given ADB’s minimal level of WID/GAD lending over 9 years, it appears that having WID as an SDO and expanding it subsequently into GAD made little difference to the ADF project portfolio. Although sensitivity to gender issues improved, there is little evidence that ADB’s portfolio was substantially more favorable to women at the end of ADF VI–VII than it was at the beginning. The commitment to improve poverty-targeted investments including the gender dimensions of poverty was not met, along with the commitment to develop a genuine gender action plan. TA activities seem to have been more successful in forwarding gender issues, despite “donor congestion” in this area (Box 11).

The WID/GAD qualification threshold of “more than 20% of expenditures targeted specifically to benefit women” may not be well suited to meet the policy objectives. It can be argued that WID/GAD is a special category. While it may be acceptable for a project to be 20% devoted to environmental protection and 80% to other objectives, it is not similarly acceptable for a project to result in 20% benefits for females and 80% benefits for males.
for males. Such a project makes an unequal situation worse, not better. The result of the inadequate and difficult-to-interpret criteria was that only projects directed entirely or almost entirely to women and girls were classified as having primary WID/GAD objective. There was little integration of gender concerns in other projects and the pattern of beneficiaries remained much the same as before the WID and GAD policies were introduced.

There is no adequate empirical basis yet for concluding on the effectiveness of the GAD policy in this report. A full evaluation of its results is scheduled for 2004, 6 years after the policy was instituted. By then, there should be a more solid basis for assessing the impact of the GAD framework.
Environmental Protection and Natural Resource Management

Commitment 5: Environment

ADF VI
- Strengthen the environmental expertise available in ADB.
- Greater participation by affected groups and local NGOs in the environmental impact assessment process.
- Greater disclosure on all projects having a significant impact on the environment.
- Expand support to the forestry sector, particularly for the protection of tropical forest resources.

ADF VII
- Increase environmental lending in six priority areas: (i) pollution control in the industry and power sectors, (ii) environmental improvement in the urban areas, (iii) environmentally sound tropical forest management and conservation of biological diversity, (iv) interlinked poverty reduction and environmental improvement, (v) agriculture, and (vi) institution building and human resource development.
- Continue to strengthen the capability of borrowers, from both public and private sectors, on environmental impact assessment and other aspects of environmental planning and management.
- Conduct policy dialogue and integrate environmental considerations in country strategy and country programming exercises.

During the 1980s and early 1990s, environmental degradation accelerated in many DMCs. Air and water pollution worsened. Erosion and land salination problems became more widespread, with major losses of forest and wildlife habitat, and deterioration of the marine environment and fisheries. In some DMCs, rapid urban growth overloaded already overburdened systems for solid waste removal, and sewage and wastewater treatment, with the consequent serious pollution of waterways and its attendant health problems. Realizing the seriousness of the situation, the growing health costs and the danger of irremediable losses of the natural environment, ADF donors strongly encouraged ADB to expand activities furthering environmental protection objectives (Commitment 5).

Defining Environmental Protection and Natural Resource Management

ADB has actively pursued the practice of integrating and mainstreaming environmental objectives into country strategies, programs, and projects. In the early 1990s, comprehensive operational procedures were introduced and ADB staff and DMC coun-
terparts underwent extensive training in environmental issues. ADB used three approaches for addressing environmental issues: (i) direct lending for environmental projects, (ii) inclusion of mitigation measures in projects affecting the environment (Appendix 8, Section A), and (iii) TA activities (Appendix 8, Section B).

**Lending for Environmental Protection and Natural Resource Management**

From 1992 to 2000, ADB provided $7 billion from OCR and ADF for projects with primary or secondary environmental objectives. This constituted 14% of total public sector lending volume or an equivalent of about $0.8 billion per year.

ADF-supported projects with primary environmental objectives accounted for $843 million (7%) of total ADF VI–VII lending. Nearly $638 million (76%) was for agriculture and natural resources, followed by the social sectors (24%) (Figure 9).

There were 24 projects from ADF VI–VII (Table 17) that were primarily for environmental protection, two or three per year. Seven projects were for forestry development, 4 were specifically concerned with biodiversity and wildlife management, and 7 were wastewater and water resources management. Six projects involved managing coastal and marine resources. In addition, 29 projects totaling almost $1.1 billion had environmental protection and natural resource management as a secondary objective. Box 12 shows the types of environmental activity in the various sectors.

In the Pacific, there were no projects with a primary environmental focus and three projects where the environment was a secondary SDO.

**Table 17: Number of ADF VI–VII Projects That Had Environmental Protection and Natural Resource Management as the Primary or Secondary SDO**

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Primary SDO</th>
<th>Secondary SDO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestry</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Biodiversity</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Urban Infrastructure (drainage, water supply, sanitation)</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>Irrigation</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Fisheries and Marine Environment</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Industrial Effluent Pollution Control</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Air Pollution Control (industrial/traffic)</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>29</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, SDO = strategic development objective.

**Box 12: Activities to Support Environmental Objectives**

- Agriculture and natural resources projects involved biodiversity conservation, coastal resource management, stabilization of shifting cultivation, irrigation, watershed management, integrated pest management, coastal greenbelt conservation, and marine culture and natural resource management.
- Social infrastructure projects involved urban environmental improvement through wastewater management and pollution control, water supply, sanitation, sewerage construction, drainage improvements, etc. In the industry and nonfuel minerals, projects included the use of clean technologies and processes in manufacturing firms.
- In the transport sector, two port projects addressed sanitation and related needs.
- In the energy sector, projects with environmental objectives involved renewable energy and industrial energy efficiency.
- Environmental projects per se included air quality improvement, general environmental improvement, and institutional capacity building.
Box 13: Effective Use of Technical Assistance for Environmental Management

The Nam Ngum basin is the site of the Lao People’s Democratic Republic’s largest hydropower project, constructed in the 1970s. The Government has plans to construct at least four additional hydropower plants on the Nam Ngum River. The implications of this ambitious program for water resource management along the Nam Ngum River and downstream along the Mekong River are significant. The technical assistance introduced an integrated bioregional approach to development planning that considered potential impacts of proposed development both at the level of individual projects and cumulatively. The technical assistance helped the Government in evaluating potentially serious social and environmental impacts of the proposed development program at a watershed level while highlighting actions that can be taken to use hydropower development to improve the socioeconomic and environmental conditions in the Nam Ngum watershed. Recommendations were made to discontinue consideration of one proposed hydropower project and to reconsider the design of two other proposed projects based on social and environmental as well as economic considerations. The technical assistance also indicated major activities that should be undertaken as prerequisites for the design of proposed projects (such as early public consultation with communities likely to be most affected by the projects, and further consideration of resettlement implications). In summary, the technical assistance demonstrated to the Government how an integrated planning and assessment of hydropower projects (and other associated development) can serve as an early warning system in terms of potential social and environmental impacts. With early warning, viable alternatives can be considered and incorporated into project design to minimize potential negative impacts and maximize local socioeconomic and environmental benefits.

The Performance of Environmental Protection and Natural Resource Management Projects

As of December 2002, 4 out of the 24 projects with primary environmental objectives had been completed. PCRs are available for two of them; one is rated generally successful and one partly successful. Of the 19 projects under implementation, 16 were making satisfactory progress, and 3 were partly satisfactory.

Impact of ADF Operations on Environmental Protection and Natural Resource Management

ADB strengthened its focus on environmental and social concerns in 1993, and several of ADB’s policies addressing these concerns were approved thereafter. For example, environmental impact assessment became mandatory for all projects in 1994. The timing is an important factor. The majority of the ADF VI–VII projects are still under implementation, and all the completed projects were approved in 1992 and 1993. Consequently, the information from the completed projects with PCRs and PPARs may not reflect the full impact of environmental policies, but some issues can be highlighted.

Before the guidelines for environmental impact assessments were introduced, mitigation measures were limited in many sectors, mainly due to inadequate preparation. In more recent projects, major mitigation measures were implemented, especially when ADB-sponsored review processes supplemented country supervision. Appendix 8 illustrates examples of these measures in various sectors. Most projects completed under ADF VI–VII have had little adverse or neutral impacts on the environment. Indeed, many of the projects have had positive environmental impacts. Some of the positive environmental impacts have been the result of an overall improvement in living conditions, including the provision of housing facilities and related infrastructure that reduced pressure in congested urban centers; improved health and sanitation in the project areas; and enhanced solid waste management, drainage, and market infrastructure. There were, however, two cases of environmental problems related to solid waste disposal sites in one project. Design deficiencies, improper operation, and poor site selection were addressed and remedial measures implemented.

A project in Nepal reflects the experience of a number of urban development projects completed under ADF VI–VII. The environmental impact on the project area was mainly positive, but there were minor issues. The land development approach used prevented haphazard growth and also controlled slum formation in the land pooling area in Naya Bazar. Storm water drainage works reduced the prevalent waterlogging problems in the project area. Likewise, solid waste management initiatives helped improve the environment. As foreseen during the initial environmental evaluations conducted at appraisal, there was some temporary traffic disruption and increased...
generation of wastewater during construction. Sound engineering practices and mitigation measures were adopted to minimize these short-term adverse impacts. On the negative side, sludge from the new water treatment plants was being discharged into adjacent rivers and ponds.

Almost all the PCRs available indicate the importance of participation in the success of the project. This is especially true at the local beneficiary level. Creating a sense of ownership has a direct impact on the sustainability of the project in nearly all cases. One example is a project to foster a more participatory approach to forestry development in Sri Lanka. The goal was to address the diminishing forest resources linked to increases in the rural population. Specific project objectives were to increase tree planting, strengthen the institutional capacity to expand programs for nonforest tree planting, and increase privately operated village nurseries. The PPAR rated this project successful. Tree planting increased and significant employment opportunities were created through woodlot and homestead gardens. The project played a pivotal role in the transformation of the forestry department from a solely administrative forestry agency to one that facilitates the production of woodlots through community involvement. Forest cover has increased and the participatory approach has supported project sustainability.

An additional factor affecting project impact was the capacity of the executing and implementing agencies. In many cases, the institutional training was ad hoc or limited, counterpart staff lacked financial management skills, and projects were too complex for the less experienced agencies. The physical implementation of projects was almost always achieved in a satisfactory manner. This was especially true for engineering achievements. In urban development projects, wastewater treatment plants were built, slum dwellings improved, and efforts to increase access to safe water were largely successful. Therefore, the initial impact of these projects on the project populations was considerable. However, there were longer-term concerns about the capacity to maintain systems and facilities, and to ensure financial sustainability.

ADB has made advances in expanding and clarifying its policies for environmental and social concerns. Primary ADF lending for environmental protection and natural resource management during 1992–2000 was below expectations. However, ADB has supported useful environmental and natural resource management work through TA, though on a small scale (Box 13). Greater public participation has helped enhance the design, operation, and monitoring of mitigation measures. Identification of major project impacts improved as environmental impact assessments and consultations with affected persons were made mandatory. Among the major reasons for these advances were (i) the strong emphasis given to social and environmental objectives in ADB’s MTSF (1995–1998), (ii) increased hiring of new ADB staff with skills in the social and environmental fields, and (iii) formulation of policies that provide guidance for improving the social and environmental design of projects in general.
Commitment 6: Program Lending

- Support policy adjustments that contribute to growth and benefit the poor.
- Strengthen policy analysis and, where reforms are needed, advocate the necessary policy changes.
- Support sectoral policy reforms and institution building that are consistent with a sustainable macroeconomic framework.

Program, or policy-based, lending has been a major component of ADB operations for more than 2 decades. Since 1987, it has been the main modality supporting policy reform in DMCs. Program lending can be economy-wide (general program lending), or focused on reforms in a single sector. In 1996, ADB added a new instrument called the sector development program that includes a mixture of program, a project investment that supports program policy actions, and can be accompanied by TA. ADF donors encouraged broader engagement in policy reforms to support growth that is equitable and sustainable (Commitment 6).

An Overview of Program Lending

During ADF VI, program lending was gradually expanded to include sectors other than agriculture, reflecting ADB's broader focus with the adoption of the SDOs formulated in the 1992 MTSF. ADB initiated macroeconomic and sector-focused reform programs to address policy distortions that were impeding growth and private sector development. These programs encouraged policy and institutional reform, and in some cases provided fast-disbursing general budgetary support.

Assistance for general budget support was provided in instances where an economic collapse would have greatly increased poverty. For example, when the financial crisis hit the region in 1997, ADB approved several programs in quick succession, mostly funded through OCR, to help manage liquidity concerns, while also attempting to address much-needed reforms and supporting government efforts to maintain social services in the affected DMCs. As a result, the 15% program-lending ceiling was breached. In 1999, the special program modality was introduced to distinguish between crisis liquidity lending and policy-based reform lending. However, as this modality is limited to lending from ADB’s OCR, the 15 DMCs that are eligible for ADF loans only (group A countries) do not benefit from its introduction.

ADF Program Lending

At almost $1.2 billion, program loans accounted for 10% of total ADF VI–VII lending, compared to $1.9 billion, or 16%, in ADF I–V. This was much smaller than OCR program lending from 1992 to 2000 that included support during the Asian financial crisis and totaled about $11.0 billion (Table 18).

In value terms, 77% of ADF VI–VII programs went to group A countries (the poorest) and the rest to group B or B1 countries. Groups B2 and C were not involved in ADF-
supported reform programs during this period. The major borrowers were Viet Nam (20%), Bangladesh (14%), Mongolia (13%), Kyrgyz Republic (11%), and Pakistan (10%).

By region, approvals were as follows: South Asia (38%), East and Central Asia (27%), Mekong (27%), and Pacific (8%).

Thirteen ADF programs were approved during ADF VI and 23 during ADF VII, for a total of 36 programs in 9 years, compared with 40 such programs in the prior 23-year ADF period. There were thus more programs per year during ADF VI–VII, but they were for smaller amounts. This may be attributed to more programs for the smaller transition and Pacific economies (see Appendix 7 for country case studies on the Pacific).

Half of the ADF VI–VII program lending was for governance, finance, trade, and industry, and about a third for agriculture and natural resources. Small amounts were dedicated to other sectors. The composition of sector development programs was different. There were seven of them during ADF VI–VII (two in agriculture and natural resources; one in governance, finance, trade, and industry; and four in the social sectors), with the agriculture and natural resources sector accounting for two thirds of the total loan amount of $116 million.

Thirty ADF programs, or 83% of the total number, had economic growth as their primary SDO, compared with 46% of ADF projects during the same period. One program had poverty reduction as its primary objective, and five human development. Only four programs had a secondary SDO (two, poverty reduction; one, environmental protection and natural resource management; and one, WID). The SDO classification system did not capture indirect impacts of program lending on poverty reduction that can play a more important role than projects directly aiming at poverty reduction. For example, policy reforms supporting private sector participation in infrastructure development release government budgetary resources that can be diverted to the social sectors and targeted at the poor (Box 3).

Poverty aspects were considered more in the context of measures to mitigate hardship precipitated by the rationalization of subsidies or staff downsizing because of institutional restructuring.

Although most ADF programs had a general budget support component, ADB’s response to the Asian financial crisis of 1997

| Table 18: ADB Program Lending, 1992–2000 ($ million) |
|-----------------|--------|--------|
| Item            | ADF    | OCR    | Total  |
| Program Loans   | 1,173  | 10,960 | 12,133 |
| of which: Sector Development Program Loans | 116 | 2,420 | 2,536 |

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

was mainly through programs financed from OCR. There was also some ADF lending to the crisis-affected DMCs that were, at the time, among the more affluent countries in group B (Indonesia and the Philippines). The result of the high demands for liquidity facing crisis-affected DMCs was that lending to the poorer DMCs was programmed at a slower pace.

The size of ADF programs is primarily determined by the minimum support necessary for the successful implementation of reforms. This minimum is normally taken to be the direct cost to the government of the adjustment, including steps the government might take to ameliorate short-term harm to the poor. While such adjustment costs do play a role, government demand for general budget support, the relative importance of the reform measures to the economy, and funds availability within the general country allocations have also been factors in determining the size of programs.

The Performance of ADF-Supported Programs

In 2001, OED undertook a comprehensive evaluation of ADB’s program lending (both from OCR and ADF), following earlier studies in this area. It drew upon 40 PCRs, 22 PPARs, and field visits to seven DMCs each of which had received more than one program loan. The study noted that programs met their immediate targets. Total disbursements for completed programs were only 9% below the approved loan amounts. Although ambitious, containing a large number of conditions within a tight time frame, nearly all program conditions were met. Most programs took longer than planned to complete. Second tranche releases were often delayed from a planned 1–2 years into a third year, and not infrequently beyond. In many cases, delays were the result of an inability to implement reforms or inefficiency; sometimes delays were sensible adjustments to a more realistic time frame needed for effective implementation.

This review of ADF-supported programs confirms the findings of the 2001 evaluation. Twelve of the 13 ADF VI and 12 of the 23 ADF VII programs were complete by December 2002, with PCRs available for 21 of them (including 1 sector development program). Fourteen were rated generally successful (67%), six partly successful (28%), and one unsuccessful (5%). Given past experience, there may be some adjustment of the ratings in PPARs. However, even with the adjustment performance will likely remain better than in the ADF I–V period when 23% of programs were rated generally successful, 74% partly successful, and 3% unsuccessful.

Performance scores increasingly reflect issues beyond whether loan conditions were complied with in a timely manner and the institutional impacts and sustainability of the reforms. Program designs are assessed as to the appropriateness of conditions in a specific development context, allocation of sufficient time for effective implementation of policy actions, and internal coherence of the reform program. In addition, an analysis of what would have happened without the program—the so-called counterfactual—is attempted.

Impact of Program Loans

The OED study (footnote 60) showed that program impacts did not always achieve their potential. DMCs made considerable progress in adopting more market-oriented policies; however, the recurrence of conditionalities between loans and sectors indicated that reforms could not always be sustained. In several cases, program conditions were enacted after completion, indicating a problem of process and timing. In other cases, program lending provided insufficient resources for capacity building during policy reform implementation. Contributing to some of the weaknesses, the policy dialogue tended to be based less on country-specific analysis than on a general agenda of international best practice: “Understanding of the country was frequently insufficient and at least some aspects of the reforms were impractical, both in their feasibility and their timing.” In the absence of a thorough country-specific analysis, “in several cases, the results were the opposite of
what had been predicted.” In addition, the study noted a lack of priorities among the many conditions of programs: “Often there are many conditions with no prioritization, and the policy framework is not conducive to the consideration of alternatives, either for program elements or for timing”; and “Priorities are not evident, and major legislative conditionalities appear alongside relatively minor institutional steps.”

The OED study concluded that program lending had, and would continue to have, high relevance to the needs of DMCs, and was moderately effective in supporting substantive legislative and policy changes. However, programs were not always based on achievable rates of change, stakeholder participation in program formulation could have been better, and analysis of the incentive structure for effecting changed behaviors stronger. The study noted that there had been important changes in program lending in the previous years. Program design became more varied, with multiple tranching of conditionalities and introduction of program clusters, and the number of tranche release conditions was being reduced. There continued to be a strong demand for program lending from a range of DMCs.

The current evaluation has found that empirical analysis underlying ADF-supported programs could have been stronger in some cases, but ADB’s general consideration of points of policy reform was often clear and perceptive. An example is one of the case study projects in Vanuatu. The program resulted in significant progress toward rationalizing budgetary expenditures and changing the way the civil service was managed (Box 14).

Privatization was one of the biggest structural priorities in the region in the 1990s. Several programs aimed to support the privatization of state-owned enterprises, and facilitate growth of the private sector and industrial development. Some of these programs were very effective in strengthening the role of the private sector, while others achieved less.

The principal objective of a program in Mongolia was to bring about efficiency and international competitiveness in the industrial sector. It aimed to increase reliance on market forces and create a policy environment to promote private investment. The PPAR rating was partly successful, noting important design and implementation issues, which limited the impact and resulted in little change in international competitiveness.52 The program period coincided with rapid political reforms in Mongolia and so the design of reforms was influenced by political factors as much as economic challenges. This meant that agreements on the actual instruments of reform were a result of political bargaining between different interest groups rather than the technical efficacy of the instruments. The Government was strongly committed to moving Mongolia to a market economy; however, this was not translated into an appropriate strategy or strong implementation apparatus. Unfamiliarity with market instruments within the Government and the lack of an overall framework for restructuring the economy led to a weakening of support and commitment when the reforms imposed costs. There was no systematic assessment of institutional capacities or of existing skills, nor any human resource

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Box 14: A Comprehensive Reform Program in Vanuatu

In July 1998, the Asian Development Bank (ADB) approved a loan of $20 million and a technical assistance grant of $2.7 million for the Program. The Government’s financial situation had deteriorated steadily over the previous decade, with large fiscal deficits that started with Development Fund overspending and spread to recurrent expenditures. At the same time, government revenues were declining, reflecting failures of tax policy and enforcement, and patronage appointments eroded the quality of the public service. A run on the currency began in March 1998 and at the end of that month a new government assumed office, and opened negotiations with ADB for a program loan. The Program involved payment of a first tranche of $10 million to help restore liquidity to collapsing government finances. The second and third tranches of $5 million each were contingent upon significant restructuring of the public and private sector institutions. The Program was successful and made a significant difference to the political economy of Vanuatu in a short time. Key reforms included the introduction of a value added tax, the downsizing of the public service, strengthening of the merit principle within the senior public service, and some improvement in fiscal discipline. Nevertheless, fiscal deficits remain high, the Government has not withdrawn significantly from commercial enterprises, and the desired quality of social services and expected spurring of development in agriculture and tourism have not been fully achieved.

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52See Appendix 7 for country case studies on the Pacific.
planning for the required tasks at the design stage. Success and speed of transition crucially depend on three sets of factors: initial conditions, external factors, and reform strategies. In future program loans, ADB needs to avoid using standard blueprints of reform. The transition economies are particularly vulnerable to negative impacts if program design does not adequately reflect local conditions and constraints.

The experience with industrial reform in Nepal was very different. The program in Nepal was part of an overall strategy addressing fundamental problems that impeded industrial sector development, especially high tariffs and multiple tariff bands, restrictive trade regulations, an outdated customs valuation system, investment restrictions, and weak interagency coordination. The program was rated successful in the PPAR. Policy and institutional reforms helped reduce costs of imports and exports, modernized customs valuation, made industrial inputs available at internationally com-
petitive prices, and encouraged competition by lowering barriers to entry of small-scale producers and exporters (Box 15).

Improving governance has become one of ADB’s major thrusts in its policy-based programs, especially after the Asian financial crisis. ADF supported 30 programs totaling over $1 billion with significant governance components to mostly group A DMCs. Over half of them were directed to the governance, finance, trade, and industry sector.

For the newest DMCs in the ADF VI–VII period, the transition economies in central Asia, program lending played a key role in guiding and supporting much-needed reforms. The overriding development challenge was the complete transformation to a modern system of governance envisaged when these DMCs declared independence in 1991. This transition proved much more complex than expected a decade ago. The central Asian DMCs had to first establish a new legislative and institutional framework for managing a market economy. Frameworks were needed for all markets, goods and services, labor, and capital, including the creation of civil codes for providing a sound legal basis for business activity. In the early stages of governance reforms, particular attention was given to economic policies; however, implementing new economic policies posed a massive challenge in reshaping institutions in addition to frameworks to manage the new policies. Evidence has been growing on the importance of these institutions for economic growth.64 The central Asian DMCs have been attempting far-reaching and fundamental reforms without the benefit of a stable and trained bureaucracy versed in the skills and requirements that an ambitious reform program demands.65 Reforms have required an infusion of entirely new public sector management strategies and human resource skills in virtually all aspects of societal governance.

Throughout the region, many of the important institutions underlying public sector accountability—including an independent judiciary and the rule of law, and national audit institutions—still remain relatively underdeveloped. Approaches taken for granted in developed countries are still in the process of modernization, such as media independence, fiscal transparency and equalization transfers, open and democratic electoral process, NGO development, and avenues for broader public participation in policy development. Particularly for ADF-recipient DMCs in transition, establishing autonomous, modern, and outward-looking states with liberal, democratic, and people-centered governance, as reflected in their respective constitutions, is a daunting task.66 ADF has supported reforms in these areas and, while most of these programs are still under implementation, some of the completed ones have had good results (Box 16).

Agriculture remains one of the key sectors in most DMCs. ADB has been actively involved in collaboration with governments to implement reforms in this sector. Programs have supported reforms to increase competitiveness and productivity in agriculture. These structural reforms contributed to the establishment of market mechanisms to increase efficiency, capacity, and institutional development. Evidence from programs in the Kyrgyz Republic, Mongolia, and Viet Nam indicates that effective policy-based lending needs to be grounded in the development priorities and strategies of the country.
One of the Kyrgyz Government’s top priorities following the breakup of the former Soviet Union was to effect a transition of its agriculture sector from a command system to a market-based system. The program was formulated in 1995 taking into account previous and concurrent reforms. The objective was to facilitate the transition of the agriculture sector to a competitive market-based system. There were policy actions in six areas: (i) supporting land reform and farm restructuring, (ii) improving water rights management and user contribution in irrigation water use, (iii) improving markets of input supplies, (iv) improving social protection, (v) promoting environmental protection, and (vi) enhancing institutional capacity building and restructuring of selected government agencies. The program was rated successful in the PPAR.67

Reforms were relevant, pragmatic, and consistent with the priorities of the Government, establishing a strong platform for market-based private agriculture. The program strengthened land reform and farm restructuring, catalyzed the development of procedures for resolving land disputes, recognized rights to immovable property, advanced the legal framework governing irrigation water users rights, and clarified the requirements for establishing water users associations. The program also reduced the role of the Government in the distribution and marketing of agricultural inputs. Support for social protection was significant, but its effects were limited due to poor targeting inherent in the delivery systems. Achievements in strengthening environmental protection were limited, but the Government has demonstrated a commitment to developing a sound legal framework for the leasing and management of pastureland. Overall, the direction of reform has been consistently maintained, and with time, development initiatives beyond the program have strengthened and deepened the enabling environment for creating market institutions, increasing the competitiveness of markets, improving social and environmental protection, and rationalizing public sector support for agriculture.

The Mongolian program was designed to support the transition of agriculture from a centrally planned system to a market-based economy. Financially, the program was designed to provide urgently needed funds to the country, which was in the midst of a crisis. The program addressed three broad areas: (i) promotion of competitive markets, (ii) institutional support to facilitate competitive markets, and (iii) social and environmental concerns. The program was rated partly successful in the PPAR.68

The program contributed to an improved policy and regulatory environment for agricultural development in Mongolia and improved capacity of staff in the Ministry of Food and Agriculture who were involved in its design and implementation. It may be argued that the program contributed to the stabilization of poverty, not so much by implementing social measures but more by the provision of the $35 million

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Box 16: Introducing Corporate Governance in the Kyrgyz Republic

The $40 million Program was launched in recognition of the fact that the Government’s otherwise reasonably successful corporatization and privatization programs—which were intended to facilitate the country’s transition from the Soviet-era central planning to a market economy—had not markedly improved enterprise efficiency. At the core of the problem was the need to establish the structures of modern corporate governance to more clearly define the rights and responsibilities of owners, managers, creditors, suppliers, and other enterprise stakeholders. There was also a need to provide mechanisms to enforce governance principles and practices, which would create incentives for enterprise managers to improve efficiency within a rapidly opening economy. The Program was highly successful. Reforms were designed to promote economic growth by eliminating constraints to improved efficiency within the enterprise sector by (i) developing and institutionalizing governance principles and practices, (ii) developing local expertise and capacity, (iii) elevating stakeholder awareness and understanding, (iv) imposing financial discipline by eliminating budgetary support for state-owned enterprises, (v) preventing the creation of trade barriers and other impediments to competition, (vi) strengthening the legal framework for insolven-to ensure accountability and expedite the redeployment of assets from nonviable enterprises, and (vii) improving transparency by promoting the adoption of international accounting standards. In addition, the Program supported unemployment benefits and retraining for retrenched workers. The Government has requested that the Asian Development Bank (ADB) continue supporting reforms in this area. ADB has responded with a second program that will expand some of the groundbreaking activities started.

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See Appendix 6 for country case studies on growth.
loan when Mongolia was in a deep financial crisis. One unforeseen result of policy actions under the program (eliminating farm subsidies) was a decline in wheat production, raising political concerns over food security in Mongolia. This highlighted a more fundamental problem of the wheat farms’ high level of mechanization that developed in the pre-reform era and resulted in a heavy reliance on imported machinery, equipment, chemical inputs, and government financial support. With the termination of direct assistance and subsidies, the near-collapse of the wheat subsector was inevitable. One of the key lessons from this program was that the initial conditions in a sector determine the positive or negative impact of policy reforms in a transition economy. If a sector was heavily subsidized prior to the reforms (such as the wheat subsector in Mongolia), application of a standard reform package of privatization, price liberalization, and withdrawal of state intervention may lead to sharp decline of sector outputs. Supplementary measures are needed to offset the negative impact of the reforms.

One of ADB’s most successful policy-based operations in agriculture was the program in Viet Nam that covered three main areas: (i) market orientation and efficiency, (ii) rural financial intermediation, and (iii) land tenure. There were specific policy actions directed at improving market orientation and efficiency—liberalizing markets and trade for rice and fertilizer, supporting commercial enterprises, stabilizing rice markets and prices, and reforming cooperatives. Reforms in rural financial intermediation included improving the efficiency and profitability of the Viet Nam Bank for Agriculture and Rural Development, maintaining a market based interest rate structure, developing savings and loan cooperatives, and promoting medium-term lending. Land tenure reforms came under four headings—improving the legal and regulatory framework, distributing land more equitably, introducing a regulatory framework for forestland, and reforming agricultural taxation. This program was rated successful in the PPAR, on the threshold of highly successful.

The success of the program was primarily due to the genuine government commitment and the program's fit with government strategy (Box 17). The reform process has continued, with all quantitative restrictions on trade, both domestic and external, lifted. Rice export taxes have been abolished. Imports of mixed fertilizers are subject to a 3% tariff; other fertilizer imports are free of duty.

**Assessment of Commitments to Program Lending**

Commitments to program lending have been largely met. ADB has deployed ADF resources to meet the challenges of stimulating growth through legal and regulatory reforms and to support private sector development. A major challenge has been to link growth and poverty objectives. Initially, programs supported policy reforms primarily aimed at economic growth. This changed toward the ADF VII period when program lending expanded to include more activity in the social sectors and to cover also governance issues. The introduction of the sec-

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**Box 17: Viet Nam Pursues Far-Reaching Reforms**

Economic policy in Viet Nam underwent a fundamental change in direction during the second half of the 1980s. In 1986, the Sixth Party Congress approved a reform program known as doi moi (renovation). A comprehensive process of reform was initiated. The response was dramatic. For example, average economic growth over the period 1992 to 1997 was double that of the 1980s. Agriculture is a key sector of Viet Nam’s economy. In 1994, agriculture (including fisheries and forestry) accounted for 27% of Viet Nam's gross domestic product while 70% of the labor force was employed in the sector. Given the importance of agriculture, many of the reforms adopted by the Government focused on the sector. Two of the key measures were to recognize the household as the main unit of agricultural production and to grant extended land use rights to households. These, along with other measures, produced an immediate improvement. The Agriculture Sector Program, approved in 1994 for $78.9 million, was formulated to support the reforms initiated by the Government in this sector. Rice production increased from 25 million tons in 1995 to 33 million tons in 2000. Prior to the reforms, Viet Nam imported around 1 million tons of rice a year. Currently, it is the second largest exporter of rice in the world. The strong growth in agricultural production and exports helped dramatically improve living standards of rural households. The poverty incidence in rural areas fell from 66% in 1993 to 45% in 1998.

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tor development program modality allowed greater flexibility by combining support for reform and investment. There were also efforts to link poverty objectives in the agriculture and health sectors. However, ADF VI–VII programs addressed poverty issues usually through mitigation measures related to the implementation of policies such as rationalization of subsidies for food, utilities, or social services. The poverty impact assessments that now accompany programs are meant to ensure a more strategic approach to poverty reduction.

Some programs were of high quality, establishing innovative models for reform and addressing governance concerns in the Asian region. For the most part, however, programs advocated policy changes based on international best practice and were weaker in analyzing how implementing these policy changes would impact in a particular economic and social setting. These weaknesses were compounded by the effects of the Asian and Russian financial crises, the resulting volatility of capital flows to emerging markets, and the overall challenges of transition.
This section discusses the institutional and related reforms that were called for in the replenishment undertakings. ADB adopted new planning processes, enhanced project quality and performance, implemented a graduation policy, and developed criteria for allocating ADF resources (Commitments 7–10). Combined, these activities improved ADB’s development effectiveness and strengthened its capability to direct these resources to the most needy DMCs and sectors, and to deliver projects that would reach the poor.

Planning Processes

Commitment 7: Planning Processes

ADF VI
- Use strategic planning to introduce a more goal-oriented perspective in operations and ensure that crosscutting activities are properly focused and coordinated.
- Country strategies should be more operationally focused and strategically framed to support operations in a medium- to long-term perspective.

ADF VII
- Make country strategies more analytical and selective.
- Broaden the consultation process in the preparation of country strategies and programs to encompass other concerned groups in the country such as local community groups and NGOs.
- Conduct a skills inventory within ADB to help identify comparative strengths and how resources can be reallocated to meet its new challenges, such as improving public sector management and governance.
- Increase aid coordination encompassing multilateral as well as bilateral agencies.

A New Vision, Direction, and Strategy for ADB

In the early 1990s, it was recognized that ADB’s structure, policies, and systems of operations needed to be more relevant to the new and urgent development challenges facing the region. ADB had to become more broad-based and more effective in responding to the needs of its DMCs, and to deliver higher quality projects. New processes were required to institutionalize the vision, direction, and strategy of ADB. A framework had to be articulated at the institutional level, translated into country-based strategic planning, and realized through direct impacts on project quality. In addition, ameliorating the adverse impacts of projects on the environment or on specific groups of people needed to be part of a new development agenda. Appendix 11 discusses some of the key policies adopted during ADF VI–VII.

A formal strategic planning process that was initiated in 1992 with the first MTSF (footnote 9) was refined annually over the subsequent 3 years.71 The MTSF articulated three aims: (i) mobilizing resources, (ii) pursuing a focused development agenda in DMCs, and (iii) fostering regional cooperation. Resource mobilization activities were directed toward encouraging the adoption of sound, market-oriented economic policies through policy dialogue, TA, programs, and policy conditions attached to loans. ADB’s development agenda was grounded in the five SDOs: promotion of economic growth, progress in population planning,72 reduction of poverty, enhancing
the role of WID, and environmental protection and natural resource management. In addition to these SDOs, fostering regional cooperation, as called for in ADB's Charter, grew in importance over the last decade to include a broader role for ADB in regional policy dialogue and subregional development activities. Appendix 11 highlights ADB's subregional cooperation initiatives in the Mekong region and central Asia, and the importance of ADF in these activities.

Just after the end of the ADF VII–VIII period, ADB's formal strategic planning process was expanded by formulating the first Long-Term Strategic Framework (LTSF) covering the period 2001–2015. The LTSF articulates ADB's vision, its long-term strategic goals, and its operating principles. The LTSF is the key statement to guide ADB's strategic management over the next 15 years, and will be implemented through a set of three 5-year MTSFs. The most recent MTSF was updated in 2001 to coincide with the LTSF.

**Strengthening Country-Based Strategic Planning**

With the adoption of the MTSF in 1992 and the work of the Task Force on Improving Project Quality, ADB put in place the institutional components for change. The Task Force was mandated to critically review ADB's portfolio of projects, assess factors within and outside ADB that influenced the quality of ADB operations, and recommend ways to enhance project quality. One of the key findings of the Task Force was that the country focus was not fully realized because of the weak linkage between economic and sector work (ESW), country operational strategies (COSs) and policies, and project design. The interaction of operational departments and offices and special units also needed to be strengthened. Measures were taken at the institutional and process levels to address these concerns.

ADB reorganized its structure and operations in 1995 to increase the linkages and feedback between strategy development and country programming. The motivation for the reorganization was to strengthen both the organizational capacity to deliver a broad-based development agenda and the country focus of operations. Operational departments for East and West regions were created. This structure established linkages between country-directed ESW, programming, and project design. A system of checks and balances also encouraged greater accountability for project quality. Other reorganization changes included the creation of a Private Sector Group, combining the Office of Environment with the Social Dimensions Unit, and forming the Strategy Policy Office by combining the Development Policy Office with the Strategic Planning Unit. The Office of Pacific Operations was also established. New positions of environment economist and social sector economist were created in each of the programs departments in recognition of the growing importance these sectors would play in ADB's new strategy.

To support the reorganization, the Budget, Personnel, and Management Systems Department completed an analysis of available skills and projected new skills-mix requirements. The Office of the General Counsel restructured its working groups to reflect the country focus of the operational departments. ADB training programs were reviewed and realigned to provide expanded staff development programs.

ADB adopted processes to refine the country focus in its lending operations that were largely based on two key documents—COSs and CAPs. COSs were used to identify high-priority objectives and sectors. They were based on an assessment of development potential, constraints, and processes particular to each DMC. They defined the role of ADB in the DMC in the medium term and were meant to direct activities in lending, TA, ESW, policy dialogue, and aid coordination. CAPs were prepared annually for a rolling 3-year program to identify and select projects for financing according to criteria specified in the COS. The project selection process was also guided by concerns of sector balance and the lending mix needed to meet the SDOs set in the MTSF.

The objective was to develop a cycle starting from the COS and ending with im-
proved feedback from lessons learned into the subsequent COS. The project cycle was divided into five stages: (i) COS formulation, (ii) annual CAP updating, (iii) project preparation, (iv) project implementation, and (v) postevaluation of projects. The findings and lessons learned from postevaluation of projects would then feed back into the COS and complete the cycle.

Implementing New Country-Based Processes

Economic reviews, background strategy papers, a wide range of sector studies, and briefing papers were prepared for all major DMCs. They focused on economic, social, and governance issues. In the first few years of implementation, the quality of the COSs varied greatly, but broadly conformed to the objectives in the MTSF (see Appendix 12 for further assessment of COSs).

In 1998, OED began to review ADB’s country assistance programs (Box 18). The evaluations assessed the rigor and relevance of COSs and CAPs. There was evidence that ADB gradually shifted the emphasis in COSs to reflect priorities in the MTSF. Results from the first evaluations, however, also indicated that there were often inadequate links between the COSs and CAPs. The former tended to be process driven rather than acting as instruments of change or reorientation of the CAPs. By the end of the ADF VII period, CAPs reflected the shift in COSs toward poverty reduction, especially among the larger, long-term borrowers.

ADB has been continuing efforts to improve the country focus and relevance of its operations. Country-based strategic planning and programming now consist of two basic activities: (i) the preparation of a detailed country strategy and program (CSP) for each DMC every 5 years (or in the case of Pacific operations, a regional strategy with country details); and (ii) a brief annual update of the CSP that includes the operational program for the next 3 years. A broader country team structure has been adopted for preparing CSPs and their updates. More comprehensive diagnosis and greater DMC participation are expected to enhance CSP relevance and country ownership. The new approach is meant to address some of the problems encountered in linking the strategy to the program, but more efforts are needed to include the feedback of lessons learned into the process.

Assessment of Commitments to Changes in Planning Processes

ADB has met and exceeded its commitments in this area. The strategic framework that has been implemented directs planning and has identified clear objectives. Crosscutting activities have been focused, coordinated, and grown into thematic areas. Project designs and implementation have been slower to catch up, but by the end of ADF VII there was significant progress.

Country strategies have become increasingly more operationally focused and framed to guide operations in a medium- to long-term perspective. However, the strategies need to be more analytical and selective. The consultation process has been expanded to encompass NGOs and other concerned groups. In addition, aid coordination has been strengthened through more institutionalized processes.

Box 18: Evidence from Country Assistance Program Evaluations

Evaluations for Bangladesh and Viet Nam noted that early country operational strategies supported industry and facilitated growth through infrastructure and industry development by reducing bottlenecks in energy and transportation. This focus changed by the later part of the 1990s when the strategies reflected a strong commitment to poverty reduction along with a focus on creating better development opportunities for the poor, and addressing crosscutting development issues such as governance and gender. The lending programs responded slowly to the change in strategic focus. The evaluation for Mongolia noted that the three country operational strategies prepared were responsive to country circumstances and priorities. Strategy and policy coherence were needed to avoid a fragmented approach to economic transition. Assessment of ADB’s country assistance program in the Philippines highlighted the fundamental importance of political and macroeconomic stability and the negative effects of poor project implementation performance on development impact. It is evident from these evaluations that ADB has indeed moved from project lending to a more strategic broad development approach that has included knowledge products such as policy-level assistance.
Project Quality and Performance

**Commitment 8:** Improving Project Quality and Performance

**ADF VI**
- Improve the quality of projects by examining procedures for preparation, implementation, and supervision of projects.

**ADF VII**
- Incorporate the development of monitorable and measurable performance indicators and annual performance assessments; and
- Continue focusing on project quality and development impact of operations.

In ADF VI–VII undertakings, ADB was requested to examine its procedures for preparing, implementing, and supervising projects. The Task Force carried out its work in the second half of 1993, and reported to ADB’s Board of Directors in January 1994. The Task Force report included recommendations and an action plan that was endorsed by the Board of Directors. Many of the changes that have occurred in operations and processes over the past several years can be traced back to the work of the Task Force and the action plan that was developed.

**Quality at Entry**

Quality at entry depends on project concept and design; assessment of institutional capacity; technical, economic, financial, and social analyses; and the process of decision making within ADB. The three key inputs are (i) ESW, (ii) project preparatory technical assistance (PPTA), and (iii) the project framework (PF) in the RRP.

**Economic and Sector Work.** A recent special evaluation study found that more effective systems were needed to optimize the impacts of ADB’s extensive ESW. Unlike in other agencies, ADB’s ESW was not a separate product or service, such as TA or lending, and was not recognized as such either within ADB or externally. Monitoring and evaluation structures to track ESW within ADB were not in place and, as a result, data on the overall cost, outputs, or impacts was not readily available at the time of the study. There had been several attempts to improve the internal ESW processes, but lack of centralized data on these activities led to two common perceptions within ADB. First, staff resources were a binding constraint on generating effective ESW outcomes. Second, the focus on lending operations resulted in ESW being assigned a relatively low priority in operations departments.

The study concluded that ESW activities did absorb significant resources: about 5–6% of professional staff time, direct staff consultant inputs of $3 million–$5 million, and anywhere between $30 million and $50 million of TA resources were used for ESW tasks per year. The effectiveness of ESW was difficult to quantify because of its diffused and long-term effects on the quality of ADB’s operations. Standard output measures such as publications or consultative workshops did not capture the overall impacts of this activity. Stakeholders’ perceptions of ESW quality were generally positive. Stakeholders rated ADB’s efforts as the same as, or better than, those of other multilateral and bilateral aid agencies. Overall, the quality of ESW was found to be good when it directly supported and fed into projects and programs, and variable in other cases.

The key challenge is to mainstream ESW within ADB by changing the focus from inputs to results. The 2002 revised business processes under the new organizational structure ensure that interregional knowledge products are cleared by the relevant sector or thematic committee under the aegis of the Knowledge Management Committee chaired by the President. The committees, coordinated by the Regional and Sustainable Development Department, are meant to act as change agents responsible for preparing 3-year rolling programs for ESW and annual reports on actual products. The other change agent are the country teams responsible for incorporating ESW in the CSPs.

**Project Preparatory Technical Assistance.** PPTA is used to support the preparation of one or more projects, a program, or a sector development program for financing by ADB and other external sources. In some cases, a preliminary sector survey or a sector review is conducted to identify sector issues to be addressed by the project. PPTA may include the feasibility study that
covers preliminary design; cost estimates; technical, financial, economic, and socioecon-
omic analyses; environmental impact assessment; social impact assessment; a study
for initial benchmark indicators; and sometimes detailed engineering design and cost
estimates, and prequalification and bid documents.

About 68% of all ADF projects approved
from 1992 to 2000 were preceded by a PPTA. Projects financed from ADF and OCR used
PPTAs equally. Most ADF-financed projects in agriculture, environment, and natural re-
sources sector were preceded by PPTAs (84%); followed by projects in the social sectors (79%); infrastructure (69%); energy (54%); and the governance, finance, trade, and industry sector (26%).

The quality and use of PPTAs appear to
be consistent between generally successful projects funded from ADF and OCR. PCRs
for projects completed during ADF VI–VII indicate that projects prepared with PPTAs
performed more or less the same as those without PPTAs. For projects still under imple-
mentation, those with PPTAs are making equally satisfactory progress as those without PPTAs. This is not surprising, because even for projects without PPTAs, adequate preparatory work must be undertaken, ei-
ther through ADB's ESW (footnote 86) or with financing from the government, other bilat-
eral and multilateral aid agencies, or the private sector. What is essential for the even-
tual success of the ensuing project is the quality of such work.

OED evaluated the impact of PPTA in
the agriculture sector in Bangladesh. The main objective of the study was to assess the adequacy, implementation experience, and operational performance of PPTAs, as well as their impact and effectiveness in contrib-
uting to the performance of ensuing projects. Thirty-two PPTAs from 1975 to 1997 were assessed. Their performance in the 1990s improved markedly in the way they ad-
dressed the capacity building in executing agencies implementing a project. The degree
to which the design of agriculture projects in Bangladesh met customer needs has im-
proved over time. The study concluded that most PPTAs were effective in building on the
original project concepts prepared by the government and ADB staff and in formulating projects on that basis. The resulting projects contributed to the development of rural areas in Bangladesh, particularly for the food security of the rural population.

Thorough review and quality control of feasibility studies and other project prepara-
tory work are part of the mandate of the newly created Regional and Sustainable Development Department, which should enhance quality at entry of project designs. Recognizing the importance of participatory approaches for improving the quality of PPTAs, ADB developed a country-based team approach to project processing in the new business processes under the reorganized ADB structure that took effect in January 2002. This approach provides greater staff inputs at the PPTA stage when the project concept, design, and implementation ar-
rangements are being developed.

Project Framework

The RRP is a key document for ADB to ini-
tiate its institutional monitoring of quality at entry. RRPs are widely circulated for re-
view prior to loan approval. While consider-
able effort is expended on this process to scrutinize the various aspects of the proposed project, there has been less attention on ensuring the quality of the PF in the RRP (Box 19). This is crucial as future monitoring and evaluation depend on it.

Comments on the RRP are invariably solicited under pressure of tight deadlines,

Box 19: The Project Framework

The project (logical) framework has two functions. First, it is a design tool for improving quality at entry. Its use aims to ensure a consequen-
tial relationship between inputs, activities, outputs, purpose, and goal. If prepared in a participatory manner, it also helps develop stakeholder understanding and ownership of the project. Second, it provides the basis on which the monitoring operates. It does this by establishing quantified and time-bound targets and measurable indicators, and identifying key risks and assumptions that are used to monitor and evaluate performance of the project during its implementation and after its completion. Given its uses, preparing a good project framework is critical. Changes in project scope during imple-
mentation should be reflected in revisions to the project framework.
necessitating quick revisions and, sometimes, precluding full incorporation of comments in the documentation. There is no assurance that comments are satisfactorily addressed and legitimate recommendations find their way into the final PF. This is a concern, as the PF will be used as the basis for the project administration memorandum and monitoring through the PPR. The review process for PFs lacks quality control sign-off to ensure adequacy and compliance.

PF preparation became mandatory in 1995, and its inclusion in the RRP in 1996. This design and monitoring instrument, therefore, did not play a key role in all the projects approved during the ADF VI–VII period. Indeed, for the 318 ADF VI–VII projects covered in this report, 189 had PFs and 129 did not. Of the 75 projects completed from 1992 to June 2000, 12 had PFs and 63 did not. The PCR ratings do not vary significantly for these two groups of projects (Table 19). This may be attributable to the fact that, while PFs were being introduced, they were not yet used as an effective tool for designing projects, and measuring and monitoring development impact.

Efforts have been made to upgrade the quality of the PFs in the RRPs. Since 2000, intermittent support has been provided to staff in operations departments through a PF help desk. In 2002 efforts to enhance quality at entry by improving PF design increased through more training and group orientations. These efforts appear to be having a positive impact, as evidenced by the slight but discernible improvement in the quality of PFs over the past 3 years. Staff incentives to develop and maintain an effective project performance management system have, however, been thus far insufficient to overcome past practices in preparing PFs. Greater recognition of the importance of developing and maintaining good project performance monitoring standards is needed.

**Measuring, Monitoring, and Managing Performance and Impact**

**Project Performance Management System.** In the 1990s, ADB endeavored to become a more effective knowledge center. This meant a greater emphasis on learning from experience and disseminating and exchanging that knowledge with DMCs through projects, TA, and regional forums. The new focus was on real-time feedback from both ongoing and completed projects, with a view to learning lessons that would feed back into future projects. The focus also shifted to include more special evaluation studies addressing broader policy issues and lessons learned from projects across sectors and DMCs. In addition, knowledge dissemination within ADB became more effective, as the number of workshops and seminars to share knowledge increased. There was broader dissemination of the findings from ESW, regional TA activities, PPARs, and spe-

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GS = generally successful; PS = partly successful; US = unsuccessful.
Sources: Asian Development Bank’s reports and recommendations of the President and Performance Evaluation Information System.

![Image](image.png)
cial evaluation studies, both within and outside ADB.

The project performance management system was instituted in 1998 as a tool for designing projects, and monitoring and managing their performance (Box 20). The system was part of an overhaul of the strategic planning process that incorporated measurable performance indicators and regular performance assessments. The system has five components: (i) the PF, as a design and monitoring tool; (ii) the PPR, as a monitoring mechanism during project implementation; (iii) the PCR, as a self-evaluation tool after project completion; (iv) the PPAR, as a tool for subsequent independent evaluation; and (v) borrower monitoring and evaluation (at central and executing and implementing agency levels). The system uses the same indicators and criteria throughout the project cycle, thus making performance monitoring and evaluation a seamless process.

Monitoring During Project Implementation. Prior to 1998, ADB used project administration committee notes focused on benefit monitoring through annual or semiannual project reviews and a broader midterm review. The reviews were structured for staff and government counterparts to monitor project progress and implementation issues, and provide a comprehensive assessment by the middle of project implementation. PPRs replaced all project administration committee notes by the end of 1998, except loans closing on or before April 1999. The new system has a proactive, outcome-oriented approach to performance monitoring throughout project implementation. The PPRs rate separately physical and financial progress of implementation and the likelihood of achieving project development objectives. Progress is monitored through a four-category rating system (highly satisfactory, satisfactory, partly satisfactory, and unsatisfactory). The PPRs use performance indicators specified at the design stage in the PF. The goal is to enhance supervision and monitoring and, ultimately, the development impact of projects.

One year after the introduction of the new PPR format, a review was carried out for all active projects. Some significant shortcomings were found in the quality of the PPRs: 42% of them lacked a discernible strategic focus on achieving a goal, 77% had no clearly defined purpose, and 31% had poorly defined outputs. A more selective review in 2002 showed similar results. Consequently, the PPR quality needs to be improved to ensure meaningful, results-based measuring, monitoring, and management.

In addition to developing its own capacity in this area, ADB has been assisting five DMCs—PRC, Nepal, Philippines, Sri Lanka, and Thailand—in establishing their

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Box 20: Monitoring and Evaluation Cycle

The indicators identified in the project framework are monitored during project implementation using the project performance report (PPR). The PPR is updated quarterly and after review missions as warranted by the project officer administering the project. The PPR alerts staff to potential problems that may emerge and require corrective action. In addition to implementation progress, the PPR provides an assessment of the likelihood that development objectives of the project will be achieved. About 1–2 years after project completion, an assessment of outputs and impacts is made for all projects along with recommendations for enhancing and sustaining these impacts. This self-evaluation by operations departments through the project completion report is followed about 2 years later by independent postevaluation through the project performance audit report that is prepared by the Operations Evaluation Department. The monitoring and evaluation system has been implemented Asian Development Bank (ADB)-wide and its use is mandatory for all projects financed by ADB.
own results monitoring and evaluation systems. An assessment of these TA projects was conducted in 2001. The TAs were found to be relevant although the perceived need was higher from ADB’s perspective than from that of the DMCs. For ADB-funded projects, it was recommended that DMCs be encouraged to adopt a results monitoring and evaluation framework compatible with ADB’s internal systems.

PPRs for most of the projects approved and implemented during ADF VI–VII benefited from the introduction of the “at risk” classification (footnote 33) in the monitoring system. The objective was to highlight projects, sectors, lending instruments, and DMCs with the most serious performance problems where increased management attention was needed. As of December 2002, PPRs showed that 35 of the 180 ADF VI–VII projects under implementation were at risk (including two programs). These projects were mostly in South Asia, and in the agriculture and natural resources sector (Table 20). This was in line with the heavy concentration of the ADF portfolio in South Asia and the below-average performance of the agriculture sector.

Country Portfolio Performance Management. The Task Force on Improving Project Quality made several recommendations for improving feedback throughout the project cycle. One of the key points was that processes needed to support timely feedback to refocus COSs and CAPs, if necessary, and address project-related issues to maximize relevance and development impact. Moving the responsibility for country portfolio reviews to the programs departments (or resident missions) in 1995 reflected this concern for direct feedback linkages between the country portfolio review and country strategy development and programming.

Country portfolio reviews are meant to effectively guide both (i) improvements in portfolio performance; and (ii) the direction, composition, and volume of new operations. The objective is to provide feedback between the DMC and ADB. The review should provide an annual overview of ADB’s operations, especially in DMCs that have large portfolios. This is also an opportunity to review the current implementation performance with respect to key project implementation indicators, and information gathered during the review of individual projects. In addition, the review should highlight improvements over past performance and best practices in implementation. It should also elaborate on evaluation findings for completed projects, using the lessons learned to improve ongoing operations, and look at crosscutting issues affecting the total portfolio performance. Finally, it should identify areas that require corrective action and close monitoring, such as the recruitment of consultants, project delays, counterpart funding, and loan savings.

During 1996, 18 country portfolio review missions were fielded. The back-to-office reports showed a wide variance in the missions’ approach to reviewing portfolio performance. In many cases, the portfolio performance review was combined with other business, such as country programming or program confirmation, resulting in a less than complete review of the loan portfolio. The primary reasons for this were the resource constraints faced by the programs departments and the lack of high-level leadership of these missions. Following the introduction of the new guidelines, 14 country portfolio review missions were fielded in 1997. Resident mission staff or senior programs department staff led all of them. OED reviewed progress made in 1997–1998 and found that, while portfolio review missions provided a strong analysis of implementation issues such as disbursements, project schedules, and compliance with loan covenants, the review was still weak in other areas. For example, assessments of the likely development impact of ongoing projects or whether key assumptions underlying the project design remained valid were often lacking. Because of these weaknesses, portfolio reviews did not produce adequate information on which to fully assess the performance at either the individual project or portfolio level, nor did they maximize the feedback that could be used to refine ADB’s support.

In 1999, a working group reviewed ADB’s experience in portfolio management
and made five key recommendations: (i) project implementation difficulties should be examined in a more generic and systematic manner (using key indicators); (ii) a review of the TA portfolio should be added to the tasks of the country portfolio review mission; (iii) the country portfolio review mission should prepare with the government a monitorable action plan including issues, solutions, and a timetable for implementing solutions; (iv) data required for portfolio analysis should be standardized for downloading from ADB's existing computer system; and (v) portfolio management should be a key building block for the CAP (now CSP).98 A key aspect was the need to review policy and sector issues affecting overall portfolio performance. Additional comments were that review missions were often led by lower level staff and combined, in many cases, with other programs department activities, thus diluting the effectiveness of the review missions.

The working group concluded that ADB should move more resolutely toward comprehensive portfolio management, including assessing internal efficiency and external effectiveness. Comprehensive portfolio management should be at the forefront of ADB's dialogue with DMC governments and in planning future country operations, and should be done in close consultation with government representatives. An action plan was prepared to improve ADB's portfolio performance. The objective was to strengthen backward and forward linkages among country portfolio review missions, COSs, and CAPs.99 Time-bound portfolio performance targets were introduced to assess the extent to which ADB's portfolio meets its development objectives, and to improve the linkage between lending levels, portfolio performance, and DMC absorptive capacity.

Evaluation After Project Completion. Operations departments conduct self-evaluation during implementation (using the PPRs) and 1–2 years after project completion (through PCRs). OED reviews the PCRs100 and follows up with independent evaluation (through PPARs) of 40% of projects and 100% of programs after they have been operational for about 3 years.

As of December 2002, 135 (42%) of the 318 ADF VI–VII projects had been completed. PCRs had already been prepared for 102 (32%) of these projects.101 There was no backlog as the project administration instruction calling for PCR preparation 1–2 years after project completion was complied with. Such timely preparation is important because PCRs identify lessons learned and make recommendations on follow-up actions both for ongoing and future projects. Their findings also contribute to the CSP process.

As many projects from the ADF VI–VII period are still under implementation, country performance results are fragmented. Most of the completed projects were from group A countries. The majority of these projects, 82%, were generally successful. Of the 36 projects in group B countries, 16 were completed. Ten of these projects had PCRs, with four, or 40%, rated generally successful. In seven DMCs, 100% of evaluated projects were rated generally successful.

The energy sector performed well with all nine completed projects rated generally successful (Table 21). The infrastructure sector was the second best performer with 89% of the completed projects rated generally successful. The social sectors had the high-

<table>
<thead>
<tr>
<th>Item</th>
<th>Number</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. By Sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Sectors</td>
<td>8</td>
<td>301.6</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>15</td>
<td>591.4</td>
</tr>
<tr>
<td>Energy</td>
<td>7</td>
<td>661.4</td>
</tr>
<tr>
<td>Governance, Finance, Trade, and Industry</td>
<td>2</td>
<td>64.0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2</td>
<td>99.6</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>1,728.0</strong></td>
</tr>
<tr>
<td>B. By Region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East and Central Asia</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>3</td>
<td>61.3</td>
</tr>
<tr>
<td>Pacific</td>
<td>3</td>
<td>28.3</td>
</tr>
<tr>
<td>Mekong</td>
<td>6</td>
<td>250.6</td>
</tr>
<tr>
<td>South Asia</td>
<td>22</td>
<td>1,377.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>1,728.0</strong></td>
</tr>
</tbody>
</table>

Source: Asian Development Bank's Project Performance Reports database (new).
est number of completed projects and 77% were rated generally successful, a major improvement over past performance. Agriculture and natural resources, with the second highest number of completed projects, remains a challenging sector, with only 57% of projects rated generally successful.102

Measuring impact 1–2 years after project completion poses a practical difficulty, as it may be too soon for long-term impacts to become apparent. This is particularly true in the case of programs. As PPARs are prepared about 2 years after PCRs, there is a better basis for assessing long-term impacts of projects and programs, and the sustainability of their benefits. However, due to this time lag and because PPARs are not prepared for all projects, only 21 were available for the ADF VI–VII projects as of December 2002. In the PCRs, 13 of these projects were rated generally successful, and 8 partly successful. The PPARs downgraded five of the generally successful ratings and upgraded two of the partly successful ones. This represented a net downgrade ratio of 19%, an indication of a better PCR quality compared to the ADF I–V period when the ratio had been 25%.

Overall, 489 ADF projects were completed and subsequently evaluated during the period 1975–2001. Most ratings are from PPARs, only after 1992 a mix of PPAR and PCR ratings is used because of the still limited number of PPARs for more recent years of completion. Generally successful projects accounted for 53% of the total, partly successful projects for 38%, and unsuccessful projects for 9%. Due to a relatively small number of projects completed each year, there were wide fluctuations from year to year. Nevertheless, two distinct trends can be discerned from Figure 10 showing the proportion of generally successful projects by year of project completion. Starting from 60% in 1975, there was a downward trend to below 40% in the second half of the 1980s and early 1990s. Thereafter, this trend was halted and reversed, the proportion of generally successful projects exceeding 70% from 1999 onward. Even if some of the PCR ratings from the more recent years are downgraded in the forthcoming PPARs, the upward trend is unlikely to change much.

Given the time lags between project preparation, completion, and evaluation, it is not easy to exactly determine the reasons for the trend reversal that occurred both for ADF and OCR loans. It is likely to be the combined effect of important changes in ADB operations, such as the adoption of COSs from the mid-1980s onward, the emphasis on sector policy reforms in program lending from 1987 onward, the focus on institutional development and capacity building from the early 1990s onward, and the implementation of the various recommendations of the Task Force on Project Quality in the mid-1990s.

The improved project performance is confirmed when one compares ratings by

<table>
<thead>
<tr>
<th>Table 21: Ratings in Project Completion Reports for ADF VI–VII Projects</th>
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<tbody>
<tr>
<td>Sector</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Governance, Finance, Trade, and Industry</td>
</tr>
<tr>
<td>Infrastructure</td>
</tr>
<tr>
<td>Social Sectors</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<sup>a</sup> Includes projects rated highly successful and successful under the new rating system. Two project completion reports were prepared for emergency loans, which did not require a rating.

replenishment period (Figure 11). Out of the 102 completed ADF VI–VII projects with PCRs or PPARs, 79 (77%) were rated generally successful, a major improvement over the 44% figure for ADF I–V. Even with some downgrade in the forthcoming PPARs, this may be regarded as a real improvement in project performance, given the increasing complexity of ADF VI–VII projects.

**Harmonization of Evaluation Methodology.** The Board of Directors and donors encouraged ADB to make its project performance ratings compatible with those of other multinational development banks. ADB has actively participated in the Evaluation Cooperation Group of the multilateral development banks to define the criteria for assessing project performance and develop good practice standards for evaluation. Since late 2000, ADB has followed in its PCRs and PPARs the agreed-upon good practice of five criteria (relevance, efficacy, efficiency, sustainability, and institutional and other development impacts), a four-point scale for each criterion, and a four-category scale for the overall rating (highly successful, successful, partly successful, and unsuccessful).

**Assessment of Commitments to Improving Project Quality and Performance**

Improving project quality is a continuous, rather than discrete, activity that involves careful design and effective ownership at the DMC level and within ADB. In addition, proper institutional mechanisms are required to effectively monitor and manage projects. However, processes and procedures alone will not improve project quality without incentives for innovation and the pursuit of real development impact. Efforts to improve project quality in the beginning of the ADF VI period initiated an effective overhaul of systems and procedures at the entry, processing, and postevaluation levels. There are clear indications that the performance of projects implemented over the past 9 years has improved (Figure 10).

In line with ADF recommendations, project selection and design addressed more complex development needs with higher policy and thematic content. New systems and procedures for project preparation, monitoring, and management were introduced to improve the quality of projects. Projects now include monitorable and measurable performance indicators, and midterm reviews ensure regular consultation with government counterparts and beneficiaries on project performance.

![Figure 10: ADF-Supported Projects/Programs Rated "Successful" by Year of Completion](image)

![Figure 11: ADF-Supported Projects/Programs Rated Generally Successful at Completion](image)
While ADB is in compliance with the commitments to improve project quality and implement effective monitoring and evaluation systems, greater resources and support within ADB will be required to enhance the quality of the compliance, especially of monitoring activities. The quality of performance indicators also needs improvement for the monitoring system to operate efficiently. This is part of an ongoing dialogue within ADB, as enthusiasm for and acceptance of these systems have been moderate. The reality is that staff resources continue to be stretched to the limits of capacity and monitoring receives a lower priority than activities such as project processing.

The continuing expansion of resource-intensive, knowledge-based activities, and nonlending products such as developing and monitoring poverty reduction partnership agreements, preparing sector and thematic country assessments and sector plans, and developing and updating indicators at the sector and theme level—all draw on limited staff resources. Resource constraints were also noted in other reports. To effectively harness the strength of the new project performance management system more resources are needed. The momentum of improved project quality may not be sustainable without it.

Eligibility, Access, and Graduation

**Commitment 9: Country Graduation**

While recognizing that graduation from ADF was a complex and sensitive subject, donors emphasized that it needed to be addressed early to ensure that any changes in eligibility resulting from such a review would be relevant to ADF VII lending allocations. They, therefore, urged ADB to submit proposals to the Board of Directors for a graduation policy within 1 year of ADF VII becoming effective.

Prior to ADF VI–VII, ADB established a three-tiered country classification system that allowed for differentiation in ADF eligibility among country groups on the basis of per capita income. The objective of the classification system was to ensure that ADF resources went to DMCs where they were most needed. ADF VII donors stressed the desirability of establishing a more formal and systematic framework for considering questions on eligibility and access to ADF resources (Commitment 9). In 1998, ADB adopted a more rigorous approach to eligibility and access (Box 21). In 2001, a new approach to allocation was developed to take into account country performance. However, these two approaches have not been fully reconciled. The graduation policy was established to increasingly limit eligibility and access to ADF as country performance improves, while the performance-based allocation for ADF resources increases country allocations as an incentive to better performing DMCs.

**Eligibility**

For most of the ADF VI–VII period, ADB classified the DMCs into three groups (A, B, and C) based primarily on the level of per capita income. Group A countries had low per capita gross national product (GNP), group B were lower-middle income countries, and group C included upper-middle and high-income countries. Country eligibility was directly related to country group—group A countries were eligible for full ADF financing, group B countries were eligible for limited ADF amounts in particular circumstances, and group C countries were not eligible.

**Access**

ADB’s policy on access to ADF during 1992–1998 was as follows: group A countries (except the PRC and India) had full access, group B countries had restricted access, and group C countries were not eligible and did not have access. Under the graduation policy (i) group A became known as “ADF only” countries, (ii) group C were “OCR only” countries, and (iii) group B were “blend countries.” Group B1 would access predominantly ADF and some OCR. Group B2 countries would access predominantly OCR and some ADF.

The new access criteria is more nuanced than the previous policy. The creation of blend countries supports the notion of progression and is a useful policy concept to
guide ADF access. However, the eligibility criteria rely heavily on per capita income, which is a crude proxy to assess poverty or need. Despite pockets of extreme poverty, some of the larger DMCs may not be eligible or have sufficient access to ADF to tackle basic social development concerns. Further adjustments to the eligibility criteria may be required to address this issue.

**Graduation**

ADB had no formal policy on graduation from concessional or OCR borrowing under ADF VI and for the first half of ADF VII. ADF donors required ADB to submit a proposal to the Board of Directors on a graduation policy within 1 year of the effectiveness of ADF VII. The Board of Directors approved the graduation policy on 14 December 1998, and the policy became effective on 1 January 1999. In terms of eligibility, countries would progress from group A to groups B1 and B2, then graduate from ADF as they entered group C. From group C, countries would ultimately graduate from ADB assistance. Access to ADF would become increasingly restricted as a country moved from ADF-only to ADF-OCR blend, OCR-ADF blend, and OCR only. Finally, a country would graduate from accessing OCR to the cessation of regular assistance from ADB.

Graduation from one level of ADF to the next is triggered under the following conditions, with debt repayment capacity playing an important role:

(i) for both least developed countries and other countries—when debt repayment capacity improves from weak to limited, or from limited to adequate;

(ii) for least developed countries—when they graduate from the least developed country classification and also cross the per capita GNP cutoff;

(iii) for other countries below the per capita GNP cutoff—when they cross it.

The graduation policy also introduced new cost-sharing limits for projects: group A had a ceiling for ADB financing of 80%; group B1, 70%; group B2, 60%; and group C, 40%. As a country moved from one group to another, there would be a 5% reduction per year until the country reached the lower ceiling of the new group.

**Assessment of Commitment to Graduation from ADF**

ADB met its commitment to establish a policy on graduation from ADF. The intention of the ADF country classification system was to gradually scale down the volume of concessional assistance available to country groups: compared with group A, group B countries would have limited access to ADF, and group C countries no access at all. For ADF VI–VII projects and programs, group A countries received 79% of the funds, group B (including B1 and B2) 20%, and group C the remaining 1%.

After the graduation policy was adopted in 1998, the pattern of lending changed from that of ADF I–VI (Table 22). Between ADF I and VI, the countries in groups A, B, and C basically remained the same, despite the economic growth dur-
The ADF VII period can be split into 1997–1998 (before the graduation policy—group B) and 1999–2000 (after the graduation policy—groups B1 and B2).

Source: Asian Development Bank’s Loan Financial Information System.

Table 24: Ranking of Largest Borrowers by Eligibility Group

<table>
<thead>
<tr>
<th>Borrower</th>
<th>ADF I–V</th>
<th>ADF VI</th>
<th>ADF VII</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>B1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>B1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>B1</td>
</tr>
<tr>
<td>Nepal</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>A</td>
</tr>
<tr>
<td>Philippines</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Viet Nam</td>
<td>3</td>
<td>2</td>
<td></td>
<td>B1</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.


The patterns of the largest borrowers from ADF suggest that perhaps all three factors may play a role in understanding how the graduation policy has impacted on eligibility and access. The large borrowers, with the exception of Pakistan, continued to access almost all of their lending through ADF resources after 1998 (Table 25). Indeed, in absolute terms some of these DMCs borrowed even more under ADF VII than under ADF VI despite changes in the access criteria specified for group B1 countries in the graduation policy, such as the introduc-
tion of ADF/OCR blend countries. There is, however, some early evidence of country progression with countries like Indonesia moving from the sixth largest borrower of ADF under ADF I–V to the seventh under ADF VI, and the ninth under ADF VII. Also some of the traditional borrowers such as the Philippines and Thailand, as well as some of the newer borrowers such as Kazakhstan and Uzbekistan, have graduated from ADF and moved to group C.

The graduation policy has been effective in facilitating country progression through ADF to OCR. Further assessments are needed to identify and establish transparent trigger mechanisms for DMC progression and graduation. Evidence is less clear that this policy has been as effective in providing the basis for an efficient access and eligibility mechanism to ensure that ADF reaches the poorest in the region.

The graduation policy is not the only policy that has an impact on how ADF resources are channeled to DMCs. Indeed, the issues of eligibility, access, and graduation cannot be considered without taking into account practices and policies on ADF resource allocation. Performance-based allocation started in 2001 just after the conclusion of ADF VII although efforts had been underway as early as 1996. More time is needed to assess the impact that the graduation policy and the policy on performance-based allocation (footnote 109) will have on enhancing ADB's ability to efficiently allocate ADF resources to meet the needs of its poorest borrowers.

Table 26 shows how current country complexities have been taken into account under the graduation policy. This framework does not assume that DMCs with low per capita income will have low debt repayment capacity, or that DMCs with high per capita income will necessarily have high repayment capacity, and is therefore an improvement over the previous three-tier structure. The special circumstances and development challenges faced by a number of new member transition economies that joined ADB in the 1990s have made the graduation policy especially relevant. However, the new cost-sharing limits were lower than those adopted by the other multilateral development banks and may have had an adverse impact on ADB operations during 1999–2001. They have, therefore, been recently adjusted.118

### Resource Allocations by Country

**Commitment 10: ADF Allocation**

**ADF VII**

Allocation systems should ensure that scarce concessional resources are carefully targeted at those countries and projects where they are most urgently needed and most likely to be used effectively. Donors urged ADB to introduce a more formal allocation system, strengthening the link to more rigorous performance evaluation based on measurable indicators.

ADB is directed by its Charter to take certain factors into account in allocating resources...
among DMCs. This section considers resource allocation methods and processes during the ADF VI–VII period and makes comparisons between resource allocation during ADF VI–VII and the performance-based allocations for 2002.

The Basis of Allocation During ADF VI–VII

Two processes influenced ADF country resource allocation during ADF VI–VII: (i) the use of country eligibility groups and specific restrictions on the two largest DMC's access to ADF, and (ii) ADB's emerging processes of country-focused strategic planning.

A DMC's eligibility group determined whether and to what degree it could draw upon ADF resources, either exclusively or in a blend with OCR. In addition, the COSs and CAPs determined the indicative resource allocations for a pipeline of projects and programs. Together these two factors guided resource allocation. They were based on a DMC's relative need (increasingly defined as the extent of poverty rather than as gaps in investment resources), its ability to borrow commercially, and its absorptive capacity for concessionary funds.

However, allocations were made, case-by-case, on the basis of professional judgment, rather than with a model. At the end of ADF VI, ADB produced a paper to examine how well its allocation of concessionary resources across DMCs had conformed to their relative needs during 1990–1994. Appendix 13 gives the actual allocation of ADF resources during 1992–2000.

At the beginning of ADF VII, donors encouraged ADB to develop a more systematic approach to resource allocation. In attempting that, ADB faced three problems. The first was the difficulty of using a single set of criteria to allocate funds across a group of DMCs in two extremes—two very large poor DMCs and, at the other extreme, a number of small DMCs. The second problem was that research on the effectiveness of development aid was making it increasingly clear that aid worked well when the country's policy and institutional framework was good, but not otherwise. In addition, it was becoming more evident that there was a certain moral hazard in giving favorable terms to countries if government behavior within poor policy and institutional frameworks led to their inability to borrow from private capital markets. Such lending created a perverse incentive. Third, precedent influenced the historical allocations of ADB funds.

During ADF VII, ADB attempted to solve these problems by developing a rule-driven approach to resource allocation. Other multilateral development banks were faced with essentially similar problems. All set out to develop a systematic approach to allocation, and all took as their model a variation of the mathematical formula that the World Bank had developed.

One of the main reasons multilateral institutions attempted this change was to improve the incentives for borrowing member countries to adopt better policy and institutional frameworks—that is, the development banks wished to move away from the perverse incentive of favoring failure and to create a positive incentive for good performance. The new approach included measures of country performance, a factor that had not been formally taken into account before. The general approach, then, although it has several other important features, including seeking a better fit between allocation and improved measures of need, came to be known as performance-based allocation.

In 1997, ADB circulated a discussion paper on resource allocation. It described an allocation system that would be more systematic, transparent, and equitable, noting that, as yet, “there is no formal system for evaluating country performance” and “no explicit link between per capita GDP (a rough measure of poverty) and the allocation.” In mid-ADF VII (1998), the ADB Board of Directors considered an information paper that proposed that ADB “move towards a more formal allocation framework for allocating ADF resources for eligible countries, strengthening the linkage to more rigorous performance evaluation based on measurable indicators.” The Board approved the approach in principle.

During negotiations for the ADF VIII replenishment, ADB and the ADF donors
reached agreement on general principles. In February 2001, the Board approved a paper that set out a policy on performance-based allocation for ADF resources (footnote 109). The goal of the policy has been to support targeted poverty reduction in the poorest DMCs and also to ensure that resources are allocated to DMCs that are able to utilize them most effectively. DMC performance is evaluated in terms of policy adoption and project implementation, needs are measured by per capita GNP and population size, and allocations are based on performance.

Impact of the Resource Allocation Process on ADF VI–VII Allocations

The new allocation policy has been followed under ADF VIII. The performance-based formula has so far resulted in allocations that have not disrupted the established patterns of lending too suddenly. However, three issues have remained. First, the adjustments to the initial country allocations using the formula have been extensive; and the PRC and India are still excluded from the allocation exercise. Second, the small Pacific DMCs are treated as a separate group for allocation purposes, with an allocation of $50 million in total to be shared among them each year. Third, there have been significant ad hoc adjustments for DMCs under stress.

To assess how ADF allocations under ADF VII measured up to the performance-based formula being applied under ADF VIII, the new model was applied retroactively to ADF VII allocations (using 2001 assessments of performance). The result, including the adjustments noted above, was that the observed pattern of new performance-based model allocations was not radically different from actual allocations in ADF VII. An analysis of the variances between the average annual ADF lending in 1997–2001 and the performance-based allocations in 2002–2003 showed that lending to the Pacific DMCs and to DMCs grouped as B1 in 2002 was unaffected. Lending to group A DMCs was approximately 17% less under the new model, but this was largely attributable to recent constraints on the borrowing ability of one or two DMCs. The results provide some evidence that ADF VII allocations have been fundamentally sound and consistent.

Assessment of Commitment to ADF Allocation

The process of moving to a formal, performance-based ADF allocation system was well under way during the ADF VI–VII period. Although the policy became effective only in 2001, preparatory work had been under way for a number of years. Allocations during the ADF VI–VII period were based on a less formal process. While performance-based allocation was implemented at a rather cautious pace, allocations under ADF VII were not inefficient and were in line with the indicative allocations under the formula adopted in 2001. The new policy is a step toward strengthening the link to more rigorous performance evaluation based on measurable indicators. However, there is a concern that the measures of DMC need (population and per capita income) may not be good proxies for poverty rates or address the issue of pockets of poverty in DMCs. Since poverty reduction is the overarching objective of ADF, the allocation formula may need to be more precisely focused on poverty as well as performance.
Lessons Learned

Drawing together lessons of development based on 9 years of experience with ADF VI–VII is a challenging task. Many factors, some internal and some exogenous, have contributed to shaping the outcomes of the replenishment undertakings. Nevertheless, lessons for the future may be usefully drawn in three broad areas that correspond to ADB’s long-term objectives: sustainable economic growth, inclusive social development, and governance for effective policies and institutions.

Sustainable Economic Growth

ADF should be used more strategically for bigger impacts since resources are limited and the needs in the Asia and Pacific region are overwhelming. Projects and programs provide opportunities to push for reforms that can result in structural changes in the conditions that foster poverty. These opportunities should be seized more consistently. However, structural reforms require long-term investments and commitment by both ADB and DMCs.

Closely coordinated partnerships are important for sustaining impact. These partnerships can assist in reducing poverty and fostering peace among DMCs through regional cooperation and open economic exchange. For more effective partnerships, the government and beneficiaries should be fully involved at all stages of the project cycle beginning from project identification. A clear understanding of the specific obligations and roles of all parties should be developed through discussion and evaluation during the design and implementation of projects.

The link between country strategy and project selection needs to be stronger. Strategic analysis should include project selection and should be part of a regularly updated country strategy. Project relevance should have two dimensions—to country strategy and to poverty reduction. Targeting of outcomes and the analysis of what outputs are needed to achieve those outcomes should be achieved on the basis of the country portfolio, rather than on the basis of a single project.

The capacity of DMC institutions and counterparts should be strengthened. Almost all projects provide assistance for capacity building through training, institutional reviews, and organizational support. However, capacity building has often been too closely related to the needs of the project rather than to the needs of the institution, raising concerns about the sustainability of the capacity-building efforts. There is a need to balance the focus to include institutional development factors. Efforts in this area should be expanded.

More effort is also needed to include gender issues in institutional development. There were no policy-based programs with WID/GAD as a primary objective during the ADF VI–VII period. The evidence is clear that more women than men live in poverty in developing countries, and the disparity has increased over the past decade. Gender disparities persist because social and legal institutions do not guarantee women equality in basic legal and human rights, in access to or control of land or other resources, in employment and earnings, and in social and political participation. These disparities have serious consequences, not only on women themselves, but also on their fami-
lies and on society at large. Core GAD projects addressing structural and institutional reforms are needed in addition to gender mainstreaming to support sustainable development.

**Inclusive Social Development**

ADB needs to be more strategic about poverty reduction. The country investment strategy should be tied to the country poverty reduction strategy. More strategic interventions with more leverage are needed to shift resources toward the poor. Strategic thinking in regard to designing poverty reduction projects has started relatively recently with the adoption of the poverty reduction mandate in 1999. A growing number of projects during ADF VI–VII moved beyond a stand-alone infrastructure approach to include both policy issues as well as other concerns such as physical well-being, access to resources, and knowledge.

Real progress in social development requires economically sophisticated, multi-dimensional investments, with leverage achieved through strategic projects. The scale of the challenge is reflected in the continuing weak social indicators in many DMCs, particularly for women and girls, who make up a disproportionate share of the poor, and whose condition is reflected in indicators such as high infant and maternal mortality rates and low access to social services. ADB should actively contribute to regional progress in achieving the MDGs. The design of more recent projects reflects ADB’s increasing capacity to include strategic poverty reduction components, especially core poverty interventions, but more attention is needed to structural reforms.

Human development has become a mainstream concern of ADB that has not been sufficiently monitored. The human development impact, positive or negative, should be measured and categorized for all projects. ADB needs more human development projects specifically linked with strengthening institutional capabilities, which requires longer-term engagement. In addition, such projects should specifically target improving human capabilities. Key changes in DMCs can be achieved through
a combination of strategic lending and, integrated with it, knowledge products and services. The types of projects and programs that are needed will depend on the poverty reduction strategy that fits a DMC at a particular time.

More poverty projects should reach the very poor. Projects that substantially benefit the poorest 10% of the population were rare in ADF VI–VII. These investments should reach the urban extreme poor as well as the traditionally targeted rural poor, because although the urban poor may be a little better off than the rural poor in terms of cash income, the conditions of their life can be worse. ADB's most important contribution to poverty reduction is to bring new thinking on good economic and social policy to DMC governments. Knowledge products and services are very important in this regard.

ADF should be part of ADB's targeted strategies to enhance the impact of development assistance. Changes in where and how people live are likely to have longer-term consequences for labor force growth, the need for long-term health care, and pension and social security schemes. As the aged and the infirm are likely to emerge as a significant group among the poor in the absence of adequate arrangements, greater efforts are needed to strengthen the social safety nets. Equally apparent are the wide disparities in living standards that exist between DMCs in the region. ADF should be part of the strategies ADB uses to address these challenges.

**Governance for Effective Policies and Institutions**

Many of the important institutions underlying public sector accountability in DMCs—an independent judiciary and the rule of law, and national audit institutions—still remain relatively underdeveloped. There are numerous obstacles to further developing media independence, fiscal transparency, an open and democratic electoral process, NGOs, and avenues for broader public participation in policy development. ADB needs to leverage ADF more efficiently in partnership with its DMCs to address these issues.

The transition to a market economy is more complex than was envisaged a decade ago. Developing institutions and strengthening weak ones is the overriding development challenge to complete the transformation to a modern system of country governance. Efforts to establish new legislative and institutional frameworks for managing a market economy should continue. Frameworks are also needed for all markets, goods and services, and labor and capital. Civil codes to provide a sound legal basis for business activity need to be created.
Impact of the Strategic Development Objectives

The decision to adopt the project classification system using the SDOs was a major step forward as it focused attention on specific areas in a transparent, monitorable manner. One of the inherent difficulties of using the present SDO approach was that projects needed to be classified as supporting one primary and at most two secondary objectives. In reality, many projects provided support and resources to multiple objectives that were not readily accounted for under the SDO classification system.

One of the biggest changes that can, at least partly, be attributed to the SDOs has been the way projects are designed. During the ADF VI–VII period, ADB became more concerned with developing investments in conjunction with sector policies needed to support the investments. That is, projects became broader and addressed more complex matters, often including components that supported sector reforms. While these efforts are staff intensive, initial results show that projects that address broader sector issues have had greater development impact and a higher probability of sustainability.

Including broader policy dimensions in investment projects has been a challenge for government counterparts and other affected parties that has often required cooperation among different directorates or ministries as well as increased coordination among international agencies and beneficiaries. The result is greater participation of NGOs and other community-based organizations across all sectors. Greater consultation may contribute to more sustainable projects in the long run, but in the short run, it is resource-intensive.
intensive. Some ongoing issues that have resulted from projects designed to address more complex development issues are deficiencies in government monitoring, weak institutional capacity, and high staff turnover. Despite these issues, overall compliance with the commitments to the SDOs has been satisfactory.

**Economic Growth**

As noted in the introduction, many ADF recipients grew relatively slowly over the past decade and were vulnerable to external shocks. ADF was a small part of the public finances of most DMCs, and looking for a clear statistical relationship between ADF and changes in GDP would, in most cases, be difficult if not impossible. From the economic analysis of completed projects, the EIRR was on average more than 20%, well above ADB's minimum level of 12%. ADB helped address the principal obstacles to growth, such as weak legal and regulatory frameworks, and lack of private sector involvement and competition, through its program lending modality. Three factors proved to be essential for success: (i) understanding the country context and incorporating lessons learned in subsequent projects, (ii) providing inputs that were critical for growth and development, and (iii) designing projects that supported the government reform strategy.

**Human Development**

The emphasis in the human development SDO shifted considerably during ADF VI–VII. The reality was that many projects in the beginning of the ADF VI period were not strategically focused on human development, especially a large contingent of municipal works projects. ADB's changing focus from population planning to human development was based in part on the coverage and growing use of a broader definition of human development. Fundamental issues such as expanding human choices by building human capabilities, creating conditions for a long and healthy life, being educated, having access to the resources needed for a decent standard of living, and being able to participate in the life of one's community were important human development objectives. Therefore, by the end of the period projects with substantial population planning components moved toward a broader human development focus. Projects supported objectives such as access to education, health services, housing, and clean water and sanitation, usually in urban areas. Investments increased in the three main areas of human development projects: education, health, and urban development.

**Poverty Reduction**

Poverty reduction has been mainstreamed in ADB's operations. Coordination with national poverty strategies improved with the introduction of poverty reduction partnership agreements. ADB has, however, been slow to develop a strategic orientation toward poverty reduction. Therefore, poverty reduction efforts were concentrated in a few sectors. This resulted in some gaps in the reach of ADF-supported poverty reduction projects: (i) no primary poverty reduction project was targeted directly at the urban poor; (ii) 11 of 26 borrowers in ADF VI–VII had no projects that were primarily for poverty reduction; and (iii) ADF VI–VII did not reach the largest populations of poor people, in the PRC and India, comprising about 80% of the poor in the region. Secondary poverty reduction activities showed broader efforts, especially in the social sectors, infrastructure, and special assistance and emergency lending, reflecting the increasing attention to poverty reduction in project design. Of the projects approved during this period, 41% included primary or secondary poverty reduction efforts.

**WID/GAD**

WID lending was very low during 1992–2000, partly because of the “donor congestion” in this area. It appears that having WID as an SDO and expanding it subsequently into GAD made little difference to the ADF project portfolio. Although sensitivity to gender issues improved, there is little evidence that ADB's portfolio was substantially more favorable to women at the end of ADF VI–VII than it was at the beginning. To mainstream gender issues in
projects, ADB adopted the policy in 1998. There is no adequate empirical basis yet for concluding on the effectiveness of the policy in this report. A full evaluation of its results is scheduled for 2004, 6 years after the policy was adopted. By then, there should be a more solid basis for assessing the impact of the GAD framework.

**Environmental Protection and Natural Resource Management**

The majority of projects with environmental objectives are still under implementation. In general, ADF primary lending for environmental protection and natural resource management during 1992–2000 was below expectations. ADB supported useful environmental and natural resource management work, but on a small scale. The majority of activity in this area was related to environmental mitigation measures in projects with other SDOs. Identification of major project impacts improved as environmental impact assessments and consultations with affected persons were made mandatory. Among the major reasons for these advances were (i) the strong emphasis given to social and environmental objectives in ADB’s MTSF (1995–1998), (ii) increased hiring of new ADB staff with skills in the social and environmental fields, and (iii) formulation of policies that provide guidance for improving the social and environmental design of projects in general. ADB made significant advances in expanding and clarifying its policies for environmental and social concerns.

**Program Lending**

Programs in the ADF VI period tended to have too many conditions, did not prioritize reforms, and sometimes lacked clear policy objectives. Learning from these early experiences, later programs under ADF VII had a stronger sector focus with program objectives prioritized and more clearly defined. The introduction of the sector development program combining investment components and policy actions has allowed greater flexibility for a more comprehensive reform package.

Some programs were of a high quality, establishing innovative models for reform and addressing some of the pressing issues in the Asian region such as privatization and industrial development, improving governance, and agriculture reform. The Asian and Russian financial crises blunted the impact of some of the program lending as the volatility of capital flows to emerging markets strained DMC fiscal management and the ability to implement difficult reforms. Program lending has had, and will continue to have, high relevance to the needs of DMCs, and the demand for such lending continues to be strong.

**Institutional Change**

**Planning Processes**

One area where ADB made the greatest progress as an institution is in the strategic planning processes. The strategic framework that has been implemented directs planning and has articulated clear objectives. These objectives have been translated into country-based strategies in the COS, CAP, and currently, CSP documents. Crosscutting activities have been clearly identified and developed into thematic objectives. In addition, the consultation process has expanded to encompass NGOs and other concerned stakeholders and aid coordination with multilateral and bilateral agencies has improved. The impact of these efforts has been felt in the design and implementation of projects. The result is that the reorientation of the institution has been successfully communicated from the planning and strategy level to the delivery of projects.

**Project Quality and Performance**

Improving project quality is a continuous, rather than discrete, activity involving careful design and effective ownership at the DMC level. High-quality projects are the result of adopting good processes and procedures, effective monitoring and evaluation, and applying the right incentives for innovation and the pursuit of development impact. In the ADF VI–VII period, project processing systems and procedures within ADB underwent a major overhaul. Changes
were instituted at the entry, processing, and postevaluation levels. There are clear indications that performance of projects implemented over the past 9 years has improved. In line with ADF recommendations, project selection, design, and implementation have become significantly more focused on impact, with more staff efforts directed toward incorporating policy and thematic content.

While ADB is in compliance with the commitments to improving project quality and implementing effective monitoring and evaluation systems, there are longer-term concerns. First, the monitoring and evaluation system has limitations and higher quality inputs are required for it to be effective. Second, designing projects that address complex development needs in addition to the increased demand for knowledge-based and other nonlending products has strained staff resources. Project impact assessments covering social and environmental matters, and nonlending products such as poverty reduction partnership agreements, have become an integral part of ADB activities and are resource intensive. Despite a small jump in 2000, professional staff levels increased only marginally during the ADF VI–VII period. While there have been efforts to recruit staff with more multidimensional expertise, staff resources continue to be stretched to the limits of capacity and the ability to maintain high quality standards may ultimately be hindered. If the present momentum is to be sustained, more resources will be required.

**Eligibility, Access, and Graduation**

The intention of the ADF country classification system was to establish greater country differentiation and justification for the most needy DMCs to secure access to ADF. The intended impact was a gradual scaling down of the volume of concessional assistance available to DMCs as they progressed from group A to group B (B1 and B2), and finally ADF graduation as they moved to group C. The scaling down of assistance to group B countries has not happened yet, although there is evidence of progression, with DMCs like Indonesia moving from the sixth largest borrower under ADF I–V, to the seventh under ADF VI, and the ninth under ADF VII. Also, some traditional borrowers such as the Philippines and Thailand, as well as some of the newer borrowers such as Kazakhstan and Uzbekistan, have graduated from ADF and moved to group C.

The graduation policy has been effective in facilitating country progression through ADF to OCR. Further assessments are needed to identify and establish transparent trigger mechanisms for DMC progression and graduation. Evidence is less clear that this policy has been effective in providing the basis for an efficient access and eligibility mechanism to ensure that ADF reaches the poorest in the region.

**Resource Allocations by Country**

The process of moving to a formal, performance-based ADF allocation system was well under way during the ADF VI–VII period although the policy was officially adopted in 2001. Allocations during the ADF VI–VII period were based on less formal process of assessing DMC needs. Allocations under ADF VII were found to be efficient as they were in line with the indicative allocations under the formula proposed in the performance-based allocation policy. One concern with this policy is that the measures of DMC need—population and per capita income—are not the best proxies for poverty needs. Since poverty reduction is the overarching objective of ADF, the allocation formula may need to be more precisely focused on poverty as well as performance.

**Moving Forward**

ADB has achieved a great deal over the past decade. It has (i) become a broad-based development institution, (ii) improved the performance of the ADF portfolio, (iii) set forth poverty reduction as its overarching objective, and (iv) continued expanding knowledge products. This is the foundation that replenishment commitments for ADF VI–VII have helped build. The drive to improve development impact and efficiency will continue to challenge ADB in the future and there are important lessons to learn from ADF VI–VII.
Continued improvement in monitoring, measuring, and managing for development effectiveness is needed to address the concern as to whether each intervention funded by ADF is producing the results expected. The process has started, but it has been difficult to achieve high-quality staff compliance with the new project performance management system. The quality of performance indicators needs to be improved to make the system more effective. Further training of ADB staff is required. ADB needs to continue to actively engage counterpart staff in efforts to enhance monitoring capacity and cooperation at the DMC level. Good portfolio management is important for effective management of resources and needs to be at the forefront of ADB's dialogue with DMCs, and in the planning of future country operations. This needs to be done in close consultation with government representatives to enhance the effectiveness and development impact of operations.

ADB resource allocations across DMCs now take into account a wide range of performance and other considerations to increase their effectiveness. The performance-based allocation process introduced in 2001 represents a significant shift in ADB practice. For the first time, a formal link is established between access to concessional funds and country-level performance that is determined based on a set of measurable indicators. The performance-based allocation process introduced in 2001 represents a significant shift in ADB practice. For the first time, a formal link is established between access to concessional funds and country-level performance that is determined based on a set of measurable indicators.

This is changing. All CSPs and their updates are now moving to incorporate MDGs, but there is a need to go beyond this to make a clearer specification of expected results at the country level and how ADB's program of lending and nonlending products and services will contribute to attaining these. One way of achieving this could be to introduce a country program framework (CPF), the equivalent of a PF, at the country level. In common with the PF, the CPF would provide (i) a clear goal statement along with indicators and targets based on MDGs; (ii) a purpose statement, also with indicators and targets, which reflects the contribution expected from ADB's program of loans, TAs and other products and services over the CSP period (in quantifiable terms); and (iii) outputs, i.e., the various products and services ADB expects to deliver over the period. Assumptions and risks at each level could usefully be drawn from governance assessments. The CPF would be subject to periodic self-evaluation by regional departments as part of the CSP process, as well as to independent evaluation. This approach would enable the goal of each approved project to be linked to delivering on the CPF purpose. Thus, project-level goal attainment would be assessed at the country level only through the periodic CPF evaluations. Project performance would be assessed only to the purpose level.

Adoption of the CPF would need good analytical work on which to base resource allocation decisions across sectors and thematic areas. Obviously, there are many uncertainties and it is not possible to aspire to an “optimal” allocation of resources. A focused and integrated package of ESW (including sector road maps), evaluation studies, and other assessments (such as private sector and governance assessments), along with an objective assessment of ADB’s capacity, would facilitate making sound resource allocation decisions in consultation with the DMCs.
The Asian Development Fund (ADF) I–V portfolio comprised 488 projects totaling $11.2 billion. ADF resources were transferred to developing member countries (DMCs) mainly through projects. During ADF V, however, programs became a significant lending modality, accounting for about 26% of ADF V total lending as the Asian Development Bank (ADB) put greater emphasis on policy dialogue to support policy reforms in the DMCs at the macro and sector levels.

The allocation of ADF resources focused on DMCs with the lowest per capita gross national product (the main eligibility criterion during the period) including Bangladesh, Nepal, Pakistan, and Sri Lanka, which accounted for 76% of the total loan amount and the Pacific Islands economies, which received 4% of resources. Most of ADF I–V resources (about 47%) went to agriculture, particularly to irrigation and rural development, because of the heavy economic dependence on this sector and the fact that the majority of the population, especially the poor, lived in rural areas. Significant allocations were also provided to energy (16%), social infrastructure (13%), and transport and communications (11%). This allocation pattern reflected ADB’s general strategy during the period, which relied mainly on economic growth to reduce poverty, but with greater attention given to the social dimensions in ADF IV–V.

Based on project and program performance audit reports rating, project performance was mixed. Of the 290 projects evaluated, 45% were rated generally successful, 43% partly successful, and 12% unsuccessful. Statistically significant differences in average performance ratings of projects were noted between Group A and Group B DMCs in favor of the latter, with physical infrastructure projects performing better than agriculture and social infrastructure projects. Among lending modalities, projects performed significantly better than programs and development finance institution credit lines, while sector loans were on a par with the overall average. In the 15 years between 1976 and 1991, there was a steady decline in the proportion of projects rated unsuccessful. However, the proportion of projects rated partly successful increased more (from 42% in 1976–1978 to 50% in 1987–1991) than those rated generally successful (ranging from 42% to 44% during the same period). This suggests that there is still room for improvement in the efficient use of scarce concessional resources.

On the whole, the ADF I–V operations may be considered satisfactory. There were real achievements but there were also gaps between expectations and results. Projects designed to enhance the DMCs’ productive capacity, such as those in energy, transport and communications, and irrigation, promoted economic growth. Indirectly, they contributed to poverty reduction. On the other hand, projects designed to directly reduce poverty through increased employment and income opportunities, as well as those designed to enhance the general well-being of the poor, while making positive contributions to these objectives, generally produced results below expectations. Lessons learned have been or are being considered in the design and implementation of subsequent projects. The lessons include the need for thorough project preparation considering not only the technical and financial aspects, but the local culture as well; the need for real beneficiary participation to develop a sense of ownership of the project; the need to enhance the capability of ADB staff to deal with stakeholders at the grassroots level; the need to thoroughly assess the capability of the executing agency to match the requirements of the project and to remedy the gap, if any, through appropriate technical assistance; the need for long-term commitment to a sector or subsector in providing assistance; the need for vigilance to ensure transparency and accountability in project management; and the importance of a policy environment supportive of the project.

Conclusions
Despite being the fastest growing region in the world during the past three decades, Asia and the Pacific still has the largest number of the world’s poor people. While the proportion of poor relative to the total population has been declining, their absolute

number has been growing. The People's Republic of China and India, which have the biggest proportion of the region's poor, do not have access to ADF resources. The rationale for ADF—providing concessionary terms to meet the needs of the poorest in the region—continues to be valid. Experience in implementing ADF I–V provides insights that can help make future ADF operations more effective in addressing the poverty problem.

**Growth of Contributed Resources**

During the first five commitment periods, contributed resources grew, though at a decelerating rate. The growth occurred in absolute amount, percentage of the contributing countries’ gross national product (except for ADF V), and share in the aggregate net resource flows to the borrowing DMCs. While the share of the ADF in the aggregate net resource flows to the borrowing DMCs increased, the share remained small in relation to the total official development assistance.

**Focus**

Based on the allocation pattern of ADF I–V, focus was achieved at the level of DMCs and of sectors and subsectors within the DMCs, and to some extent at the level of regions. What was not evident, however, was focus in terms of target beneficiaries. The portion of the ADF portfolio allocated for direct poverty reduction projects should concentrate on well-selected target beneficiaries and should provide continuing assistance. Sector indicators or milestones need to be better specified. A review of the appraisal reports and project and program performance audit reports reveals that in most of the ADF I–V projects, the target beneficiaries were not clearly defined. Although social dimensions began to be integrated into projects toward the end of ADF V, the targeting of beneficiaries—who, where, and how many of the poor were expected to benefit—remained unclear for most projects.

**Overall Project Impacts**

Consistent with ADB's development strategy during ADF I–V period, a significant part of ADF resources was invested in physical infrastructure projects designed to enhance the DMCs' productive capacity to achieve economic growth. Given the high success rates of these projects, the most significant impact of ADF I–V operations was in helping promote economic growth, particularly in Lao People's Democratic Republic, Myanmar, Nepal, Pakistan, and to some extent in Bangladesh and Sri Lanka, thus indirectly contributing to poverty reduction in these DMCs. On the other hand, projects designed to have a direct impact on the poor, in terms of employment and income generation and enhanced well-being, had mixed results. While projects in the education, irrigation and rural development, and forestry subsectors and multisector projects showed above average performance, those in other sectors (livestock, fisheries, industrial crops, agricultural support services, urban development and housing, water supply and sanitation, health and population, and development finance) generally fell below expectations. Other noteworthy impacts of ADF I–V were contributions, albeit limited, to strengthening the institutional capacity of the executing agencies and promoting policy environments in DMCs.
Evaluation Methods

This report is based on the PCRs and other evaluative material on file, reviews of special evaluation studies conducted by the Asian Development Bank (ADB) during this period, including thematic evaluations and country assistance program evaluations, interviews with staff at ADB headquarters and government representatives in developing member countries (DMCs), field interviews with participants and beneficiaries for a sample of projects, and observations and other direct data collection for a sample of projects. Focus group discussions were held in the field and at ADB headquarters, and working papers circulated in advance of the drafting of this main report.

Data Sources and Sampling

Table A2.1 and A2.2 provide information on the projects approved under ADF VI–VII. The former disaggregates the information by strategic development objective (SDO) and the latter, by sector. Balancing samples to reflect the distributions by SDO and sector was complex. Most of the projects had growth as a primary SDO but in ADF VII, poverty reduction projects became increasingly important. In terms of sectors, projects in the agriculture and natural resources and social sectors dominated ADF VI–VII, accounting for over 60% of the lending during this period. These factors contributed to balancing and weighing the sample, especially the selection of country case studies.

The appropriate type of data collection and the appropriate sample to be examined varied by issue. In some cases, data was examined for all 318 projects approved during ADF VI–VII, for example, in regard to the lending mix or overall resource allocation. In other cases, issues could be examined on the basis of a smaller sample. Where this was methodologically adequate, it was also economical. Several such samples were used in the report. For example, where the issue related to a particular sec-

Table A2.1: Number and Loan Amount of ADF VI–VII Projects (approved and completed,\(^a\) by primary SDO)

<table>
<thead>
<tr>
<th>Primary SDO</th>
<th>Projects Approved</th>
<th></th>
<th></th>
<th>Projects Completed</th>
<th></th>
<th></th>
<th>% Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>Amount ($ million)</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>Amount ($ million)</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>159</td>
<td>50</td>
<td>6,907</td>
<td>57</td>
<td>93</td>
<td>67</td>
<td>3,499</td>
</tr>
<tr>
<td>Human Development</td>
<td>87</td>
<td>27</td>
<td>2,830</td>
<td>24</td>
<td>31</td>
<td>23</td>
<td>917</td>
</tr>
<tr>
<td>Poverty Reduction</td>
<td>40</td>
<td>13</td>
<td>1,188</td>
<td>10</td>
<td>6</td>
<td>5</td>
<td>97</td>
</tr>
<tr>
<td>Women in Development</td>
<td>8</td>
<td>3</td>
<td>251</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Environment</td>
<td>24</td>
<td>8</td>
<td>843</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>104</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>318</strong></td>
<td><strong>100</strong></td>
<td><strong>12,018</strong></td>
<td><strong>100</strong></td>
<td><strong>135</strong></td>
<td><strong>100</strong></td>
<td><strong>4,622</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund, SDO = strategic development objective.
\(^a\)As of 30 December 2002.
Note: Figures may not add up to total because of rounding.
Source: Asian Development Bank’s Loan Financial Information System.
tor or a particular SDO or a particular type of DMC, then the appropriate sample was usually either all projects in that group, or all completed projects in the group. When women in development (WID) issues were assessed, all 8 WID projects were examined, 1 completed and 7 ongoing, for which WID was the primary SDO. The same procedure was followed for issues related to sectors, lending modality, or country groups. In general, there were three samples of projects used in this report (Table A2.3):

(i) A stratified random sample of projects drawn from the whole population of 336, weighted by loan amount. Stratification, in this case, was by sector to ensure that the issue was examined in all sectors;
(ii) A random sample of 35 of the 135 completed projects; and
(iii) A sample of 12 case study projects.

The five SDOs were economic growth, human development, poverty reduction, WID, and environ-

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### Table A2.2: Number and Loan Amount of ADF VI–VII Projects (approved and completed, by sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Projects Approved</th>
<th>Projects Completed</th>
<th>% Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>Amount ($ million)</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>99</td>
<td>31</td>
<td>3,359 28</td>
</tr>
<tr>
<td>Energy</td>
<td>28</td>
<td>9</td>
<td>1,429 12</td>
</tr>
<tr>
<td>Governance, Finance, Trade, and Industry</td>
<td>24</td>
<td>8</td>
<td>720 6</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>45</td>
<td>14</td>
<td>2,581 21</td>
</tr>
<tr>
<td>Social Sectors</td>
<td>99</td>
<td>31</td>
<td>3,352 28</td>
</tr>
<tr>
<td>Others</td>
<td>23</td>
<td>7</td>
<td>578 5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>318</strong></td>
<td><strong>100</strong></td>
<td><strong>12,018 100</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.
Note: Figures may not add up to total because of rounding.
As of 30 December 2002.
Source: Asian Development Bank’s Loan Financial Information System.

### Table A2.3: Completed ADF VI–VII Projects, by Sector (as of 30 December 2002)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Projects Completed</th>
<th>Random Sample of Completed Projects</th>
<th>Selected Case Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount ($ million)</td>
<td>No.</td>
</tr>
<tr>
<td>Agriculture and Natural Resources</td>
<td>32</td>
<td>957</td>
<td>5</td>
</tr>
<tr>
<td>Energy</td>
<td>12</td>
<td>417</td>
<td>3</td>
</tr>
<tr>
<td>Governance, Finance, Trade, and Industry</td>
<td>17</td>
<td>543</td>
<td>6</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>24</td>
<td>1,243</td>
<td>5</td>
</tr>
<tr>
<td>Social Sectors</td>
<td>34</td>
<td>1,022</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
<td>438</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>135</strong></td>
<td><strong>4,620</strong></td>
<td><strong>35</strong></td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.
Source: Asian Development Bank’s Loan Financial Information System.
mental protection and natural resource management. In terms of loan amount, most projects listed economic growth as the primary SDO (50%), followed by human development (27%) and poverty reduction (12%) (Table A2.1).

The SDO analysis is carried out in several ways in this report, including reviews of the whole population of ADF VI-VII projects, stratified random samples of completed projects, and case studies in the sample of five DMCs selected for this report.

The criteria for selecting the DMC sample included eligibility group, size of portfolio, and region. If the Operations Evaluation Department had completed a country assistance program evaluation, or had one under way simultaneously with this report, then this was taken into consideration in selecting the sample. Finally, it was attempted to cover a range of country situations, from landlocked to small island, from large multilingual states to small homogenous states, and to include both transition economies and well-established market economies. No sample can fully capture the whole range of variation, but these five DMCs, supplemented by the wider samples of projects discussed, were considered representative for the purposes of this report (Table A2.4).

<table>
<thead>
<tr>
<th>Eligibility Group</th>
<th>Region</th>
<th>Country</th>
<th>Project Portfolio</th>
<th>Type of Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>East and Central Asia</td>
<td>Kyrgyz Republic</td>
<td>Medium</td>
<td>Transition</td>
</tr>
<tr>
<td></td>
<td>Pacific</td>
<td>Vanuatu, Samoa</td>
<td>Small</td>
<td>Market</td>
</tr>
<tr>
<td></td>
<td>Mekong</td>
<td>Viet Nam</td>
<td>Large</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South Asia</td>
<td>Sri Lanka</td>
<td>Large</td>
<td></td>
</tr>
<tr>
<td>B1</td>
<td>Mekong</td>
<td>Viet Nam</td>
<td>Large</td>
<td>Transition</td>
</tr>
<tr>
<td></td>
<td>South Asia</td>
<td>Sri Lanka</td>
<td>Large</td>
<td>Market</td>
</tr>
</tbody>
</table>
### Appendix 3: Matrix of ADF VI–VII Commitments

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Actions and Progress To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Stimulating Growth and Improving Poverty Impacts</strong></td>
<td>Many ADF-recipient developing member countries (DMCs) grew relatively slowly over the past decade and were vulnerable to external shocks. ADF was a small part of the public finances of most DMCs, and looking for a clear statistical relationship between ADF and changes in gross domestic product would, in most cases, be difficult if not impossible. From the economic analysis of completed projects, the economic internal rate of return was on average more than 20%, well above ADB’s minimum level of 12%. ADB helped address the principal obstacles to growth, such as weak legal and regulatory frameworks, and lack of private sector involvement and competition, through its program lending modality. Three factors proved to be essential for success: (i) understanding the country context and incorporating lessons learned in subsequent projects, (ii) providing inputs that were critical for growth and development, and (iii) designing projects that supported the government reform strategy.</td>
</tr>
<tr>
<td><strong>2. Human Development</strong></td>
<td>One of the biggest changes in the social sectors has been the way projects are designed. After 1995, more attention was given to developing investments in conjunction with sector policies needed to support the investments; that is, projects became broader, addressing more complex issues, often including components that supported sector reforms and involving additional executing or implementing agencies. The emphasis shifted considerably during ADF VI–VII, away from projects with substantial population planning components toward a broader human development focus. Investments increased in the three main areas of human development projects: education, health, and urban development.</td>
</tr>
<tr>
<td>ADF VI</td>
<td>Assistance for population activities should be expanded. Priority areas for ADB support should include family planning and maternal-child health care, information-education-communications, research in contraceptive methods, demographic analysis, and training.</td>
</tr>
<tr>
<td>ADF VII</td>
<td>Increase investments in human capital, especially education, vocational training and health, and increased and sustainable access for the poor to social infrastructure—especially primary health care, family planning, preventive public health measures such as access to clean water and sanitation.</td>
</tr>
<tr>
<td><strong>3. Poverty</strong></td>
<td>Poverty reduction has been mainstreamed in ADB’s operations. Coordination with national poverty strategies improved with the introduction of poverty reduction partnership agreements. ADB has, however, been slow to develop a strategic orientation toward poverty reduction. Therefore, poverty reduction efforts were concentrated in a few sectors. This resulted in some gaps in the reach of ADF-supported poverty reduction projects: (i) no primary poverty reduction project was targeted directly at the urban poor; (ii) 11 of 26 borrowers in ADF VI–VII had no projects that were primarily for poverty reduction; and (iii) ADF VI–VII did not reach the largest populations of poor people, in the People’s Republic of China and India, comprising about 80% of the poor in the region. Secondary poverty reduction activities showed broader efforts, especially in the social sectors, infrastructure, and special assistance and emergency lending, reflecting the increasing attention to poverty reduction in project design. Of the projects approved during this period, 39% included primary or secondary poverty reduction efforts.</td>
</tr>
<tr>
<td>ADF VI</td>
<td>Increase cooperation with national strategies and policies and activities for poverty reduction.</td>
</tr>
<tr>
<td>ADF VII</td>
<td>Improve poverty-targeted investments including the gender dimensions of poverty.</td>
</tr>
<tr>
<td><strong>4. Women in Development (WID) and Gender and Development</strong></td>
<td>WID lending was very low during 1992–2000, partly because of the “donor congestion” in this area. It appears that having WID as an SDO and expanding it subsequently into GAD made little difference to the ADF project portfolio. Although sensitivity to gender issues improved, there is little evidence that ADB’s portfolio was substantially more favorable to women at the end of ADF VI–VII than it was at the beginning. To mainstream gender issues in projects, ADB adopted the GAD policy in 1999. There is no adequate empirical basis yet for concluding the effectiveness of the GAD policy in this report. A full evaluation of its results is scheduled for 2004, 6 years after the policy was adopted. By then, there should be a more solid basis for assessing the impact of the GAD framework.</td>
</tr>
<tr>
<td>ADF VI</td>
<td>Ensure that gender issues are more systematically addressed in all programs and projects.</td>
</tr>
<tr>
<td>ADF VII</td>
<td>Pay greater attention to the effects of ADB projects on women.</td>
</tr>
<tr>
<td><strong>WID</strong></td>
<td>Prepare a strategic plan of action that includes recommendations on integrating WID issues into planning and implementation of programs and projects; the allocation of appropriate resources, including staff resources; and training of professional and senior level staff. The plan should guide ADB in implementation of its policy on WID.</td>
</tr>
<tr>
<td><strong>GAD</strong></td>
<td>Implement WID activities more fully by considering WID aspects at every stage of the programming and project cycles and ensure that women are targeted much more effectively in operations, both as donors and beneficiaries.</td>
</tr>
</tbody>
</table>
5. Environment

**ADF VI**
- Strengthen the environmental expertise available in ADB.
- Greater participation by affected groups and local NGOs in the environmental impact assessment process.
- Greater disclosure on all projects having a significant impact on the environment.
- Expand support to the forestry sector, particularly for the protection of tropical forest resources.

**ADF VII**
- Increase environmental lending in six priority areas: (i) pollution control in the industry and power sectors, (ii) environmental improvement in the urban areas, (iii) environmentally sound tropical forest management and conservation of biological diversity, (iv) interlinked poverty reduction and environmental improvement, (v) agriculture, and (vi) institution building and human resource development.
- Continue to strengthen the capability of borrowers, from both public and private sectors, on environmental impact assessment and other aspects of environmental planning and management.
- Conduct policy dialogue and integrate environmental considerations in country strategy and country programming exercises.

6. Program Lending

- Support policy adjustments that contribute to growth and benefit the poor.
- Strengthen policy analysis and, where reforms are needed, advocate the necessary policy changes.
- Support sectoral policy reforms and institution building that are consistent with a sustainable macroeconomic framework.

ADB has made advances in expanding and clarifying its policies for environmental and social concerns. Primary ADF lending for environmental protection and natural resource management during 1992–2000 was below expectations. However, ADB has supported some useful environmental and natural resource management work, but on a small scale. Greater public participation has helped enhance the design, operation, and monitoring of mitigation measures. Identification of major project impacts improved as environmental impact assessments and consultations with affected persons were made mandatory. Among the major reasons for these advances were (i) the strong emphasis given to social and environmental objectives in ADB’s Medium-Term Strategic Framework (1995–1998), (ii) increased hiring of new ADB staff with skills in the social and environmental fields, and (iii) formulation of policies that provide guidance for improving the social and environmental design of projects in general.

ADF programs have addressed poverty issues usually through adjustments related to the implementation of policies such as rationalization of subsidies for food, utilities, or social services. An OED study on program lending noted that, in general, programs met their intermediate targets. Total disbursements for completed programs were only 9% below the approved loan amounts. Although ambitious, containing a large number of conditions within a tight time frame, nearly all program conditions were met. Most programs took longer than planned to complete. Second tranche releases were often delayed from a planned 1–2 years into a third year, and not infrequently beyond. Many of these findings have been validated in this review of ADF-assisted programs. Programs in the ADF VI period tended to have too many conditions, did not prioritize reforms, and sometimes lacked clear policy objectives. Learning from these early experiences, later programs under ADF VII had a stronger sector focus with program objectives prioritized and more clearly defined. The introduction of the sector development program combining investment components and policy actions has allowed greater flexibility for a more comprehensive reform package.

Some programs were of a high quality, establishing innovative models for reform and addressing some of the pressing issues in the Asian region such as privatization and industrial development, improving governance, and agriculture reform. The Asian and Russian financial crises blunted the impact of some of the program lending as the volatility of capital flows to emerging markets strained DMC fiscal management and the ability to implement difficult reforms. Program lending has had, and will continue to have, high relevance to the needs of DMCs, and has been moderately effective in supporting substantive legislative and policy changes.

7. Planning Processes

**ADF VI**
- Use strategic planning to introduce a more goal-oriented perspective in operations and ensure that crosscutting activities are properly focused and coordinated.
- Country strategies should be more operationally focused and strategically framed to support operations in a medium- to long-term perspective.

One area where ADB made the greatest progress as an institution is in the strategic planning processes. The strategic framework that has been implemented directs planning and has articulated clear objectives. These objectives have been translated into country-based strategies in the country operational strategy, country assistance plan, and currently, country strategy and program documents. Crosscut-
### ADF VII
- Make country strategies more analytical and selective.
- Broaden the consultation process in the preparation of country strategies and programs to encompass other concerned groups in the country such as local community groups and NGOs.
- Conduct a skills inventory within ADB to help identify comparative strengths and how resources can be reallocated to meet new challenges, such as improving public sector management and governance.
- Increase aid coordination encompassing multilateral as well as bilateral agencies.

### 8. Improving Project Quality and Performance

**ADF VI**
- Improve the quality of projects by examining procedures for preparation, implementation, and supervision of projects.

**ADF VII**
- Incorporate the development of monitorable and measurable performance indicators and annual performance assessments.
- Continue focusing on project quality and development impact of operations.

### 9. Country Graduation
- While recognizing that graduation from ADF was a complex and sensitive subject, donors emphasized that it needed to be addressed early to ensure that any changes in eligibility resulting from such a review would be relevant to ADF VII lending allocations. They, therefore, urged ADB to submit proposals to the Board of Directors for a graduation policy within 1 year of ADF VII becoming effective.

### 10. ADF Allocation

**ADF VII**
- Allocation systems should ensure that scarce concessional resources are carefully targeted at those countries and projects where they are most urgently needed and most likely to be used effectively. Donors urged ADB to introduce a more formal allocation system, strengthening the link to more rigorous performance evaluation based on measurable indicators.

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Actions and Progress To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADF VII</strong></td>
<td><strong>8. Improving Project Quality and Performance</strong></td>
</tr>
<tr>
<td>Make country strategies more analytical and selective.</td>
<td>In the ADF VI–VII period, there was a major overhaul of ADB’s project processing systems and procedures. Changes were instituted at the entry, processing, and postevaluation levels. There are clear indications that performance of projects implemented over the past 9 years has improved. In line with ADF recommendations, project selection, design, and implementation have become significantly more focused on impact, with more staff efforts directed toward incorporating policy and thematic content. The system does have some limitations and requires high-quality staff input to ensure its effectiveness.</td>
</tr>
<tr>
<td>Broaden the consultation process in the preparation of country strategies and programs to encompass other concerned groups in the country such as local community groups and NGOs.</td>
<td><strong>9. Country Graduation</strong></td>
</tr>
<tr>
<td>Conduct a skills inventory within ADB to help identify comparative strengths and how resources can be reallocated to meet new challenges, such as improving public sector management and governance.</td>
<td>A graduation policy was adopted in 1998. The policy has been effective in facilitating country progression through ADF to ordinary capital resources. Further assessments are needed to identify and establish transparent trigger mechanisms for DMC progression and graduation. Evidence is less clear that this policy has been as effective in providing the basis for efficient access and eligibility mechanism to ensure that ADF reaches the poorest in the region.</td>
</tr>
<tr>
<td>Increase aid coordination encompassing multilateral as well as bilateral agencies.</td>
<td><strong>10. ADF Allocation</strong></td>
</tr>
<tr>
<td><strong>ADF VII</strong></td>
<td>The process of moving to a formal, performance-based ADF allocation system was well under way during the ADF VI–VII period although the policy was officially adopted in 2001. ADF allocations during the ADF VI–VII period were based on less formal process of assessing DMC needs. Allocations under ADF VII were found to be efficient as they were in line with the indicative allocations under the formula proposed in the performance-based allocation policy.</td>
</tr>
<tr>
<td>Allocation systems should ensure that scarce concessional resources are carefully targeted at those countries and projects where they are most urgently needed and most likely to be used effectively. Donors urged ADB to introduce a more formal allocation system, strengthening the link to more rigorous performance evaluation based on measurable indicators.</td>
<td><strong>Commitment</strong></td>
</tr>
</tbody>
</table>
Appendix 4: Classifying Projects by Strategic Development Objective

In 1993, the Asian Development Bank (ADB) developed guidelines for classifying public sector projects and programs (see table). Each loan was allowed only one primary strategic development objective (SDO). In most cases, there was one secondary development objective as well, although in a few cases there were two. Classification was a sequential decision-making process. If a loan qualified as women in development, that was its assigned primary SDO. If not, it might be classified as poverty reduction, human development, or environment/natural resource management. If the loan did not meet the criteria for any of these four SDOs, it was classified as economic growth. At the same time, the country focus and country strategies of ADB were strengthened. Project selection became partly a matter of achieving the SDOs and partly a matter of country-specific considerations. The SDO loan classification guidelines were revised and clarified in 1995. However, the essential criteria for loan classification remained the same. Governance, which toward the end of ADF VII, was to assume equal status with the other SDOs, was not yet mentioned in the 1995 guidelines. In 1998, ADB adopted a poverty reduction strategy. Poverty reduction became ADB’s overarching objective and the other four SDOs were changed to themes rather than objectives.

<table>
<thead>
<tr>
<th>Strategic Development Objective</th>
<th>ADF VI–VII Criteria for Loan Project Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth</td>
<td><strong>Primary:</strong> No criteria. Residual after all other classifications. <strong>Secondary:</strong> None.</td>
</tr>
<tr>
<td>Human Development</td>
<td><strong>Primary:</strong> Does not fit the women in development criteria, but more than 50% of project expenditures are targeted to education, health, population planning, water supply, sanitation, housing, and other basic human needs. <strong>Secondary:</strong> Less than 50% but more than 20% of expenditures.</td>
</tr>
<tr>
<td>Poverty Reduction</td>
<td><strong>Primary:</strong> Two thirds of beneficiaries are poor, or more than 50% of expenditures are targeted to the poor. <strong>Secondary:</strong> One third of beneficiaries are poor, or more than 20% of expenditures are targeted to the poor, excluding mitigation of adverse effects caused by the project.</td>
</tr>
<tr>
<td>Women in Development</td>
<td><strong>Primary:</strong> Two thirds of the beneficiaries are women, or more than 50% of expenditures are targeted specifically to benefit women. <strong>Secondary:</strong> One third of the beneficiaries are women, or less than 50% but more than 20% of expenditures are targeted specifically to benefit women.</td>
</tr>
<tr>
<td>Environmental Protection and Natural Resource Management</td>
<td><strong>Primary:</strong> More than 50% of project expenditures are targeted to protect, improve, or conserve natural and environmental resources. <strong>Secondary:</strong> Less than 50% but more than 20% of project expenditures are for such purposes.</td>
</tr>
<tr>
<td>Goal/Indicator</td>
<td>South Asia</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td><strong>Goal 1: Eradicate extreme poverty and hunger</strong></td>
<td></td>
</tr>
<tr>
<td>● Prevalence of underweight children (under 5 years), %b</td>
<td>47.0</td>
</tr>
<tr>
<td><strong>Goal 2: Achieve universal primary education</strong></td>
<td></td>
</tr>
<tr>
<td>● Literacy rate of 15-24 years, %c</td>
<td>67.2</td>
</tr>
<tr>
<td><strong>Goal 3: Promote gender equality and empower women</strong></td>
<td></td>
</tr>
<tr>
<td>● Proportion of seats held by women in national parliament, %d</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Goal 4: Reduce child mortality</strong></td>
<td></td>
</tr>
<tr>
<td>● Under-five mortality rate (per 1,000 live births)</td>
<td>120.0</td>
</tr>
<tr>
<td>● Infant mortality rate (per 1,000 live births)</td>
<td>70.6</td>
</tr>
<tr>
<td>● Proportion of 1-year old children immunized against measles, %</td>
<td>72.0</td>
</tr>
<tr>
<td><strong>Goal 5: Improve maternal health</strong></td>
<td></td>
</tr>
<tr>
<td>● Maternal mortality rate (per 100,000 live births)f</td>
<td>596.0</td>
</tr>
<tr>
<td>● Proportion of births attended by skilled health personnel, % of total f</td>
<td>38.5</td>
</tr>
<tr>
<td><strong>Goal 6: Combat HIV/AIDS, malaria, and other diseases</strong></td>
<td></td>
</tr>
<tr>
<td>● Contraceptive prevalence rate (% of women aged 15-49)</td>
<td>25.4</td>
</tr>
<tr>
<td><strong>Goal 7: Ensure environmental sustainability</strong></td>
<td></td>
</tr>
<tr>
<td>● Proportion of population with sustainable access to an improved water source, %</td>
<td>69.0</td>
</tr>
<tr>
<td>● Proportion of population with access to improved sanitation, %</td>
<td>21.0</td>
</tr>
</tbody>
</table>


Data refer to most recent year available nearest to the year indicated in the column heading.

a Data refer to most recent year available nearest to the year indicated in the column heading.
b Data available only for Kiribati (2000 only), Mongolia (1990 only), Papua New Guinea, Solomon Islands, and Vanuatu. 2000 data not available for Tajikistan.
c Pacific data for Papua New Guinea and Samoa only. Data not available for Bhutan, Kyrgyz, and Kazakhstan.
e Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data not available for Mongolia and Kazakhstan, and not available for Marshall Islands and Tuvalu.
g Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data available only for Mongolia and Kazakhstan, and not available for Marshall Islands and Tuvalu.
h Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data not available for Marshall Islands and Tuvalu.
i Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data not available for Marshall Islands and Tuvalu.
j Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data not available for Marshall Islands and Tuvalu.
k Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data not available for Marshall Islands and Tuvalu.

1 Data available only for Kiribati, Lao People’s Democratic Republic, Maldives, Mongolia, Samoa, and Tuvalu. 1990 data not available for Marshall Islands and Tuvalu.

Corporate Governance and Enterprise Reform Program

This $40 million program loan, along with an associated $4 million technical assistance (TA) loan, was approved in 1997 and was the Asian Development Bank’s (ADB) first program to focus explicitly on the issue of enterprise governance. The Program was launched in recognition of the fact that the Kyrgyz Government’s otherwise reasonably successful corporatization and privatization, which were intended to facilitate the country’s transition from Soviet-era central planning to a market economy, had not markedly improved enterprise efficiency. At the core of the problem was the need to establish the structures of modern corporate governance to more clearly define the rights and responsibilities of owners, managers, creditors, suppliers, and other enterprise stakeholders and to provide mechanisms to enforce governance principles and practices, which would create incentives for enterprise managers to improve efficiency within a rapidly opening economy.

The Program was designed to promote economic growth by eliminating constraints to improved efficiency within the enterprise sector by supporting reforms to (i) develop and institutionalize governance principles and practices, (ii) develop local expertise and capacity, (iii) elevate stakeholder awareness and understanding, (iv) impose financial discipline by eliminating budgetary support for state-owned enterprises, (v) prevent the creation of trade barriers and other impediments to competition, (vi) strengthen the legal framework for insolvency to enforce accountability and expedite the redeployment of assets from nonviable enterprises, and (vii) improve transparency by promoting the adoption of international accounting standards. In addition, the Program supported unemployment benefits and retraining for retrenched workers.

Under ADB’s evaluation methodology, the Program was rated highly successful. It was highly relevant. It addressed binding constraints to improved enterprise performance and was an essential component of the Government’s overall development strategy. The Program was highly efficacious, and broadly successful in meeting the targets established by its logical framework. It was highly efficient. By leveraging work being done in other sectors by ADB and using existing political requirements to enforce compliance with performance targets, the Program benefited from an efficiency of process. In addition, by bringing together a portfolio of reforms under one programmatic umbrella, the Program had greater impact than would have been achieved had individual reforms been pursued in isolation. It was likely to be sustainable. While the governance framework has been institutionalized, concerns regarding the Program’s ultimate contribution to improved enterprise performance arise from (i) systemic weaknesses in the legal system; (ii) chronic tax evasion, which creates incentives for reduced, rather than increased, transparency in financial and operational reporting by enterprises; and (iii) ingrained rent seeking by some officials involved in tax collection, business licensing and regulation, and the judiciary. In terms of institutional development, the Program made substantial progress by reforming essential governance-related laws and regulations, inculcating norms and practices, developing local capacity, and changing the participatory attitudes of stakeholders.

The essential question for the Program—which illuminates a key lesson for future similar operations—is whether the governance framework it provided will actually lead to improved governance practices and ultimately to improved profitability and growth. For governance incentives to be meaningful, they must be reinforced by mechanisms of enforcement. While the basic transformation of incentives and attitudes envisaged under the Program has begun, the Program’s ultimate success still hinges on the Government’s sustained commitment to further reforms, the most important of which include addressing weaknesses within the legal sys-

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1 Loan 1546-KGZ(SF): Corporate Governance and Enterprise Reform Program, for $40 million, approved on 25 September 1997. This case study was prepared independently by an international consultant, Mr. Christopher Bender. The full report is available at the Operations Evaluation Department (OED) web site—http://www.adb.org/documents/studies/corporate_governance_enterprise/corporate_governance.pdf.

tem, limiting undue political interference in the activities of private enterprises, strengthening institutional efforts to eliminate rent seeking, and promoting the development of the financial sector to enable it to play a disciplinary role in allocating investment capital.

The Program represents the first structured approach taken by any of the Central Asian republics to address the problems of enterprise governance. Although some work remains before the governance foundation developed by the Program will be finished—particularly with regard to harmonization of the legal framework—the Program can be credited with a number of accomplishments, including especially (i) providing a governance framework at a time when such a framework was crucially needed, (ii) substantially elevating the awareness of public officials, enterprise managers, shareholders, and the general public of the importance of corporate governance and the right of stakeholders to demand fiduciary responsibility from enterprise managers, and (iii) creating an institution (in the form of the Corporate Development Center) to continue the work of promoting improved governance beyond the existence of the Program and empowering the institution by placing it under the supervision of the Prime Minister’s office. These were essential and valuable contributions.

Not surprisingly, the lessons to be learned from the Program’s achievements are similar to those that can be learned from other successful projects, including the recognition that for development projects to produce useful outputs, they must be (i) designed to meet meaningful and attainable objectives, such as removing a known and binding constraint to growth (which was the essential objective of the Program); (ii) supported by adequate TA, with a strong emphasis on building local capacity; and (iii) actively embraced as a developmental priority by the borrower. Local ownership over the project is essential. The Program also demonstrates (i) the merits of an umbrella approach to reforming complex public policy issues (particularly those that involve large public education components and require the active cooperation and support of a number of governmental agencies and ministries); and (ii) the importance of identifying the proper executing agency to ensure the project receives both sufficient political support, as well as sufficient political attention. Finally, the Program highlights the importance of promoting policies that relax government-imposed distortions to market efficiency. This is particularly important in transition economies where the role of the state often remains inexorably intertwined with the activities of the ostensibly private economy.

The most important question yet to be asked, however, is whether the governance framework the Program provided will actually lead to improved governance practices by enterprise managers and, ultimately, to improved profitability and economic growth. As stated earlier, the framework of modern corporate governance in any market economy establishes the incentives for enterprise managers to act as fiduciaries for the benefit of all of the owners of the enterprises they manage. For these incentives to be meaningful, however, they must be reinforced by mechanisms of enforcement, such as (i) the active and informed participation of shareholders in the governance process, (ii) the presence of competition and the absence of undue political interference in the activities of private enterprises, (iii) the disciplinary effectiveness of banks and the capital markets in allocating investment capital to profitable enterprises in preference to enterprises incapable of generating meaningful economic returns, and (iv) the existence of an efficient and impartial legal system to adjudicate claims and enforce accountability of enterprise directors and managers. Effective enforcement, in turn, depends on (i) the existence of acceptable standards for financial and operational reporting; and (ii) the transparency and impartiality of public officials, particularly those involved in tax collection, business licensing, and the judiciary.

The fundamental transformation of incentives and attitudes—as well as the basic change in the relationship between the state and enterprises—envisioned by the Program has yet to take place in the Kyrgyz Republic. This is largely because the mechanisms of governance enforcement remain underdeveloped. This weakness would impede the improvement of governance practices in the absence of further reforms. While some constraints to improved governance are structural and can be resolved in time with TA and targeted investment, the most important constraints can only be eliminated by the application of concerted political will. The Government must be committed to enforcing the governance requirements contained in the model corporate charter (and, now, in the proposed Joint Stock Company Law) even when the enforcement of these requirements may not be in its own financial or political interests.

In addition, the Government must recognize that the financial performance of joint-stock companies (JSCs) in which the Government remains the dominant shareholder will fall short of expectations as long as the Government’s objective function includes conflicting objectives, such as job creation, and the Government tolerates poor financial performance by existing managers because their appointment reflects political patronage. While steps can be taken to improve the governance of such enterprises, the Government should eventually privatize them.

The effectiveness of the financial sector in encouraging improved governance will remain limited as long as enterprises do not view banks or the capital market as viable sources of investment capital. This problem is, to a large degree, self-reinforcing, as investors will remain reluctant to provide capital
as long as enterprises fail to disclose accurate and reliable financial data and managers fail to establish track records for acting in the interest of shareholders. The Government should continue to support development of the financial sector.

The objective of improving the governance practices of enterprise managers and efficiently and equitably restructuring or liquidating insolvent enterprises will be handicapped as long as governance standards cannot be enforced in the court system, either because of political interference or corruption. The Government should continue to support the reform of the judiciary.

The imposition of governance requirements—such as the production of timely and reliable financial statements—will not result in anticipated outcomes as long as enterprise managers have no practical reasons for complying with them. This is particularly evident when applied to the disclosure of financial data by enterprises that are successfully evading taxes. The State Tax Inspectorate should require the submission with tax filings of financial statements that follow international accounting standards. The Government should take steps to curb tax evasion and limit rent seeking by revenue collectors.

In addition to supporting these measures—privatization, financial sector reform, and judiciary reform—the aid community can help by supporting programs to (i) strengthen public governance (including, especially the curtailment of rent-seeking behavior by public officials involved in tax collection, business licensing and regulation, and the judiciary); (ii) strengthen financial sector governance (particularly with regard to limiting insider lending, improving auditing, and imposing meaningful civil penalties in the case of malfeasance); and (iii) facilitate enterprise restructuring (particularly with regard to improving the human capital of enterprise managers).

These issues appear to be adequately addressed in the design of the ongoing follow-on program.3

**Power and District Heating Rehabilitation Project**

Reliable and efficient power and heat infrastructure is a basic requirement for macroeconomic stabilization and economic growth. ADB’s strategy was to (i) support economic transition through improved energy supply reliability; (ii) enable savings in fuel imports; (iii) strengthen institutions and develop human resources in the power and heat sector; and (iv) promote policy reforms, including, in particular, tariff adjustment and energy sector legislation. This Project was a step forward in this direction.

The unbundling of Kyrgyz Energy into seven separate JSCs only in 2001 has made evaluation of the Project more difficult as many financial and operational divisions are still being sorted out. All the JSCs seem to be managed well from an operational view. The financial and commercial aspects are more problematic. There appears to be a real difficulty in keeping meaningful accounts and lack of knowledge in most cases of international accounting standards. Commercial functions have presented more difficulties in making the adjustments required in the transition from a managed economy and should be monitored in the future.

The Kyrgyz Government has faced a number of difficulties in implementing the Project, including a severe financial crisis in 1998 and as a result was not able to provide required counterpart funding in a timely manner. The persistent level of poverty in the country continues to make it difficult socially to increase tariffs for energy consumption to levels that will make the energy sector financially viable. This is an area that should be emphasized to give consumers more incentive to conserve energy and to force more efficient choice in the use of energy types. Tariff increases are also essential to provide the energy sector with sufficient funding to assure long-term sustainability.

Various resolutions have been introduced to provide energy subsidy vouchers to low-income people, allowing overall energy tariffs to be increased. This approach would recognize the cost of providing electric power and heat to low-income citizens as a social cost rather than placing the financial burden on the energy sector as it does now.

ADB should follow events in the Kyrgyz Republic to ensure that energy tariffs continue to be increased. ADB must also monitor the safe storage of the replacement pipe for the Bishkek District Heating System to ensure that it is kept secure and installed on a reasonable schedule.

While many problems remain in the energy sector, the major short-term emphasis for both funding and TA should be in improvement of the low-voltage distribution networks. Most of the infrastructure of the four JSCs involved in distribution is old, obsolete, and in need of repair. Frequent outages persist and system losses including theft of electric power are estimated to exceed 35%. The Kyrgyz Republic should be encouraged to strengthen and enforce the energy law as regards the theft of energy.

In retrospect, the Project could have been better designed initially by including funds and TA for both the low voltage distribution network and for the international grid control system, which is located in Uzbekistan and controls the distribution of electric power among the participating states of Kazakhstan, Kyrgyz Republic, and Uzbekistan.


4 Loan 1443-KGZ(SF): Power and District Heating Rehabilitation Project, for $30 million, approved on 6 June 1996. This case study was prepared independently by an international consultant, Mr. Ben Boyd. The full report is available at the OED web site—http://www.adb.org/documents/studies/power_heating_kgz/power_heating_project.pdf.
Future lending projects, which require counter-part funding, should also contain contingency plans for the possibility that these funds may not be available as promised.

**Road Rehabilitation**

Soon after independence from the former Soviet Union in 1991, the Government identified the rehabilitation of the Bishkek-Osh road as the highest priority in the transport sector. That road connects two disparate regions of the country—the southern region containing the most fertile land in central Asia, the Fergana Valley, and the north industry corridor. The degradation of this road, which goes through the high mountain passes and valleys, has slowed commerce and increased transportation costs.

This Project, supported by $50 million from ADF, was one of ADB’s first ones in the Kyrgyz Republic and the first in the road sector. The Project was launched to rehabilitate about 135 kilometers (km) of key sections of the Bishkek-Osh road and provide equipment to improve maintenance and safety of the road. Consulting services for project design and construction supervision were also provided. The road runs through four of the country’s six regions and serves about half of the population. It connects the two major urban centers of economic activity and population, which together account for over half of the country’s gross domestic product (GDP) and 80% of industrial enterprises. Years of neglected maintenance resulted in serious deterioration of certain sections of the road that are periodically closed in winter months because of unsafe conditions. An all-weather road linking the two key centers of the country was deemed essential for the country’s economic development and to improve transport safety. Policy and institutional reforms were added to enhance institutional capacity to address sector issues in a market economy.

ADB strategy at the time of project preparation, followed operational priorities that reflected greater emphasis on targeted investments addressing poverty reduction in parallel with efforts to stimulate broad-based economic growth that would enhance the role of the private sector. At the level of the country operational strategy and the country assistance plan, there was an acknowledged need to improve efforts to develop market mechanisms and foster growth while tackling the growing poverty effects of transition. The continued focus on growth efforts was deemed especially warranted given the dependence of the Kyrgyz economy on the former Soviet economy. As much as 30% of GDP was abruptly lost in 1991 as the Kyrgyz Republic declared its independence. Therefore, the Project with its focus on growth and its scope including two of the poorer areas in the country was relevant to ADB’s country operational strategy. In addition, advisory TA attached to the Project provided much needed capacity building in urgent policy issues such as cost recovery, road maintenance, and safety.

Based on evaluation carried out after its completion, the Project was highly relevant as it rehabilitated 135 km of the most important road in the Kyrgyz Republic. The Project was efficacious and met its objectives and will contribute even more to realizing the wider development goals after the two follow-on projects have been completed. The project funds for civil works were efficiently used. However, not enough road maintenance equipment was procured. The equipment should have included some efficient snow removal equipment instead of extra road construction equipment. The project outputs are fully sustainable, provided that road maintenance continues to be properly organized and financed and provided that the defects on some small sections of the road are repaired in a timely manner as agreed upon with the Government. Road maintenance issues are addressed in the follow-on projects. The Project has made a large institutional impact. Capacity building and policy support helped establish the Ministry of Transport and Communication during the reorganization of government. International competitive bidding and the practice of independent supervision of road works were introduced in the Kyrgyz Republic. The Project has greatly improved safety conditions compared with the situation before rehabilitation. This has been achieved through the use of concrete barriers, warning signs, and road markings. However, some hazardous situations remain on the project road, which are being addressed under the follow-on projects.

An economic reevaluation of the Project was carried out based on the methodology used at appraisal, comparing the with- and without-project cases. The primary differences between reevaluation and appraisal were (i) the revised economic costs were derived from actual financial costs, (ii) the construction period was 5 years compared with about 3.5 years anticipated at appraisal, and (iii) benefits were based on actual traffic data. The main sources of benefits were savings in vehicle operating costs and savings from diverted traffic. The revised economic internal rate of return was estimated at 9.7% versus 13.1% at appraisal. The de-

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5 Loan 1444-KGZ(SF): Road Rehabilitation Project, for $50 million, approved on 13 June 1996. This case study was prepared by N. Chakwin, Principal Evaluation Specialist, OED.


7 Loan 1630-KGZ(SF): Second Road Rehabilitation Project, for $50 million, approved on 10 September 1998; and Loan 1853-KGZ(SF): Third Road Rehabilitation Project, for $40 million, approved on 31 October 2001. The subsequent loans are part of the strategy to rehabilitate priority sections of the road in a sequential manner. This has proved to be a successful approach as there has been a great deal of learning by ADB and the Kyrgyz Republic during the Project, which can be applied to the design and implementation of the follow-on projects.
crease was attributed to higher economic costs, lower-than-expected traffic, and longer implementation period. The revised rate of return is below ADB’s 12% threshold, but the uncertainty regarding future traffic levels due to implementation of the follow-on projects means that the rate of return could significantly increase in the future as the other sections of the road are rehabilitated.

The Project has had positive impacts that could not be quantified, including improvements in road safety, and development of local subcontractors and roadside businesses, such as small restaurants and vendors selling agricultural produce. A number of other positive developments in the project area may be partly attributable to the Project, including increased levels of employment and income in the project areas, and a noticeable reduction in prices for agricultural products in the two major cities connected by the road.

The Project was substantially implemented as planned. There were delays related to three factors: (i) financial—this was the first project in a new member country and there were issues related to the contractor, which were eventually sorted out; (ii) technical—some of the most technically difficult sections of the road were included for rehabilitation under this first project and the work took longer than expected; (iii) planning—the works under the second project closed the main tunnel for almost 2 years for 18 hours every day during the construction season (April–November) and the road users avoided the tunnel due to its inconvenient opening hours (from midnight to 6–7 a.m.).

The selection and sequencing of road sections for rehabilitation could have been more forward looking to better maximize benefits and minimize disruptions to the traffic flow. In addition, some of the technical issues associated with temperature variation and altitude might have been better addressed at the design phase. Overall, the Project has been rated partly successful.
Appendix 7: Case Studies on The Pacific—Samoa and Vanuatu

Samoa

Financial Sector Program

The Program supported financial sector reforms in Samoa. The attached technical assistance (TA) aimed at institutional strengthening of the central bank, the development bank, and the national provident fund, as well as corporatizing or privatizing eight state-owned enterprises.

One part of the Program was directed to monetary policy. In the Pacific small island states that use the currency of the United States, New Zealand, or Australia, macroeconomic policy is limited to tax and fiscal measures. However, the six biggest island states, including Samoa, issue their own currencies. This function calls for more sophisticated skills to manage monetary aggregates, interest rates, credit, inflation, and external accounts.

Also, in these very small markets, monetary policy can be overmanaged through direct interventions. Until 1996, the Government of Samoa fixed interest rates directly, set a ceiling on the amount of credit banks could provide, and required banks to hold 20–30% of their assets in liquid deposits, a quarter of which were noninterest-bearing deposits with the Central Bank. The result was serious distortions of Samoa’s financial economy. High liquidity requirements, together with credit ceilings, eroded the incentives of banks to expand their deposit base and produced an “overhang” of uninvested funds. For considerable periods after inflation, interest rates on deposits were negative, and there were few alternative instruments for savers. Investors’ decisions were distorted by interest rate rigidities and volatile inflation rates. Credit rationing resulted in the priorities of the Government and special interests sometimes dominating normal risk and rate-of-return considerations in the banks’ allocation of capital. All these factors contributed to an excessive growth of unregulated nonbank lenders relative to the regulated banking sector. At the same time, the system did not allow easy adjustment of the Government’s monetary policy. Excess bank liquidity made it difficult to ease policy, and the large unregulated sector of nonbank lenders made it difficult to tighten policy.

In January 1998, the Government began a financial liberalization program, removing interest rate controls and credit ceilings, phasing out banks’ liquid assets requirements, and starting weekly auctions of Central Bank securities as the main instrument of monetary policy. To facilitate this transition, the Asian Development Bank (ADB) provided funds under the Program, most of which were for general support of the national budget, but some, approximately $1 million, was to cover the annual interest costs that the Central Bank incurred when it abandoned direct controls of interest rates and credit ceilings, and, instead, issued securities in competitive open-market operations. ADB’s TA, along with TA from the International Monetary Fund, helped build the capacity of the Central Bank to manage the new system.

In the postliberalization period there have been some signs that the Program has been effective. For example, the private sector credit grew faster at an average rate of 13.6% in the 2 years after reform, compared with 10.6% in the 2 years before, which was a good sign given that inflation moderated at the same time. Average inflation was 6.2% per annum in 1996/97 and 1.5% in 1998/99. The commercial bank share of total lending, which was 14% below nonbank lending in 1997, is now about 15% higher. Interest rates have been noticeably more stable and positive, although a considerable spread between deposit and loan rates has remained, and loan rates are high relative to major markets. Lenders are now better able to factor credit risks into lending rates.

Over the 4 years of the Program, the Central Bank’s interest rate on 91-day securities has varied between 5.25% per annum and 7.0% per annum, and has tended to remain around the middle of that range. The Central Bank has not yet aggressively

1 These case studies were prepared independently by an international consultant, Mr. Kenneth Watson.
2 Loan 1608-SAM(SF): Financial Sector Program, for $7.5 million, approved on 19 February 1998.
3 TA 2989-SAM: Institutional Strengthening of Government Financial Institutions, for $950,000, approved on 19 February 1998.
used interest rates to manage inflation targets, and, given the limited clientele for its securities (so far only the three commercial banks that operate in Samoa), the ability of the Central Bank to manage rates is still constrained.

**Education Sector Project**

The Project supported physical rehabilitation of 16 schools in Samoa, while the attached TA was for in-service teaching training in these schools.

In the past, other aid agencies such as the European Union Development Agency and Japan International Cooperation Agency had used a shared-cost model for microprojects in Samoa, whereby the village contributed about one quarter of the costs, in cash or kind, for small construction projects such as the installation of a water tank. Typically the village contributed labor in preparing and cleaning up the site and simple building materials. ADB decided to take a similar approach, although with the possibility of a full or part waiver of the local contribution if circumstances proved this necessary. Of the 14 resource agreements concluded with school committees, five received complete waivers, and nine partial waivers. The share of costs borne by the local community, where the waiver was partial, varied between 5% and 16%. There were no cash contributions; rather, all was in kind. However, the cash equivalents were substantial. The in-kind contributions tended to include land (typically owned communally), demolition and fill costs, clean up, fencing, walkways, and, in some instances, power and water supply to the site. The need to negotiate resource agreements between the local school committee and the Department of Education in each instance led to delays in project implementation, but probably was not the most important factor. As of September 2002, 3 of 16 subprojects were complete, one of which was designed before the loan was granted.

For several reasons, the shared-cost approach has proved of limited value in this case. First, the scale and sophistication of construction did not lend itself to a self-help approach. The construction costs were too large for villages to fund 25% of the cost. Many of the materials and types of labor needed were available only from commercial contractors. The rehabilitation involved extensive upgrading or complete reconstruction of school buildings to meet building code standards for the first time. In some cases, the Project involved the construction of special facilities such as libraries, teachers’ rooms, and classrooms designed to accommodate agricultural studies or food and textiles studies under a new curriculum. School fees are a major source of school resources in Samoa, but they were typically already fully committed and could not be tapped for capital investment. Another factor that worked against the self-help approach was that ADB’s contracting rules exclude the possibility of informal “mates rates” work on the project sites.

Second, the school committees were made up of people who represent the group that “owns” the school—chiefs and other people important in the local village, but not necessarily parents. In fact, parent and teacher associations are a recent innovation in Samoa. The composition of the school committee was particularly relevant in those cases where the school drew pupils from several villages. The committee might have been able to find volunteer inputs from the village that “owns” the school, but were less likely to be able to mobilize proportionate contributions from other villages. On the other hand, two-tier school fees for in-village and out-village pupils are not uncommon. All in all, the traditional concepts of village ownership of the local school, and ideas about who has “speaking rights” in regard to the school, have been important factors. ADB staff input is large for the amount of construction involved, but reflects the extensive discussions and the careful tailoring of the sub-project design to local “owners” that is necessary in the Samoan context.

These issues were particularly sensitive since Samoa is in the midst of implementing a school zoning system, which requires relocating large numbers of pupils from overcrowded but prestigious schools in the capital Apia to their home community schools. In fact, the first ADB subprojects to be funded and completed all relate to this pupil redistribution effort. The rural schools among the subprojects are yet to be reached.

**Vanuatu**

**Urban Infrastructure Project**

The Project covered a 5-year program of road and bridge rehabilitation, port rehabilitation, water supply, drainage and sanitation in Port Vila and Luganville, the two main towns in Vanuatu. The attached two TAs draft three key pieces of legislation and produce a sanitation master plan for Port Vila.

Although physical implementation took 3 years to get substantially under way, a good part of the works were begun in 2000 and finished before the December 2001 loan closing date. The scope of the

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6 TA 3498-SAM: *Education Support*, for $820,000, approved on 5 September 2000.


8 TA 2596-VAN: *Urban Growth Management Strategy for Port Vila*, for $600,000; and TA 2597-VAN: *Sanitation Master Plan for Port Vila*, for $360,000; both approved on 27 June 1996.

9 The Environmental and Resource Management Act, the Water Resources Management Act, and Building Regulations.
works was adjusted in two ways. First, the contractor engaged to resurface Luganville roads pointed out that the improvements would not be sustainable unless substantial improvements in drainage around the road were completed first. Second, in 2001 the scope of the whole Project was reduced when it became apparent that the funds available would be inadequate for full completion. Specifically, the sanitation component and the Port Vila traffic intersection improvements were put on hold, pending allocation of counterpart funds.

The Project had significant achievements. Most of the works, with a few significant exceptions, were completed and important work in regard to environmental and water resource regulation and building codes was undertaken. However, the late changes in scope highlighted weaknesses in estimating initial costs and in project monitoring. Reporting completion percentages is unhelpful if delays and potential overruns are accommodated by scope reductions. Similarly, the practice of calling an underrun “savings” is also unfortunate when the components that are completed have exceeded their estimated costs and the “savings” are only due to scope reductions.

The Government did not comply with several key loan covenants that were intended to ensure the long-term sustainability of the works, and included changes to the water tariff structure in Luganville, corporatization or privatization of the Luganville water supply authority; changes to road tax policy to generate funds for maintenance, and changes to port operations. Failure to comply with the covenants raises questions of priorities and process. If the covenants were essential, then there should probably have been a more detailed process of steps laid out to comply with them and disbursements linked to those steps. Among the steps there should have been opportunities built in for modifying a covenant if necessary. The failure to honor the covenants raises the question whether some of them were too specific, given that a clear evidence-based consensus had not yet emerged on the best way to proceed.

Comprehensive Reform Program
The Program\textsuperscript{11} and the attached TAs\textsuperscript{12} were approved under crisis conditions. Over the previous decade the Government’s financial situation had deteriorated steadily, with large fiscal deficits that started with development fund overspending, and spread to recurrent expenditures. At the same time government revenues were declining, reflecting failures of tax policy and enforcement, and patronage appointments were eroding the quality of the public service.

The crisis came to a head in January 1998 when revelation of details of certain investments by the Vanuatu National Provident Fund led to serious riots in the capital. The Government stood by its guarantee of Fund deposits, but at the cost of a fiscal deficit that reached 12.7% of GDP, with dramatic implications for inflation and the balance of payments. A run on the currency began in March 1998.

At the end of that month a new government assumed office, and opened negotiations with ADB in regard to a loan. The loan involved disbursement of a first tranche of $10 million to help restore liquidity to collapsing government finances. This and two further tranches of $5 million were contingent on certain commitments by the Government for policy and institutional changes.

The Program covered a broad range of reforms, encompassing three key areas of the economy:

(i) In the financial sector, the Government dissolved the Vanuatu Development Bank and recapitalized and restructured the National Bank and the Provident Fund. Nonperforming investments were segregated into an Asset Management Unit.

(ii) The public sector fiscal regime was restructured with the introduction of a 12.5% value-added tax to replace a number of other indirect taxes.

(iii) The public sector was reformed with the introduction of a merit-based professional cadre of department and agency heads, under life appointments (recently changed to 3-year performance contracts), with a changed relationship with the Minister. The Government also undertook to reduce the size of the public service by 10–15% and to withdraw from its excessive ownership of commercial enterprises.

This ambitious reform agenda was supported by grants from a number of sources who had a long-term interest in development in Vanuatu. However, each source came with administrative and political models that reflected its own background and historical experience. This proved problematic in a situation where fundamental changes in governance were being attempted under crisis conditions and where political and administrative friction had arisen during the incorporation of the English-French condominium into the new nation. What was needed exceeded the normal coordination of like-minded sources and stretched ADB’s governance expertise.

The conditions agreed to by the Government under the Program were extensive and controversial. One result was that program implementation

\textsuperscript{10} The requirement that Luganville water authority switch to a two-tier water tariff structure perhaps falls into this category.

\textsuperscript{11} Loan 1624-VAN(SF): Comprehensive Reform Program, for $20 million, approved on 16 July 1998.

\textsuperscript{12} TA 2984-VAN: Institutional Support to Central Agencies for the Comprehensive Reform Program, for $630,000, approved on 23 January 1998; and TA 3046-VAN: Institutional Support to Central Agencies for the Comprehensive Reform Program (Phase II), for $1.2 million, approved on 16 July 1998.
became a highly charged political matter. When the Government changed about 18 months after loan approval, the implementation agenda and timetable were set back. In retrospect, ADB may not have moved fast enough immediately after loan approval to disburse funds and to encourage the immediate performance of agreements.

Four years after loan approval, it seems that the Program has made a significant difference to the political economy of Vanuatu, although it is impossible to tell what reforms might have been made if the financial crisis had been allowed to run its course without external intervention. Key reforms that were achieved include introducing a value-added tax, downsizing the public service, strengthening the merit principle within the senior public service, and some improvement in fiscal discipline. Nevertheless, fiscal deficits remain high, the Government has not withdrawn significantly from involvement in commercial enterprises, and the quality of social services and hopes of spurring development in agriculture and tourism have not borne fruit. Private investment remains low because of political uncertainty, lack of security of property, and structural problems in finance and regulation. On balance, the Program supported some important, but fragile, policy and institutional reforms, under extreme stress, but the work may have been more effective and more sustainable if there had been a narrower focus on the highest priorities.
Appendix 8: Environmental Activities

Environmental Mitigation Measures

The Asian Development Bank (ADB) has made good progress in integrating environmental considerations through improved project design and mitigation measures in all types of projects. The Operations Evaluation Department (OED) has examined issues related to power projects in two studies: one on environmental effects of hydropower projects,¹ and the other on environmental mitigation measures in thermal power projects.² Some of the projects included in the studies³ were started before a number of relevant policies and guidelines were adopted.⁴ In the hydropower projects, the most significant environmental impacts identified were associated with migratory fish species (see Box). In the thermal power projects, several shortcomings occurred, most of which could have been avoided or compensated with more diligence on the part of the project proponents, government agencies, and ADB. Several of the study projects experienced waste disposal problems due to reduced demand, overestimation of demand for environmental improvements generated by the plant (i.e., district heating, wastewater, or sewage treatment), and inadequate space to install equipment required by new regulations (e.g., flue gas desulfurization). Identification and mitigation of project impacts improved with later study projects.

The environmental impact assessment process required and supported by ADB has often resulted in successful identification and mitigation of major environmental impacts. The study projects were generally in compliance with environmental protection regulations and guidelines of the respective developing member country, even though the mandate and capacity of environmental management agencies to regulate and monitor mitigation measures might have been low. Environmental personnel, management plans, and monitoring programs had variable success in sustaining environmental mitigation measures during the operational phase in the study projects. Mitigation measures requiring foreign exchange were usually financed by ADB, but related local expenditure for maintaining and monitoring mitigation measures were often delayed until the plant was well into the operational phase. Provincial environmental management agencies often had insufficient capacity, training, means, or the incentive to ensure compliance with regulations.

In agro-industry projects, positive impacts included the prevention of soil erosion, the introduction of new cultivation practices, and retention of

Mitigation Measures of Hydropower in the Lao People’s Democratic Republic

The Nam Song Hydropower project had some negative environmental effects, such as reduced water flow to some villages and potential impacts on fisheries. The villages were supplied with wells, and a fish-stock program for the reservoir was successfully implemented. Adding roads and electrifying the villages have been an added bonus of the project. Environmental impacts of the Theun-Hinboun Hydropower project included loss of a fish passage for upstream migration, reducing fish populations. Irregular water flows and turbidity resulted in (i) migratory problems for particular species of fish, (ii) declining harvests in the lower areas near the Mekong, and (iii) increased access and mobility for fishing in some areas and difficulty in accessing other areas during the dry season. As the Government had insufficient funds, the power company provided support to mitigate some of these adverse impacts. A regulating pond was constructed during implementation to reduce the impact of the variable water flows on soil erosion. Similarly, the power company paid to relocate a village shrine. During implementation, the power company commissioned several studies on irrigated agriculture, rural development, and fisheries development to help the Government prepare a structured development plan for improving the incomes and lifestyles of affected people. Experience from these two projects and new policies resulted in successful mitigation works and provided compensation for alleviating and remediating negative social and environmental consequences in the Nam Leuk Hydropower project. Special actions included careful control of the contractor’s and loggers’ activities; designing and maintaining an attractive reservoir with undisturbed forest; good quality water; and relocated families were compensated for the loss of croplands, property, and assets in consultation with the people and to their satisfaction.

² ADB. 1998. Special Evaluation Study of the Environmental Mitigation Measures in Selected Bank-Financed Projects. Manila. Two urban development projects were included in the sample along with four thermal power projects.
³ While the studies included projects in non-Asian Development Fund (ADF) recipient countries, lessons learned and recommendations from these studies provided feedback into subsequent lending to the power sector and are, therefore, relevant.
⁴ Specific policies and guidelines were approved in 1995–1998 for energy, involuntary resettlement, forestry, fisheries, and indigenous peoples.
soil microflora and moisture through preservation of cane trash. The effects of integrated rural development projects on the environment were more mixed. The positive impacts comprised (i) soil conservation and reforestation, (ii) reduction in flooding, (iii) mitigation of soil erosion, and (iv) controlled migration and settlement. These benefits were tempered by negative effects including (i) landslides along constructed roads, (ii) encroachment on forests due to expanded road infrastructure, (iii) degradation of watersheds due to forest encroachments and lack of proper watershed management, and (iv) river channelization caused by the installation of flood dikes and drainage systems along riverbeds.

A project in Pakistan is a good example of both positive and negative project impacts of such integrated rural development projects. The project contributed to improvement of the environment through its forestry subcomponent. An area of 29,367 hectares was afforested, equivalent to 3% of the total project area. However, the rural roads located in the mountainous terrain of one district required a substantial volume of soil cut and fill, which caused landslides along the roads. The environmental assessment for the roads was endorsed by the province’s Environmental Protection Department, which overlooked this adverse effect. Further efforts were needed to identify mitigation measures to stabilize the cut and filled surfaces. Other activities under the project did not have any significant environmental effects.

Many of the irrigation projects or project components were environmentally neutral or positive in addressing concerns such as irrigation and drainage for agriculture. The problem of soil erosion is complex. Reconstruction and resectioning were generally successful in reducing erosion and in protecting agricultural land from intrusion of saline water. However, blocking of traditional water routes in some areas has obstructed navigation. One project in the water sector had positive environmental impacts and contributed to overall health improvement in the project area.

Road projects were more problematic for the environment. One major environmental contribution of road projects was the reduction in dust particles and improved air quality at roadside areas. The installation of drainage structures and raising of embankments accompanying road construction were seen as preventing soil erosion in some countries and contributing to reduced land fertility in others as a result of the interruption of normal flooding. Also in some projects, like the Champassak Road Improvement Project, the contractors responsible for clearing up the borrow pits, removing spoils, replacing topsoil, and leaving the area in a safe and tidy condition were negligent. At some of the bridges where the construction required embankments that entered waterways, spoils and oil spillage covered the waterways. In addition, the clearing of a section of forest attracted the attention of the World Conservation Union. A detailed environmental action plan was developed and the borrow pits were converted into fishponds as requested by surrounding villages. During construction, additional works were undertaken to minimize the effects of erosion on the areas immediately adjacent to the project works.

The role of public awareness and public participation differs by country, within sectors, and by projects. However, studies generally show that greater public participation improved the design, operation, and monitoring of mitigation measures. Increased transparency led to greater flexibility in adjusting measures to suit changing circumstances. Identification of major project impacts improved with later study projects as environmental impact assessment preparation and consultations with affected persons were introduced. Among the major reasons for these advances were the (i) strong emphasis given to social and environmental objectives in ADB’s Medium-Term Strategic Framework 1995–1998, (ii) increased hiring of new ADB staff with skills in social and environmental fields, and (iii) preparation of policies that gave guidance for improving the social and environmental design of projects in general. ADB has made significant advances in expanding and clarifying its policies for environmental and social concerns.

**Technical Assistance**

There has been extensive technical assistance (TA) to support many facets of environmental activities. In 1995–2000, ADB provided 149 TA grants totaling $122 million for environmental capacity building, with ADF countries receiving 61 TA grants for a total of $79 million. Of these TA grants, 118 were country-specific and 31 were regional in scope. The grants covered six areas of activities: management, institutions, human resources, policy, planning, and legislation.

TA grants to improve natural resource and environmental management accounted for 70% of the total amount. They covered a wide range of natural resource and environmental management concerns that had been changing over the past 15 years. The number of grants focusing on environmental impact assessments significantly decreased in the last 8 years, while assistance for natural resource management support increased. The focus on environ-

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5 Loan 1179-PAK(SF): North-West Frontier Province Barani Area Development Project, for $32.8 million, approved on 24 September 1992.


8 Loan 1369-LAO(SF): Champassak Road Improvement Project, for $48 million, approved on 31 August 1995.
Environmental management paved the way for the transfer of environmentally sound technology and assisted countries in setting standards, introducing assessment and monitoring activities, and training a large number of government counterpart staff. The need to increase management and monitoring skills has been one of the crucial factors pointed out in OED’s evaluations of activities in this area (footnote 2).

Institutional development and strengthening was the second largest category, receiving about 15% of TA grant funds. These were mostly directed toward strengthening environmental units or institutions. Although almost all of the TA projects involved training and skills development, about 7% of grants were directed specially to human resource development activities such as environmental monitoring and management; environmental planning; impact assessments; environmental law; implementation of the Kyoto Protocol and Clean Development Mechanism; transboundary atmospheric haze pollution; energy, soil, and water conservation; and wastewater treatment. Apart from government officials, people trained under ADB’s TA grants included environmental journalists in the region, community volunteers, and staff of development banks.

About 4% of the TA was directed to develop or reform country policies that impinge on environmental and natural resource management. ADB’s TA grants in this area sought to strengthen or develop land use and land tenure policies, promote cleaner production policies, and draft sector development policies that were environment-related and forestry policies.

Environmental planning was a neglected area in relative terms. Of the total TA funds, only 2% was directed toward planning. Planning has three dimensions—strategic, physical, and regional—and is critical to environmental capacity building. It is particularly the physical planning related to urban development, transport, and industrial zoning where TA support needs to be strengthened. TA support for environmental legislation also accounted for another 2% of the total. This was aimed primarily at strengthening environmental standards and enforcement policies, developing and implementing a pesticides regulatory framework, and formulating provincial legislation on environmental protection and natural resource conservation.

The environment-related TA activities have been, on the whole, generally successful. Recommendations and lessons learned from OED evaluations\(^9\), indicate that pursuing environmental capacity building in emerging sectors in developing countries is difficult. Extensive diagnostic assessments must be done before the TA can be really effective, and environmental issues need to be examined in the context of the root causes of environmental degradation such as poverty, population pressure, overconsumption, and illiteracy. Resources should be focused accordingly.

Appendix 9: Case Studies on Human Development—Sri Lanka

**Second Health and Population Project**

This $33 million project was launched in 1993 in response to a shift in government focus from local or primary to the neglected secondary hospitals. The authorities were concerned that the tertiary teaching and general hospitals at the district towns were overutilized and overburdened. The objective of the Project was to strengthen the midlevel units to increase patient confidence and increase both inpatient and outpatient use with a concomitant decrease in the patient loads at the larger tertiary facilities.

The project-aided hospitals were to receive a package of support including civil works (new facilities for outpatient care, administrative offices and staff quarters plus rehabilitation of existing structures) and emergency treatment packets to enable them to respond more effectively when life-threatening situations were presented (ambulances, telephone, and basic equipment). The Project invested an average of over $280,000 in each secondary hospital. Originally 35 sites were to receive support, but in the end an additional nine units were assisted.

To strengthen the capacity of the health providers, initially in the project-aided facilities and then nationwide, the National Institute of Health Sciences received substantial assistance consisting of almost $1 million for civil works (classrooms, hostels, clinic) as well as technical assistance (TA) to develop a curriculum and upgrade trainer capacities.

The implementation of the Project was found to be generally favorable, but, in retrospect, its design was less favorably viewed. Using the five criteria of the Asian Development Bank’s (ADB) evaluation methodology, the Project was found to be partly relevant considering patient behavior and the inability to modify behavior patterns. Although more facilities received assistance than originally programmed, there was no evidence that the referral system and utilization rates improved as a result of the project investment. Therefore, the Project was judged to be less efficacious. For the amount of resources invested in approximately 10% of the secondary hospitals in Sri Lanka without measurable results, the Project was not considered cost-effective and was classified as less efficient. Financial constraints and a lack of procedures to address maintenance problems raised concerns about the sustainability of the project inputs and resulted in a less likely rating. Finally, there was little evidence of institutional development as a result of the Project, meaning that policies such as health care finance and in-service training were not modified, which made it difficult for project objectives to be achieved. Taking all five aspects together, the Project was rated partly successful.²

The lessons learned from the Project include the need to focus special effort on project preparation and design. It is also essential to ensure that an enabling environment and supporting government policies are in place so that project objectives can be achieved. Another lesson is the importance of identifying appropriate indicators during the project preparation phase and monitoring them during implementation. This keeps the effort on track and allows modification as required. Having a close relationship with previous health sector operations is also important. Although the formulation of the Project was guided by government policy changes in the early 1990s, the community-based efforts pursued in its predecessor may have had a greater long-term impact on the health status of the population.

The success of a project depends on the effectiveness of its preparation and design. For a social sector intervention such as the Project, in-depth analysis is crucial in the project design and formulation stage. For example, in the attempt to modify patient behavior toward health facility use, it is essential to ascertain what motivates the target population and determine what variables influence the choice. Intensive surveys, similar to methodologies used in marketing studies, can be used. Such studies will identify perceived needs and problems that will help determine how project resources can be programmed most cost-effectively.

Indicators of project outcomes and impact should be identified during the design phase, and

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¹ Loan 1189-SRI(SF): Second Health and Population Project, for $26.1 million, approved on 17 November 1992. This case study was prepared independently by an international consultant, Mr. David Pyle. The full report is available at the Operations Evaluation Department (OED) web site—http://www.adb.org/documents/studies/health_population_sri/health_population.pdf.

strategies and methodologies to track performance developed. Advances made recently by ADB in this regard will greatly enhance the ability of project managers, both in the implementing agency as well as ADB, to determine in midcourse whether satisfactory progress is being made to achieve project objectives or if modifications are required to improve performance. It may be advisable to outsource the outcome/impact monitoring function to ensure that it is done properly and in a timely manner.

ADB assistance should be cumulative and should build on preceding projects. Thus, the lessons learned in one can be taken into account in the follow-on effort. In the case of Sri Lanka, difficulties in implementing the first project and a shift in national health policy resulted in a new focus on the strengthening of secondary hospitals. Nonetheless, the Government’s continued interest in community-based health care and ADB’s priority to community participation and reaching those most in need could well have supported an expansion of the health center network and would have achieved more in terms of impact at a lower cost. Integrating the preventive/promotive care with a modicum of curative care (e.g., integrated management of childhood illness) at the health centers at the grassroots level would have been a valuable contribution to the welfare of the most needy segment of the population and helped reduce the extremely high neonatal mortality rate.

ADB should identify what is required for the proposed project design to be effective and sustained, and then ensure full commitment of the executing agency and government to provide the necessary enabling environment. If the necessary policy changes are not forthcoming, ADB should either not proceed with the project or modify it to include a strategy that is not dependent on such changes.

**Secondary Education Development Project**

This $41 million project sought to improve access to quality secondary education in Sri Lanka and thus lead to greater employment opportunities for students in the rural districts of the country. The primary objectives were to improve the quality of Sri Lanka’s secondary education for years 6–11 and provide more equitable access to it, particularly in rural areas. The Project was designed to assist the Government in four specific areas: (i) revisions to curriculum, (ii) improvements in teacher education and training, (iii) reforms in education and examination systems, and (iv) improvements in school administration and academic learning by providing physical infrastructure and equipment. In total, refurbishing and upgrading some 178 schools took place under the Project.

Revisions to curricula focused on changes to science, mathematics, computers, languages, and rural technology education programs. Improvements to teacher education and professional development were designed so that curricular changes could be implemented more effectively in the classroom. Reforms to examination and testing included new structures and mechanisms to establish accreditation standards and new buildings, equipment and computers at the National Evaluation Testing Service (NETS). The development and upgrading of schools component addressed the strengthening of school management and upgrading of selected schools including the introduction of computer resource centers. For all four components, consulting services, fellowships, study visits, and benefit monitoring and evaluation of project activities were provided.

The implementation of the Project was exemplary. Both the Ministry of Education and Higher Education (MEHE) personnel and ADB project office personnel carried out their responsibilities and duties in a timely and competent fashion. The project design was both timely and effective in meeting the needs of the secondary education system. The quality of secondary education for grades 6–11 has improved and more equitable access to quality secondary education is now available, particularly in rural areas. Curriculum teaching and learning materials, teacher education and training, evaluation of the education system, and school improvements in physical infrastructure, equipment, and computers have all been strengthened. The NETS has a new building with a streamlined computer system to accommodate about 0.8 million candidates per year. As a result, the turnaround time between the taking of exams and results was reduced from 10 to 6 months during the course of the Project and more recent information reflects a decrease in this time to approximately 3 months. The 30 computer resource centers created under the Project are all now self-supporting and provide almost 100,000 students with computer education each year. The linkages with the follow-on project ensure that the initiatives started under this Project will be reinforced and expanded. Institutional development and capacity building under the Project have consequently been highly effective. According to the five criteria of ADB’s evaluation methodology, the Project was found to be highly relevant, efficacious, highly efficient, likely to be sustainable, and having substantial institutional development impact. Overall, the Project was rated highly successful.

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4 Loan 1756-SRI(SF): Secondary Education Modernization Project, for $50 million, approved on 24 August 1993. This case study was prepared independently by an international consultant, Mr. Bruce Mathews. The full report is available at the OED web site—http://www.adb.org/documents/studies/secondary_education_sri/secondary_education.pdf.

Although the project design was well thought out, no baseline data was established at appraisal. Similarly, no logical framework was set at project preparation as it was not required in 1993. Indicators of project outcomes and impact should be identified during the design phase, and strategies and methodologies to track performance developed. Advances made recently by ADB in this regard will greatly enhance the ability of project managers, both in the implementing agency as well as ADB, to determine during project implementation whether satisfactory progress toward achieving project objectives is being made, or if modifications are required to improve performance.

One expected outcome of the Project was greater access to secondary education for needy students in the rural areas and a resulting increase in opportunities for employment. Impact of the Project on employment for students, however, has not been assessed or evaluated. It can be assumed that improvements to the curriculum in core subjects such as mathematics, science, computer science, and English will result in more employable students; however, this was not statistically verified. In education projects of this nature, follow-up tracer/evaluation studies, even on a limited basis will still provide an indication of project impact on student employability and program relevance.

The benefit monitoring and evaluation report for the Project addressed outputs from the four project components and provided a very positive assessment of achievements in line with stated goals and expected outcomes. At the same time, however, there was a wealth of information and statistics produced by MEHE, particularly the Department of Examinations of NETS, which was not analyzed or commented on. A thorough analysis of the statistics available for project districts could indicate the impact of the Project on student achievement. If the Project was primarily intended to improve academic achievement for poor students in the rural districts of the country, then the success of the design should be reflected in the improved performance.

In the future, ADB may be better served if it focuses its project design on a few inter-related objectives and institutions. As this was the first ADB-assisted Project in Sri Lanka’s general education system and no other aid agencies were involved until that time, there was a tendency to overdesign the Project, covering curriculum and materials, teacher training, and examination reforms as well as attempting to alter schools resource distribution. Consequently, investments were scattered too thinly over many institutions.

A strong and effective project implementation unit is essential to successful project outcomes. The Project was fortunate to have such a unit that coordinated the multiple aims and institutions (including aid agencies), and is responsible for the follow-on project. A strong unit is essential particularly when multiple agencies are involved in project activities.

Ensuring the sustainability of new institutions such as NETS requires a series of investment requirements over the medium term. Although major improvements were achieved at NETS under the Project, no institution can sustain efforts indefinitely without additional support: staff are always moving and new innovations in testing procedures need to be deployed, and follow-up training of teachers in school-based assessment is required. Consequently, follow-on projects are needed to deepen support. Additional support also acts as an incentive for executing agencies to perform well, knowing that further support is available.

Improving the overall quality of education is a complex process that requires a correct mix of investments in civil works, equipment, curriculum development, and learning materials combined with a strong component for capacity building. Capacity building allows various institutions such as NETS, MEHE, and schools to better organize and manage these learning inputs. The Project showed that providing guidebooks and training principals, teachers, and community leaders are a prerequisite to raising awareness and gaining local support for quality improvements both in the school and in the community. Physical inputs alone are not sufficient to improve education. MEHE, NETS, and the secondary schools need to build awareness through training to change the attitudes and thinking of students, teachers, and parents. Due to lack of time, the Project reduced its inputs to capacity building and thereby minimized awareness for change. The follow-on project will devote more resources to training administrators and community leaders to better understand and support quality improvements in schools.
Appendix 10: Case Studies on Poverty—Viet Nam

Irrigation and Flood Protection Rehabilitation Project, Red River Delta Water Resources Sector Project, and Rural Credit Project

These projects were prepared during the early phase of the Government’s renovation (doi moi) reforms following the prolonged civil war and subsequent period of centralized planning and collectivized agriculture that had resulted in low incomes and widespread poverty. The Irrigation and Flood Protection Rehabilitation Project (IRP) was the Asian Development Bank’s (ADB) first lending operation after Viet Nam’s reunification. It was followed by the Red River Delta Water Resources Sector Project (RDP), and the Rural Credit Project (RCP). IRP and RDP supported the Government’s water resources investment plan that emphasized rehabilitation of priority infrastructure, while RCP addressed acute supply constraints to meet the demand for credit unleashed by the reforms.

RCP was to help increase production and diversify agriculture to generate employment. IRP was to rehabilitate the Hanoi flood protection dike and priority structures in Song Chu and North Nghe An irrigation systems. RDP was to improve irrigation and drainage structures in the Red River Delta. RCP provided credit lines of $32 million for medium-term subloans (1–5 years) especially for agroprocessing, and $14.8 million for short-term subloans (less than 1 year) including $2 million targeted for poverty subloans. While implementation was generally satisfactory, the design of all three projects was less than satisfactory. First, they did not directly address the growth with equity focus of the Government’s socioeconomic development strategy and ADB’s evolving poverty reduction agenda. Second, they were not part of an integrated strategy to improve irrigated agriculture and realize considerable production and poverty reduction benefits. Providing infrastructure was treated as sufficient to increase agricultural production. Technical assistance for implementation was not linked to irrigation system management or agricultural production targets, and agricultural support was not provided. Finally, target groups of beneficiaries (primary stakeholders) were not involved in project formulation or implementation.

Project performance ratings in this case study reflect design limitations. All three projects were rated successful but the ratings mask internal variation. The Hanoi dike was an uncomplicated infrastructure component reflected in consistently high ratings. Agricultural interventions were more complicated and challenging with variable success. Irrigation and drainage interventions were less relevant as they suffered the above design limitations. The financial intermediation through RCP was relevant. RDP irrigation subprojects met agricultural production targets and were thus highly efficacious and also efficient. RCP was efficacious but less efficient, from the financial and process perspectives, because (i) its design misjudged credit demand; (ii) diversification, agroprocessing, and employment did not eventuate as anticipated; and (iii) credit demand remained unsatisfied. The IRP irrigation components and RDP drainage subprojects were both less efficacious because they did not meet irrigation improvement and agricultural production targets. They were also less efficient from both the economic and process perspectives. The Government has a good record of maintaining water resources infrastructure, and agricultural interventions are likely sustainable. Institutional development was generally moderate with considerable engineering achievements offset by ineffective improvement of irrigated agriculture. Overall, the Hanoi flood protection dike component of IRP was rated highly successful, RDP irrigation subprojects and RCP successful, and IRP irrigation components and RDP drainage subprojects less successful.

1 Loan 1259-VIE(SF): Irrigation and Flood Protection Rehabilitation Project, for $76.5 million, approved on 26 October 1993; Loan 1344-VIE(SF): Red River Delta Water Resources Sector Project, for $60 million, approved on 13 December 1994; and Loan 1457-VIE(SF): Rural Credit Project, for $50 million, approved on 12 September 1996. This case study was prepared independently by an international consultant, Mr. Colin Steley. The full report is available at the Operations Evaluation Department website—http://www.adb.org/documents/studies/irrigation_water_credit_vie/irrigation_water_credit.pdf.
A recent review of bilateral cooperation came to similar conclusions with regard to poverty and agriculture. It notes that Viet Nam remains a poor country and most of the population are rice farmers. Thus the strategic recommendations focus on effective ways of supporting systematic institutional change through a consciously pragmatic and long-term (20-year) approach, to reduce poverty through sustainable rural growth. The central recommendation, to invest more in participating in a learning process in Viet Nam’s development, is based on the following characteristics of Vietnamese change processes.

Despite popular perceptions, Vietnamese decision making is not highly centralized, many officials are pragmatic, and the value of change is seen in practice, rather than in the abstract. Policies, which are often rather general, are evaluated through the results of practical trials and experiments and are usually only implementable if those upon whom they operate are in agreement. Change takes place from below with new methods, ways and results explored and assessed in reality. Thus, orthodox policy dialogue does not generate high returns, and nurturing bottom-up learning processes and building social capital are more likely to be effective. Proximity to, and close involvement in, heuristic change processes makes the difference in terms of effective development cooperation, avoids confrontation, and encourages interventions tailored to what is feasible at the time.

While the review found that what you do is not as important as how you do it, it also advocated rural development as a key activity area of poverty-focused development. Thus irrigated agriculture offers ADB an opportunity to simultaneously achieve dual objectives by pursuing pragmatic productivity gains and poverty reduction results while facilitating and documenting effective participatory learning and institutional change processes.

These are the main lessons of the evaluation of the three projects: (i) there is considerable potential to improve the performance of irrigated agriculture and reduce poverty; (ii) project design is critical to success; (iii) so too is effective technical assistance to support innovation in improving governance, institutional change, and participation in project formulation and implementation; (iv) operating entities should be appointed as implementing agencies; (v) infrastructure and credit are necessary, but insufficient on their own; (vi) complementary irrigation management and agricultural interventions are also necessary; (vii) ADB missed an opportunity to promote a more holistic irrigation system improvement approach; and (viii) the recent reorganization of ADB and merger of the former Ministry of Water Resources with the present Ministry of Agriculture and Rural Development provide a better opportunity to pursue an integrated approach to improving the performance of the irrigated agriculture subsector.

The main recommendations are to (i) reorient the country strategy and policy dialogue to emphasize irrigated agriculture; (ii) progressively develop a subsector strategy; (iii) implement a pilot program to develop and document participatory processes for irrigation systems in social assessment, performance assessment and diagnosis, and integrated performance improvement interventions involving irrigation management, agriculture and credit, and phased improvement of priority infrastructure; and (iv) adopt a flexible phased design of future sector projects. The impending implementation of the follow-on project provides an ideal opportunity. This may begin with a protracted inception phase to review and reorient the design with all stakeholders and review agricultural potential and constraints, reasons for apparent poor performance of RDP drainage subprojects, and the Ministry of Agriculture and Rural Development’s preferences regarding IRP irrigation management innovations, results of the Bac Hung Hai irrigation and drainage system diagnosis, and the holistic system approach to managing irrigated agriculture.


In the replenishment of Asian Development Fund (ADF) VII, contributors requested the Asian Development Bank (ADB) to continuously review and refine its policies in accordance with changing circumstances and emerging lessons from experience. In this spirit, ADB has taken initiatives and adopted a number of policies and practices during this period that have had a large impact on the development and delivery of strategic objectives in key areas. Safeguard policies, governance and anticorruption, participation of nongovernment organizations (NGOs), better knowledge management, and regional development and cooperation have all had a direct impact on the relevance, quality, and delivery of projects and programs.

Safeguard Policies

ADB policies and procedures on the environment, involuntary resettlement, and indigenous peoples have been grouped together to form a safeguard framework for ADB projects.¹ They have been put in place over the last decade to encourage sustainable development and focus attention on issues such as regional and transboundary environmental concerns, the displacement of people due to ADB-financed activities, and the equal participation of indigenous peoples in development. These policies have been instrumental in supporting the transformation of ADB from a project-based bank to a broader knowledge-based development institution. The safeguard compliance system checks at key milestone points that all public and private sector projects comply with ADB policies in these three areas prior to loan approval.

Environment

Protection of the environment in the region was adopted as one of ADB's five strategic development objectives in the first Medium-Term Strategic Framework,² and lending and technical assistance (TA) activities have been geared to meet this objective. The adoption of extensive guidelines and processes during the ADF VI–VII period reflects the growing importance of environmental issues in ADB.³ The 1995 reorganization of ADB further strengthened the position of environmental activities. In addition, ADB partnerships with the Global Environment Fund and United Nations produced projects targeting climate change, biodiversity, and desertification issues in addition to transboundary activities in the greater Mekong subregion and Central Asia.

One of the major changes in the past few years has been ADB's ability to respond quickly to environmental emergencies in its developing member countries (DMCs). For example, emergency TA was provided to support mitigation measures when forest fires threatened Indonesia in 1998.⁴ In addition, TA was provided to Bangladesh and Tajikistan for water management⁵ and other pressing environmental concerns.⁶ ADB also responded to growing environmental concerns with regional TAs.⁷

The evolution of environmental policy and practice within ADB has led to increasing awareness

⁴ TA 2999-IN0: Planning for Fire Prevention and Drought Management, for $1 million, approved on 20 March 1998.
⁵ TA 3659-BAN: Jamuna-Meghna River Erosion Mitigation, for $1 million, approved on 28 May 2001; TA 3319-TAJ: Flood Disaster Management, for $205,000, approved on 2 December 1999; and TA 3495-TAJ: Strategy for Improved Flood Management, for $550,000, approved on 5 September 2000.
⁷ TA 5822-REG: Protection and Management of Critical Wetlands in the Lower Mekong Basin, for $1.7 million, approved on 22 December 1998; and TA 5712-REG: Coastal and Marine Environmental Management in the South China Sea Phase II, for $2.7 million, approved on 13 December 1996.
among staff of the need to include good environmental practices in projects. These practices have expanded from the traditional infrastructure projects to specific loan covenants for environmental impact assessments and other screening procedures for subprojects to be financed by credit lines through financial institutions.

**Involuntary Resettlement**

An important advance in ADB has been the way resettlement issues are tackled in projects. The policy stipulates that projects should (i) avoid involuntary resettlement where feasible; and (ii) minimize resettlement where population displacement is unavoidable, and ensure, where effects are unavoidable, that displaced people receive assistance, preferably under the project, so that they would be at least as well-off as they would have been in the absence of the project. For any project that leads to loss of land, income, housing, facilities, and resources, resettlement is an integral part of the project design and must be dealt with from the earliest stages of the project cycle.

On average, close to 120,000 people are affected annually by ADB-funded projects. Of this number, about 40,000 require relocation and resettlement. Between 1994 and 2000, nearly 80 resettlement plans in 13 DMCs were prepared before project appraisal and approval. In terms of number of people relocated, the People's Republic of China (PRC) had the highest percentage (60%), followed by Viet Nam (14%), Bangladesh (12%), Indonesia (7%), Cambodia (2%), and Philippines and Sri Lanka (about 1% each). In terms of sectors, the transport project recorded the highest number of people relocated (78% of the total), followed by energy, and water supply and irrigation projects (9% each).

ADB formulated basic principles and approaches to address development-induced displacement of people. This policy ensures that people who may be adversely affected by an ADB-related development activity are consulted, compensated for their losses, and assisted in rebuilding their income sources, homes, and communities. Previously, resettlement programs tended to be limited to statutory monetary compensation for land, or occasionally, development of a resettlement site. Delays in project implementation, lower development impact to beneficiaries, and a growing awareness of the potential adverse economic, social, and environmental consequences of population displacement led to a new policy approach.

The three important elements in involuntary resettlement are (i) compensation for lost assets and loss of livelihood and income, (ii) assistance for relocation including provision of relocation sites with appropriate facilities and services, and (iii) assistance for rehabilitation to achieve at least the same level of well-being with the project as without it. The approval of ADB's poverty reduction strategy in 1999 has reinforced the importance of risk mitigation through comprehensive resettlement planning to reduce the risks of impoverishment through displacement.

The Operations Evaluation Department (OED) has assessed the relevance, adequacy, and effectiveness of the involuntary resettlement policy and the impact of its implementation. The policy framework was found to be comprehensive and relevant in providing fair treatment to people affected by a project. Projects approved during the early years of implementing the policy were not as detailed in reporting resettlement activities. Land acquisition and resettlement issues were dealt with more comprehensively during the preparation of projects approved between 1997 and 1999. As a result, resettlement plans were more detailed in terms of entitlements of displaced persons, specific time-bound resettlement actions, mitigating measures, and provisions for monitoring the status of resettled people.

Analysis of the field data on resettlement impacts indicated that progress was made in achieving the objectives of the involuntary resettlement policy, contributing in many instances to enhanced payments of compensation for lost assets, providing improved housing and infrastructure, and restoring livelihoods for many resettled families. Some affected households reported their status as poorer than before. In Indonesia and the Philippines, several implementation problems affected land acquisition and resettlement activities, ranging from unsatisfactory implementation to significant cases of noncompliance with involuntary resettlement plans.

There were, however, concerns about the practical aspects of implementing the involuntary resettlement policy framework, and the capacity of the DMC government or counterpart to implement and adhere to the policy guidelines. The policy demanded fundamental structural changes in national land acquisition laws and payments of compensation for development-induced displacement. This activity appeared to be almost entirely project-driven and compliance by DMCs was largely motivated by desire to gain loan approval. Improvements in compensation and other benefits were ad hoc and project-specific. The project case studies showed that a resettlement plan’s effectiveness depended on local conditions and needs. The plan should be formulated with appropriate modifications to suit local conditions and needs.

Ineffective implementation and limited impact of the resettlement plan on the overall resettlement process of DMCs were a major concern. The evalu-

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9 The formal policy was approved in November 1995.

Box A11.1: Good Practice for Involuntary Resettlement

Six factors are crucial for an integrated approach to resettlement planning and implementation:

(i) An appropriate policy and legal framework provides clear guidelines, specifies inclusive definitions of affected people, assures market or replacement value for all kinds of assets acquired, and establishes mechanisms for grievance resolution.

(ii) Early attention is given to comprehensive planning to resolve land acquisition and resettlement issues; establish a database for development planning and a resettlement site with civic amenities, including options for resettlement; develop a gender-based income restoration plan, training for alternative income programs, and other programs as appropriate (e.g., for vulnerable groups); and provide for mitigating unanticipated project consequences.

(iii) Disclosure and consultation with stakeholders include discussion and forming task-oriented special committees (comprising project staff, local government officials, experts, affected people, etc.) to collect specialized information, consult with local communities to assess the extent of impact, and determine compensation rates.

(iv) A strong implementing agency is present in the field; local government officials, displaced people, the host community, nongovernment organizations, and community-based organizations are involved in resettlement policy implementation; and there is willingness to learn from experience, adapt, and improve implementation strategies.

(v) Resettlement costs are properly budgeted and based on market or replacement value; funding is available on schedule and paid to displaced people prior to relocation.

(vi) A system of supervision and internal monitoring is established, and monitoring data are used as feedback to improve performance. Nongovernment organizations, community-based organizations, and affected people are involved in the monitoring process.

Indigenous Peoples

In 1998, ADB introduced the policy on indigenous peoples, followed by the operational guidelines on indigenous peoples in 2000. Those are key policy instruments for ADB operations as they affect indigenous peoples and ethnic minorities. Given the tremendous diversity of culture, history, and current circumstances of indigenous peoples’ communities, defining indigenous peoples can be a difficult task. As a starting point, indigenous peoples can be defined on the basis of characteristics they display, namely: (i) descent from population groups present in a given area before modern states or territories were created and before modern borders were defined; and (ii) maintenance of cultural and social identities, and social, economic, cultural, and political institutions separate from mainstream or dominant societies and cultures. The working definition of indigenous peoples used by ADB in its operations is the following: “Indigenous peoples should be regarded as those with a social or cultural identity distinct from the dominant or mainstream society, which makes them vulnerable to being disadvantaged in the process of development.”

If the initial social assessment, required for all ADB-financed projects, identifies that indigenous peoples will be affected significantly or adversely by projects, an indigenous peoples development plan is prepared to address specific concerns. ADB has strengthened the process for early screening of projects affecting indigenous peoples. Thus far, 12 indigenous peoples development plans, more than 20 specific actions, and 8 indigenous peoples development frameworks covering 10 DMCs have been prepared. Staff are assisted in identifying and dealing with indigenous peoples issues by a handbook that contains checklists for the initial social assessments. A report on indigenous peoples and ethnic minorities and poverty reduction in the Pacific region is being prepared for publication.

Participation of Nongovernment Organizations

Operational guidance on ADB cooperation with NGOs and other community-based organizations was set out in the 1998 NGO policy paper. In common with the assessments of other funding agencies (e.g., World Bank), the current policy emphasizes that NGO partnerships are not a panacea for improved project effectiveness. Potential strengths are engendering grassroots ownership and participa-

tion, mobilizing communities, piloting innovations, and acting as intermediaries for DMC governments and funding agencies. Potential limitations are tensions with government agencies; questions of mandate, legitimacy, and accountability; perceptions of competitiveness with government; and variable managerial, financial, and technical capacities.

Over the past decade, ADB's involvement with NGOs and other grassroots organizations has increased significantly. OED examined the effectiveness of involving NGOs and other community-based organizations in lending and TA operations. In the 1990s, 150 projects had some form of NGO involvement. In 1998, 28 projects worth more than $2 billion incorporated NGO activities. DMCs, where ADB developed NGO partnerships, increased from 4 in 1993 to 20 in 2001, covering virtually every sector. International NGO involvement was rather limited. There was a predominance of local grassroots organizations, with selective involvement of national NGOs. The most frequent NGO tasks were community mobilization and capacity building. Increased involvement of NGOs increased demands on capacity and expertise within DMC governments, the NGO community, and ADB.

The results of the evaluation indicated that in ensuring participatory project planning—an increasing trend in ADB operations since 1990—NGO involvement improved stakeholder consultation, a factor critical to project quality. No evidence was found based on project completion and disbursement indicators that NGO involvement accelerated project progress, although this did not mean that NGO involvement would not eventually lead to better development effectiveness.

Successful NGO involvement requires a conducive environment and effective working relations between partners (Box A11.2). The consultative process and NGO capacity assessment were weak in most of the cases OED examined. However, several projects demonstrated that, with the right commitment and expertise, capacity can be strengthened and NGOs can become effective partners.

There has been significant evidence of progress in ADB/NGO cooperation and of ADB's fulfillment of its commitment to involve NGOs as specified in the NGO policy and other operational strategy papers. However, evidence at the country and project levels is very mixed. NGO involvement varies significantly in its range, quality, and effectiveness. There are more effective NGOs in Southeast Asia than in the other regions of ADB operations. NGOs have been most active in the social sectors, rural development, and microcredit. In many projects, however, OED found significant gaps between intended provision, actual involvement, and achievement. At the project concept and design stages, ADB and government need to pay more attention to pivotal factors for successful NGO involvement, including nurturing a conducive environment, ensuring executing agency and NGO capacity, and designing effective NGO selection and management and monitoring procedures. Field-based assessments reinforced the view that successful NGO involvement depends on project-specific judgments and careful design and appraisal by ADB and government planners.

### Inspection

In December 1995, ADB established an inspection function to provide an independent forum to which interested parties could appeal in regard to ADB compliance with its operational policies and procedures. This paralleled other efforts within ADB to improve transparency and accountability, and complemented ADB's existing audit, supervision, and evaluation systems. The intent was to foster public participation and dialogue, and to enhance accountability and transparency.

Requests for inspection may be brought when (i) ADB has failed in the formulation, processing, and implementation of a proposed ongoing project, to follow its operational policies and procedures; (ii) this failure has had or is likely to have a direct and material adverse effect on applicant group's rights and interests; and (iii) this failure was brought to the attention of ADB management, which failed within a period of 45 days to demonstrate that ADB had followed, or was taking adequate steps to follow, its operational policies and procedures. A list of international experts has been compiled to constitute an inspection panel. ADB has drawn on these international experts to provide advice as needed.

A Board Inspection Committee, composed of four regional members (at least two borrowing DMCs) and two nonregional members, was set up to review requests for inspection and to recommend to the full Board of Directors whether an inspection is warranted. As of December 2002, there had been eight requests for inspection. The Board Inspection Committee recommended to proceed with two of

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them—one in Sri Lanka and the other in Thailand. In 2002, a policy review was initiated to take into account implementation experience, particularly lessons learned from the inspection case in Thailand. Early findings indicate that more clarity is needed in regard to several aspects of the inspection function, and that ADB should be more explicit about the guiding principles of accountability. This is important for building consensus in the future. Some of the principles cover issues relating to independence, transparency, and fairness to all stakeholders. ADB’s accountability mechanism is also under review. For the inspection function to work, it should be responsive to the concerns of local project-affected people, and be cost-effective and efficient. ADB is working toward developing a more constructive approach to the inspection function that would be less adversarial and legalistic. The outcome of the review will be an important input toward these goals.

**Integrated Regional Development and Cooperation**

ADB initiated a program for regional economic cooperation in 1992, which included the countries of the greater Mekong subregion—Cambodia, PRC, Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. Since that time, regional cooperation agreements have been established on new air routes, river navigation agreements, and border development. As of December 2002, ADB had provided $772 million in financing for investment projects, mostly from ADF plus TA grants amounting to $46 million.

The initial emphasis was on developing linkages to increase trade and encourage investment among the DMCs. Priority was given to subregional projects in energy, transport, and telecommunications. ADB was used to support the first of these projects—Loans 1727-REG(SF) and 1728-REG(SF): GMS: East-West Economic Corridor (Lao PDR and Viet Nam) Projects—a 1,500-kilometer road link from Mawlamyne on the Andaman Sea in Myanmar, traversing the Lao PDR and Thailand, and ending at Da Nang near the South China Sea in Viet Nam. Other projects include the Loans 1659-REG(SF) and 1660-REG(SF): GMS: Phnom Penh to Ho Chi Minh City Highway Projects and Loan 1329-LAO(SF): Theun-Hinboun Hydropower Project.

As the program evolved, increased attention has been given to human resource development, tourism, environment, and investment and trade. Initiatives in human resource development include addressing the needs of ethnic minorities in the border regions, searching for ways to mitigate the transborder spread of communicable diseases, and joint efforts to counter drug production and use. Initiatives in tourism included improving access, promotion, and development of projects in full partnership with the private sector. Synergy between economic activities and infrastructure development is being achieved by developing economic corridors.

The findings of an OED evaluation of the Greater Mekong Region program supported ADB’s involvement in regional cooperation under a framework where it (i) contributed to regional peace and stability, prosperity, and sustainable resource management; and (ii) provided economies of scale, reduced transaction costs, speeded up development through improved sharing of knowledge, and increased opportunities, particularly those that partners on their own were not able to capture (such as improved resource mobilization, private sector development, and gains from trade). While supporting the Greater Mekong Subregion initiative, the evaluation found that the initiative had been constrained by limitations in ADB operations.

A more recent regional cooperation initiative for which background economic and sector work started in 1996 includes the DMCs of central Asia. These DMCs face the twin challenges of nation building and making the transition to a market economy. Given their landlocked and remote locations from major world markets, small domestic markets, and particular resource endowments, especially in energy and water, they face formidable challenges.

The Central Asian Regional Economic Cooperation program initiated in 1997 supports and encourages economic cooperation among Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. The overall objectives are to promote economic growth, raise the living standards of the population, promote market integration within and outside the region, develop financing options for infrastructure projects, and improve the policy environment for private sector development.

Partially supported by ADB, Loan 1775-GMS(SF): Almaty-Bishkek Regional Road Rehabilitation (Kyrgyz Component) Project is under

17 Loan 1410-THA: Samut Prakarn Wastewater Management Pollution Control, for $150 million, approved on 15 December 1998; and Loan 1646-THA: Samut Prakarn Wastewater Management (Supplementary), for $80 million, approved on 3 December 1998.
18 $575 million for national projects with subregional dimensions and $197 million for purely subregional projects.
19 For $32 million and $25 million, respectively; both approved on 20 December 1999.
20 For $40 million and $100 million, respectively; both approved on 15 December 1998.
21 For $60 million, approved on 8 November 1994.
23 For $5 million, approved on 31 October 2000 ($65 million from ordinary capital resources).
implementation. This road will improve the link between Kazakhstan and the Kyrgyz Republic. Other projects supported by ADF include improving the nutrition of poor mothers and children by fortifying salt and flour with iodine, and the recently approved Regional Trade Facilitation and Customs Cooperation Program between the Kyrgyz Republic and Tajikistan, and Regional Power Transmission Modernization Project.

ADB is also supporting subregional initiatives and programs in Southeast Asia, which include the Brunei Darussalam, Indonesia, Malaysia, and the Philippines-East ASEAN Growth Area (BIMP-EAGA) and the Indonesia, Malaysia, Thailand-Growth Triangle.

Though relatively recent, the recognition of the importance of regional cooperation has been growing. Indeed, ADB is the only multilateral institution with a mandate to pursue regional cooperation in its Charter and a specific policy on regional cooperation. However, there are institutional issues that may affect ADB’s effectiveness in pursuing regional cooperation. OED’s evaluation (footnote 22) pointed out that ADB’s organizational structure, staff resources and incentives, and funding arrangements for TA and project design and development might not have been optimal for supporting such regional initiatives and programs. The only funding arrangements for subregional initiatives were through department-based regional TA allocations for which there was no forward planning. Loans were financed from country allocations. While concerns about the budget remain valid, the creation of regional departments under the new organization has addressed concerns regarding coordination within ADB.

ADB is also supporting subregional initiatives and programs in Southeast Asia, which include the Brunei Darussalam, Indonesia, Malaysia, and the Philippines-East ASEAN Growth Area (BIMP-EAGA) and the Indonesia, Malaysia, Thailand-Growth Triangle.

24 Loan 1926-KGZ(SF): Regional Trade Facilitation and Customs Cooperation Program, for $15 million; and Loan 1927-TAJ(SF): Regional Trade Facilitation and Customs Cooperation Program, for $10 million; both approved on 29 October 2002.

25 Loan 1976-REG: Regional Power Transmission Modernization (Uzbek Component) Project, for $70 million; and Loan 1977-REG(SF): Regional Power Transmission Modernization (Tajik Component) Project, for $20 million; both approved on 17 December 2002.


The Asian Development Bank (ADB) prepared six country operational strategies (COSs) in 1995. An evaluation showed that four of them took into account ADB’s previous COS in the country, but the analysis of actual performance was not thorough to provide adequate feedback into the COS under preparation. The analysis was generally limited to a listing of the objectives of the previous COS along with, in some cases, a summary of ADB’s lending during the period the COS was in effect. Only in a few cases was an attempt made to assess the impact of the previous COS. Lessons learned from project implementation were based primarily on postevaluation reports, some of which were too outdated to be useful. Information gathered during portfolio reviews was not used to inform future COSs. No attempt was made to link the lessons learned to the development issues at hand. There was no evidence that lessons learned from technical assistance were incorporated into the COSs. Regional cooperation issues were not discussed.

For country assistance plans (CAPs), lessons learned from past experiences were incorporated in most cases. However, the treatment was broad and general, with simple references to postevaluation results. There was little discussion, if any, on how the lessons learned had influenced project selection, or how specific implementation issues would be addressed. In addition, CAPs did not reflect COSs and some of the project concepts in the CAPs were not based on thorough sector analysis. At the project level, consideration of lessons learned and past experience was left to a later stage in the project cycle, when its practical value was less.

By 1997, the COSs and CAPs improved and were more uniform, but their quality still varied significantly. There was little emphasis on the environment and on women in development/gender and development (WID/GAD) (see Box). The low number of projects targeting these categories may have been due to difficulties or lack of familiarity in formulating and designing projects targeted at these areas compared with more traditional economic growth projects, or projects for health, education, and other social infrastructure. There was also the possibility that there was less understanding by governments as to the shift in ADB’s focus on projects that supported WID/GAD, and poverty reduction. Staff constraints in projects departments resulted in limited input from sector specialists outside of thematic areas and affected the depth of sector analysis in many of the COSs. This limitation was somewhat ameliorated by the use of consultants, but such use constrained learning within ADB and was an issue throughout the preparation of the COSs. The result was that COSs often lacked in-depth sector analysis, relevant sector strategies, and performance indicators.

In 1998, the Operations Evaluation Department began to review country assistance programs. These evaluations assessed the rigor and relevance

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**Increasing the Focus on Targeting Poverty and Social Development Objectives**

Within the social and environmental group of strategic objectives, the lending programs have not been equitably distributed. There has been little lending programmed for women—typically projects with the primary objective of women in development/gender and development attracted 1–2% of the annual lending program during 1992–2000. Although the overarching objective in many country operational strategies has been the reduction of poverty, not many poverty reduction projects were included in the country assistance programs to address this specific objective. Poverty lending was programmed in the range of 4–7% of resources available to the Asian Development Fund countries annually. This has been slowly changing as new projects have entered the pipeline. The 1999 country assistance programs did show an increase in lending for poverty to about 10% of total lending.

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2 There may have been several reasons for this: (i) guidelines for the revised CAPs were introduced late in the programming cycle, (ii) ADB experienced a significant staff turnover early in the year, (iii) the sample document provided as a guide for the preparation of the CAP paid insufficient attention to linkages with past experience.

3 This gap in analyses and critical review of important facts, as a basis for project identification and selection, continues to be a problem.


5 Country assistance program evaluations have been completed for Bangladesh, People’s Republic of China, Mongolia, Philippines, and Viet Nam.
of the COS and CAP in a given country. There was evidence that ADB had attempted to shift the emphasis in COSs to reflect its medium-term strategy. The evaluations, however, also indicated that there were often inadequate links between the COS and CAP. The COSs tended to be process driven rather than acting as instruments of change or reorientation of the CAPs. By the end of the ADF VII period, CAPs reflected the shift in COSs toward poverty reduction, especially among the larger, long-term borrowers.

One major breakthrough was the substantial improvement of aid coordination with multilateral and bilateral aid agencies in the COS and CAP process. More consultation resulted in a better understanding of country project implementation capabilities based on experiences of other agencies, and was useful in identifying a distinctive role for ADB in the country. The consultation process became formalized and the results of the consultations were usually reported in a dedicated section in the COS. There is some evidence of consultations with non-government organizations in these documents, albeit to a limited extent. Some resident missions supported greater participation and assisted in the organization of general consultations with nongovernment organizations on a regular basis.
## Appendix 13: Allocation of ADF Resources

**Allocation of ADF Resources** (by economy\(^a\) and region, $ million)

<table>
<thead>
<tr>
<th>Economy and Region</th>
<th>ADF VI</th>
<th></th>
<th>ADF VII</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td><strong>A. Country</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Bangladesh</td>
<td>1,351.1</td>
<td>20.0</td>
<td>1,056.4</td>
<td>20.0</td>
<td>2,407.5</td>
<td>20.0</td>
</tr>
<tr>
<td>2. Pakistan</td>
<td>1,689.9</td>
<td>25.0</td>
<td>603.8</td>
<td>11.5</td>
<td>2,293.7</td>
<td>19.1</td>
</tr>
<tr>
<td>3. Viet Nam</td>
<td>937.5</td>
<td>13.9</td>
<td>1,012.1</td>
<td>19.2</td>
<td>1,949.6</td>
<td>16.2</td>
</tr>
<tr>
<td>4. Sri Lanka</td>
<td>517.6</td>
<td>7.7</td>
<td>689.1</td>
<td>13.1</td>
<td>1,206.7</td>
<td>10.0</td>
</tr>
<tr>
<td>5. Nepal</td>
<td>386.2</td>
<td>5.7</td>
<td>355.3</td>
<td>6.7</td>
<td>741.5</td>
<td>6.2</td>
</tr>
<tr>
<td>6. Lao PDR</td>
<td>384.9</td>
<td>5.7</td>
<td>241.1</td>
<td>4.6</td>
<td>626.0</td>
<td>5.2</td>
</tr>
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<td>7. Cambodia</td>
<td>246.0</td>
<td>3.6</td>
<td>237.6</td>
<td>4.5</td>
<td>483.6</td>
<td>4.0</td>
</tr>
<tr>
<td>8. Indonesia</td>
<td>284.7</td>
<td>4.2</td>
<td>195.0</td>
<td>3.7</td>
<td>479.7</td>
<td>4.0</td>
</tr>
<tr>
<td>9. Kyrgyz Republic</td>
<td>160.0</td>
<td>2.4</td>
<td>292.2</td>
<td>5.5</td>
<td>452.2</td>
<td>3.8</td>
</tr>
<tr>
<td>10. Mongolia</td>
<td>284.8</td>
<td>4.2</td>
<td>154.6</td>
<td>2.9</td>
<td>439.4</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>6,242.7</td>
<td>92.5</td>
<td>4,837.2</td>
<td>91.8</td>
<td>11,079.9</td>
<td>92.2</td>
</tr>
<tr>
<td>11. Philippines</td>
<td>292.6</td>
<td>4.3</td>
<td>23.8</td>
<td>0.5</td>
<td>316.4</td>
<td>2.6</td>
</tr>
<tr>
<td>12. Papua New Guinea</td>
<td>57.5</td>
<td>0.9</td>
<td>59.9</td>
<td>1.1</td>
<td>117.4</td>
<td>1.0</td>
</tr>
<tr>
<td>13. Tajikistan</td>
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<td>0.0</td>
<td>99.0</td>
<td>1.9</td>
<td>99.0</td>
<td>0.8</td>
</tr>
<tr>
<td>14. Kazakhstan</td>
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<td>0.6</td>
<td>20.0</td>
<td>0.4</td>
<td>60.0</td>
<td>0.5</td>
</tr>
<tr>
<td>15. Bhutan</td>
<td>12.7</td>
<td>0.2</td>
<td>43.3</td>
<td>0.8</td>
<td>56.0</td>
<td>0.5</td>
</tr>
<tr>
<td>16. Marshall Islands</td>
<td>24.1</td>
<td>0.4</td>
<td>28.1</td>
<td>0.5</td>
<td>52.2</td>
<td>0.4</td>
</tr>
<tr>
<td>17. FSM</td>
<td>17.1</td>
<td>0.3</td>
<td>26.0</td>
<td>0.5</td>
<td>43.1</td>
<td>0.4</td>
</tr>
<tr>
<td>18. Solomon Islands</td>
<td>0.5</td>
<td>0.0</td>
<td>36.0</td>
<td>0.7</td>
<td>36.5</td>
<td>0.3</td>
</tr>
<tr>
<td>19. Vanuatu</td>
<td>10.0</td>
<td>0.1</td>
<td>22.0</td>
<td>0.4</td>
<td>32.0</td>
<td>0.3</td>
</tr>
<tr>
<td>20. Maldives</td>
<td>8.8</td>
<td>0.1</td>
<td>21.3</td>
<td>0.4</td>
<td>30.1</td>
<td>0.3</td>
</tr>
<tr>
<td>21. Samoa</td>
<td>10.6</td>
<td>0.2</td>
<td>18.0</td>
<td>0.3</td>
<td>28.6</td>
<td>0.2</td>
</tr>
<tr>
<td>22. Uzbekistan</td>
<td>0.0</td>
<td>0.0</td>
<td>20.0</td>
<td>0.4</td>
<td>20.0</td>
<td>0.2</td>
</tr>
<tr>
<td>23. Tonga</td>
<td>18.5</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td>18.5</td>
<td>0.2</td>
</tr>
<tr>
<td>24. Cook Islands</td>
<td>13.5</td>
<td>0.2</td>
<td>0.8</td>
<td>0.0</td>
<td>14.3</td>
<td>0.1</td>
</tr>
<tr>
<td>25. Kiribati</td>
<td>0.0</td>
<td>0.0</td>
<td>10.2</td>
<td>0.2</td>
<td>10.2</td>
<td>0.1</td>
</tr>
<tr>
<td>26. Tuvalu</td>
<td>0.0</td>
<td>0.0</td>
<td>4.0</td>
<td>0.1</td>
<td>4.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>506.9</td>
<td>7.5</td>
<td>432.4</td>
<td>8.2</td>
<td>939.3</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,748.7</td>
<td>100.0</td>
<td>5,269.7</td>
<td>100.0</td>
<td>12,018.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**B. Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount</th>
<th>%</th>
<th>Amount</th>
<th>%</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>East and Central Asia</td>
<td>484.8</td>
<td>7.2</td>
<td>585.8</td>
<td>11.1</td>
<td>1,070.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Mekong</td>
<td>1,568.4</td>
<td>23.2</td>
<td>1,490.8</td>
<td>28.3</td>
<td>3,059.2</td>
<td>25.5</td>
</tr>
<tr>
<td>Pacific</td>
<td>151.9</td>
<td>2.3</td>
<td>205.1</td>
<td>3.9</td>
<td>357.0</td>
<td>3.0</td>
</tr>
<tr>
<td>South Asia</td>
<td>3,966.3</td>
<td>58.8</td>
<td>2,769.2</td>
<td>52.5</td>
<td>6,735.5</td>
<td>56.0</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>577.4</td>
<td>8.6</td>
<td>218.8</td>
<td>4.2</td>
<td>796.2</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,748.7</td>
<td>100.0</td>
<td>5,269.7</td>
<td>100.0</td>
<td>12,018.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>


*Note: Figures may not add up to total because of rounding.

\(^a\) Ranked from the largest to the smallest borrower.

Source: Asian Development Bank’s Loan Financial Information System.

2 During ADF VII negotiations, a study of the impact of ADF operations was suggested. In response, two separate reports have been prepared. The first report assessing activity under ADF I–V was completed in December 2001 (ADB. 2001. *A Review of the Asian Development Fund I–V Operations*. Manila). The main findings of the ADF I–V report are summarized in Appendix 1.

3 Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka.

4 Cambodia, Lao PDR, and Viet Nam.

5 Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

6 Indonesia and the Philippines.

7 Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

8 Infrastructure includes telecommunications and transport—roads, railways, seaports, airports, dams, bridges, and tunnels.


10 The classification system allowed disaggregation into economic growth projects, projects aimed directly at social concerns (identified as human development, poverty reduction, and WID), and projects directly aimed at environment and natural resources management (see the President’s memo on Guidelines for the Classification of Loan Projects in Terms of the Bank’s Strategic Development Objectives, March 1995).

11 The goals, targets, and indicators are at http://www.developmentgoals.org/About_the_goals.htm.

12 During ADF VI–VII, TA Special Fund resources consisted of direct voluntary contributions by members, allocations from the net income of OCR, ADF contributions, and revenue from investments and other sources. In ADF VI, 3.3% of total contributions to ADF ($147.3 million at Resolution Date) was allocated to the TA Special Fund. Donors did not make a similar allocation in ADF VII.

13 All commitments drawn from ADB. 1997. *Sixth Replenishment of the Asian Development Fund*. Manila; and ADB. 2000. *Seventh Replenishment of the Asian Development Fund*. Manila. It was understood that while many of the agreements reached related directly to ADF operations, they should equally apply to operations financed from ADB’s OCR.

14 ADB. 1995. *Guidelines for the Classification of Loan Projects in Terms of the Bank’s Strategic Development Objectives*. Manila. It states, “All projects supported by ADB seek broadly to promote economic growth; therefore, it is not needed to indicate economic growth as a secondary objective.”

15 Loan 1768-PNG(SF): *Microfinance and Employment Project*, for $9.6 million, approved on 19 October 2000, was classified as having economic growth as a secondary objective. Its primary objective was poverty reduction.

16 The membership of these countries brought additional and unforeseen challenges to the limited ADF resources and their allocation. Kazakhstan and Uzbekistan had only limited access to ADF, but the Kyrgyz Republic and Tajikistan faced significant development challenges requiring greater support from ADF.

17 Loan 1497-TON(SF): *Tonga Power Development II Project*, for $4.9 million, was canceled on 28 October 1999.

Loan 593-BAN(SF): Bhola Irrigation Project, for $27.2 million, approved on 4 November 1982.


Renamed the Japan Bank for International Cooperation.


Risk mitigation is also a factor in enabling individuals and families to develop their capabilities to earn income without being thrust back into poverty by various catastrophes.

A policy paper on population was adopted in June 1994 in support of ADB activities and commitments in this area.


Thirty-seven other agriculture projects were classified as having poverty reduction as their secondary SDO.

Toward the end of ADF VII in May 2000, the Japan Fund for Poverty Reduction was established to...
pilot innovative, participatory, and direct poverty reduction projects related to ADB loans. As of December 2002, 29 projects for a total of $81 million had been approved.

41 Loan 1645-KGZ(SF): Social Services Delivery and Finance Project, for $10 million, approved on 27 November 1998; and Loan 1705-TAJ(SF): Social Sector Rehabilitation Project, for $20 million, approved on 26 October 1999.


43 During ADF VI and half of ADF VII, almost all of ADF went to group A countries, which had a 20% cost-sharing limit prior to the introduction of the graduation policy. Section IVC discusses this policy and its impact.

44 This is an estimate as households were assumed to have an average size of five persons. The exact number is 29,448,509 individual beneficiaries and 1,967,945 households.

45 The criteria for a primary poverty reduction project are that two thirds of the beneficiaries must be poor, or more than 50% of the expenditures are targeted toward the poor (Appendix 4).


47 Loan 1435-PHI(SF): Rural Microenterprise Finance Project, for $20 million, approved on 23 April 1996.

48 IFAD. 2002. Rural Microenterprise Finance Project: Interim Evaluation, Volume I Main Reports. The assessment also used the results of an ADB impact survey in the project area.

49 There is significant literature that discusses agriculture in DMCs and the issue of prices and subsidies, with particular attention to the economic impact of price subsidies in the developed world on agriculture in less developed countries. The findings in this report reflect the present situation in this sector and do not dispute the validity or the merits of these arguments.


52 “...ADB has not yet succeeded in increasing the number of loans that directly benefit women. In this respect, ADB is failing to meet an explicit goal of the GAD policy. This lack of progress in increasing the number of loans with GAD as a strategic objective or thematic priority could result from various factors: (i) insufficient effort is being made to address gender concerns in loan processing; (ii) other thematic priorities are being given greater weight; or (iii) efforts are being made to address gender concerns in new loans, but project staff are reluctant or disinclined to give the loans a GAD classification.”

53 It has been argued that the 80% refers to the portion of the project where males and females have equal access to benefits. However, the activities of women, especially in the poorest areas, are often circumscribed to the home rather than the public areas. Benefits that accrue to the broader public usually accrue to men and benefits that accrue to the home or family such as improved access to services such as electricity, clean water, and health may be more equally shared. The question posed is whether this is sufficient to merit the WID/GAD classification

54 Loan 1539-PAK(SF): Korangi Wastewater Management Project, for $70 million, was canceled in September 1999.


57 Loan 1240-NEP(SF): Kathmandu Urban Development Project, for $12 million, approved on 29 June 1993.


59 The ceiling was also raised to 20% calculated on a 3-year moving average. ADB. 1999. Review of ADB’s Program Lending Policies. Manila.


65 For example, the Kyrgyz Republic enacted over 850 laws over the past 8 years. This is a massive legislative agenda that will take time to implement effectively.

66 The Constitution of Tajikistan envisages a society that is culturally pluralistic and secular, with its governance founded on the recognition and respect of fundamental human rights; a market-based mixed economy and a public sector that serves the people; multiparty and pluralistic political system; and the separation, decentralization, and sharing of power.


67 Other multilateral development institutions have been facing similar criticisms of ineffective policies and the adverse impacts these best-practice policies have had on developing countries.

71 MTSFs (1993–1996), (1994–1997), and (1995–1998). After the third revision, it was decided that the MTSF was sufficiently articulated as it had become mainstreamed to the country level. Future MTSFs would be demand driven and developed based on an assessment of changing institutional vision, direction, and circumstances.

72 Population planning became part of a broader human resource development objective starting with the adoption of the MTSF (1995–1998).

73 Association of Southeast Asian Nations, Asia-Pacific Economic Cooperation, and ADB’s Regional Economic Monitoring Unit.


75 The Task Force comprised approximately 80 staff from various levels, was chaired by a Vice President and assisted by two external advisors—both former executive directors of ADB.


77 Strategic Planning Unit, Social Dimensions Unit, and Private Sector Unit.

78 The East region included the DMCs in the current regional departments of East and Central Asia and Southeast Asia. The West region included the DMCs that are now in the regional departments of South Asia and Mekong.

79 This has been an evolving process. Early on, other documents were also important, such as the country operations policy paper, economic review and ADB operations papers, and the country economic review (which was still in use in 2002). However, the shift in country focus came about with the adoption of the COS/CAP approach.

80 ADB was the first multilateral development bank to adopt a governance policy in 1995.


82 As of December 2002, country assistance program evaluations had been completed for Bangladesh, PRC, Mongolia, Philippines, and Viet Nam.

83 Integration of the COS study and CAP process to more closely link strategy with operations.


86 Program lending is an exception as ESW is often used
instead of PPTA for sector analysis and diagnostic work.


Smith, K. 2000. Study of Project Performance Reports; Quality of Data at Entry. ADB, Manila.


Although introduced with the PPRs only in 1998, the “at risk” classification is of relevance for ADF VI–VII projects as most of them are still under implementation and, therefore, benefit from this monitoring mechanism. Indeed, 298 of the 318 ADF projects approved during this period were part of the ADB-wide implementation of the PPR system. The 20 other projects were closed before the mandatory 1 April 1999 adoption of the system.


Prior to that, the responsibility for country portfolio reviews was with the Project Coordination Unit in the Central Operations Services Office.


This is now pursued by the CSP approach under the new business processes.

The PCR guidelines were revised in 2001 to align them with the revised PPAR guidelines. OED conducted an in-depth review of about 50% of PCRs during their preparation.

The more recent PCRs, from 2000 onward, are available on the ADB web site—http://www.adb.org. Older reports are available in hard copy, upon request from ADB.

This has also been the experience of the World Bank as noted in the IDA 10–12 Review.

ADB. 1998. A Graduation Policy for the Bank’s DMCs. Manila. The policy states that per capita income and debt repayment capacity are the guidelines for group classification. These can both be considered measures of DMC performance.


There was no consensus among donors on making ADF resources available for either the PRC or India in the ADF VI–VII replenishments. It was argued that given the needs of traditional ADF recipients and other eligible borrowers, it would not be possible to make ADF resources available to these two DMCs during the ADF VI–VII period.

Indonesia, Kazakhstan, Philippines, and Uzbekistan had sector restrictions on ADF access. Projects in these DMCs had to be focused on poverty or the social sectors.

Access to OCR was not disallowed. However,
given country conditions and the possible adverse portfolio impact on ADB by lending to DMCs with low creditworthiness, it has not been encouraged.

113 Consideration was also given to situations where there might be constraints on ADF, and drawing on OCR may be appropriate even in ADF-only or blend countries. Under these situations, the scope of the project may contribute to the decision as to whether the DMC should have access to ADF. If projects are revenue generating in ADF blend countries, then consideration could be given to funding the project from OCR.

114 ADF VII became effective on 24 September 1997.

115 ADB adopted the same per capita GNP cutoff rates as used for the World Bank International Development Association funds.

116 The only change was the Republic of Korea moving from group B to group C between ADF I and II.

117 Given its development situation and initial status as a group A country, Pakistan has had less access than other DMCs to ADF resources since the establishment of ADF. Indeed, it is interesting that as a group A country in ADF I–VI, Pakistan borrowed an extraordinary amount from OCR. This continued under ADF VII when as a B1, ADF blend country, it was eligible for predominantly ADF supplemented by some OCR.


119 Article 2(ii) of the Charter states that in utilizing the resources at its disposal for financing the development of DMCs, ADB should give special regard to the needs of the smaller and the less developed ones.


121 ADB, African Development Bank, Caribbean Development Bank, and Inter-American Development Bank moved toward this mathematical approach to resource allocation all about the same time.


124 The first performance-based allocation was made in 2001 for 2002. It was followed in mid-2002 by the base allocations for 2003 that are subject to variation on the basis of performance triggers assessed at the end of 2002.

125 The annual ADF lending data was normalized to adjust for differences in the total amount of ADF available.

126 Particularly the Kyrgyz Republic and Tajikistan.


128 As recommended in the special evaluation study on project performance management, one of the parallel studies prepared for the ADF midterm review.