

**SEVENTH REPLENISHMENT OF THE
ASIAN DEVELOPMENT FUND (ADF VIII)**

**ADF VIII DONORS' REPORT:
*Fighting Poverty in Asia***

**Asian Development Bank
November 2000**

ABBREVIATIONS

ADB	–	Asian Development Bank
ADB I	–	Asian Development Bank Institute
ADF	–	Asian Development Fund
ADF VIII	–	Seventh Replenishment of the Asian Development Fund
BPMSD	–	Budget, Personnel, and Management Systems Department
CAP	–	Country Assistance Plan
CDF	–	Comprehensive Development Framework
CLS	–	Core Labor Standards
COS	–	Country Operational Strategy
CSP	–	Country Strategy and Program
DMC	–	developing member country
EACA	–	Expanded Advance Commitment Authority
EAP	–	East Asia and Pacific
ESW	–	economic and sector work
FATF	–	Financial Action Task Force
GAD	–	Gender and Development
GDP	–	gross domestic product
GEF	–	Global Environment Facility
GNP	–	gross national product
HIPC	–	Heavily Indebted Poor Countries
IDA12	–	Eleventh Replenishment of the International Development Association
IDG	–	International Development Goal
IMF	–	International Monetary Fund
IT	–	information technology
Lao PDR	–	Lao People's Democratic Republic
LTSF	–	Long-Term Strategic Framework
MDB	–	Multilateral Development Bank
NGO	–	nongovernment organization
OCR	–	Ordinary Capital Resources
OEO	–	Operations Evaluation Office
OM	–	Operations Manual
PRSP	–	Poverty Reduction Strategy Paper
PSD	–	private sector development
RM	–	Resident Mission
SAR	–	South Asia Region
SPD	–	Strategy and Policy Department
TA	–	technical assistance
UN	–	United Nations
WB	–	World Bank
MOU	–	Memorandum of Understanding
TOR	–	terms of reference
WHO	–	World Health Organization
UNDCP	–	United Nations International Drug Control Program
UNICEF	–	United Nations Children's Fund

NOTE

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

CONTENTS

	Page
EXECUTIVE SUMMARY	i
Summary of Conclusions and Recommendations by ADF Donors	vii
ADF VIII: Requests for Midterm Policy Reviews and Reports	xvi
I. INTRODUCTION	1
II. THE INTERNATIONAL DEVELOPMENT GOALS	2
III. POVERTY IN DEVELOPING ASIA	2
A. Poverty Reduction and Poor Countries in Asia	2
B. The Asian Financial Crisis	3
C. The Heavily Indebted Poor Countries	5
IV. ADB AND ADF: VISION AND ROLE	5
A. Poverty Reduction—The ADB’s Vision and Overarching Goal	5
B. The Vision and Role of ADF	5
C. The Role of ADB in the International Community and in the Region	6
V. ADB’S FRAMEWORK FOR POVERTY REDUCTION	7
A. Pro-Poor Sustainable Economic Growth	7
B. Social Development	8
C. Good Governance	8
VI. DEVELOPMENT THROUGH PARTNERSHIP	9
A. Development Effectiveness	9
B. Development Partnership	10
1. Donor Coordination	10
2. The Comprehensive Development Framework (CDF) and Poverty Reduction Strategies	11
3. Planning Concessional Resource Mobilization	13
VII. ADF RESOURCES: PORTFOLIO MANAGEMENT AND PERFORMANCE	13
A. Portfolio Management	13
B. Performance	14
1. Results and Impacts	14
2. Implementation of the ADF VII Framework	14

VIII.	THE STRATEGY FOR IMPLEMENTING ADF VIII	15
	A. General Strategy and Partnership	15
	B. Implementing ADB's Poverty Reduction Strategy	16
	C. Performance-Based Allocation System for ADF Resources	17
	D. Governance Action Plan	19
	E. Development of the Private Sector	21
	F. Infectious Diseases including HIV/AIDS	22
	G. Core Labor Standards	22
	H. Gender and Development	23
	I. Environment	25
	J. Cooperation Among DMCs	26
	K. Money Laundering	27
	L. Drug Trafficking	27
	M. Improving Evaluation and the Linkage to Planning Operations	28
	N. Redesign of Operational Business Processes and Portfolio Management:	29
	1. Operational Business Processes	29
	2. Improving Project Quality and Portfolio Management	29
	3. Strengthening Internal Financial Controls	30
	O. Strengthening Resident Missions	30
	P. Strengthening ADB's Institutional Capacity	30
IX.	PLANNED LENDING IN ADF VIII	31
	A. Lending to Current ADF Borrowers	31
	B. New Borrowers	31
X.	FINANCING FRAMEWORK FOR ADF VIII	31
	A. Financial Management:	31
	1. Existing Resources	31
	2. Currency Risk Management	32
	3. Loan Loss Provision	32
	B. Burden Sharing and Replenishment Size	33
	1. Burden Sharing Pledge	33
	2. Note Encashment	35
	C. Financing Technical Assistance	35
XI.	ISSUES FOR POLICY REVIEW	35
	A. Governance Action Plan	35
	B. Performance-Based Allocation System for ADF Resources	35
	C. Money Laundering	36
	D. ADB's Internal Governance	36
XII.	MIDTERM REVIEW OF ADF VIII	37
	APPENDIXES	38

EXECUTIVE SUMMARY

Asia's record of economic growth and improvement in the quality of life during the past three decades is one of the most remarkable achievements of the 20th century. *The developing countries have led these advances, but their efforts received significant support from Donors - directly and through the Asian Development Fund (ADF).* In the early 1970s, half the Region's population was poor, average life expectancy at birth was 48 years, and only 40 percent of the population was literate. Today, less than one third of the population is poor, life expectancy averages 65 years, and 70 percent of the adult population is literate. Despite an increase in population from 1.8 billion to 3.0 billion, the number of poor in the Region has fallen by roughly 100 million.

Notwithstanding the progress achieved, most of the world's poor live in Asia. In many parts of Asia, social indicators are worse than those in Africa. The Asian and Pacific Region contains close to 900 million poor people. This is by far the largest concentration of poor in the world. As a result of high population densities and high incidence of poverty in some parts as well as rapid growth in others, problems of environmental degradation and natural resource management are particularly severe in developing Asia. ADF, in collaboration with other development partners and the developing countries, remains a necessary instrument to assist countries in Asia to fight the war on poverty.

ADF's vision - to eliminate absolute poverty in the poorest countries in Asia and thereby make an important and significant contribution to the achievement of the international development goals (IDGs). ADF's mission is to achieve the vision by supporting broad-based and equitable development in low-income countries in Asia-Pacific and accelerate the pace of poverty reduction. ADF will fight poverty with operations formulated on the basis of ADB-wide strategies that promote pro-poor sustainable economic growth, social development, good governance and the private sector, and reflect close partnerships with governments, civil society and other development organizations. The implementation of these strategies in ADF VIII will stress the necessity of supporting a development process in poor countries that: involves systematic inclusion of the poor, women and other disadvantaged groups; promotes good governance; gets demonstrable results from scarce development resources; produces results that generate sustainable development impacts; allocates scarce resources on the basis of performance; contributes to improving the environment; and contributes to a more equitable society.

A framework for poverty reduction. ADF's assistance is provided under a broad policy framework approved by ADB's Board of Directors, and representing the guidance and reflecting the priorities of Donor members. This guidance and the priorities of the Donors are set out in this report. The ADF VIII replenishment will also be guided by the IDGs. ADF VIII operations will be implemented under the general ADB-wide framework for poverty reduction as contained in ADB's Poverty Reduction Strategy. In this context, Donors have agreed that ADF VIII resources will focus on three key areas:

- ◆ **Pro-poor sustainable economic growth.** Donors agreed that growth needs to be pro-poor. Pro-poor growth creates jobs, and is accompanied by policies and programs that reduce inequalities and facilitate income generation for the poor. Pro-poor growth will be promoted by assisting (i) the removal of market-distorting policies, (ii) development of a conducive environment for the private sector, (iii) programs (e.g., microfinance) aimed at increasing income generating

opportunities for women and other groups that may be outside the formal labor force, (iv) infrastructure development which can make a considerable contribution to growth through job creation, and (v) promotion of opportunities for self-employment by the poor.

- ◆ **Social development.** Donors agreed that economic growth could effectively reduce poverty only when accompanied by a comprehensive program for social development. Every country needs to have a comprehensive national poverty reduction strategy that provides for (i) adequate budgetary allocations for human capital, (ii) targeting of basic social services to the poor, (iii) removal of gender discrimination, (iv) an effective population policy, and (v) social protection. Beyond developing human capital, the aim must be to strengthen social capital, especially for people subject to social exclusion.

- ◆ **Good governance.** Donors agreed that improved governance is critical to poverty reduction because it facilitates participatory, pro-poor policies as well as sound macroeconomic management. Good governance encourages the transparent use of public funds, stimulates growth of the private sector, promotes effective delivery of public services, and helps establish the rule of law. Donors agreed that ADB, as a multilateral and regional institution, has a comparative advantage to assist poor countries in Asia-Pacific to achieve better governance. Donors underscored the importance of interrelationships between political and economic issues in socio-economic development. They endorsed ADB taking due account of the demonstrable economic effects on development from noneconomic factors. Donors consider that certain issues, such as democratization and respect for human rights, can also have important long-term implications for the capacity of a country to sustain programs for effective poverty reduction, economic adjustment and growth, and environmental sustainability. They stressed that governance is a broad-based concept intended to encompass all factors that impact on a country's ability to assure sustained economic and social development and reduce poverty and noted that these factors should be addressed in a manner compatible with ADB's Charter.

The private sector is essential in the fight against poverty. Donors reaffirmed that the private sector is needed for sustaining economic growth and that the Asian experience has shown that growth is a powerful weapon in the fight against poverty. Growth creates jobs that use labor, the main asset of the poor. Donors endorsed ADB's Private Sector Development Strategy in ADF VIII including the strategy's three main thrusts: (i) to support DMC governments in enabling business; (ii) to generate business opportunities in ADB-financed public sector projects; and (iii) to catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments. Donors also agreed that ADB's support for the private sector should aim to strengthen the rule of law and associated legal frameworks and the application of international standards for corporate governance. Donors agreed that all of ADB's instruments for advice and financing will be used to pursue private sector development outcomes targeted by the three strategic thrusts, and concurred that the three thrusts are mutually reinforcing when brought to bear on the challenge of poverty reduction.

Combating Infectious Diseases and HIV/AIDS. Donors concluded that infectious or communicable diseases particularly affect the poor and more generally adversely affect a country's economic and social development initiatives. The benefits for the whole population from addressing communicable diseases are very high. Donors noted that according to UNAIDS

estimates, close to one-third of the world's HIV/AIDS population lives in Asia and the Pacific. South and Southeast Asia are the most affected regions. Infectious diseases and HIV/AIDS epidemics in the Region are not only a serious health problem but also have important economic and social implications. However, experience has shown that communicable disease control interventions are generally low-cost and cost-efficient. Donors concluded that it is appropriate for DMCs and ADF to allocate scarce domestic and international resources to combat these diseases. Donors endorsed ADB's medium-term operational plans (Appendix 7) for combating infectious disease and HIV/AIDS.

Mainstreaming gender, environment, and core labor standards. Donors agreed that insufficient attention was being given to including gender issues in ADB's overall lending program. They suggested that during the ADF VIII period, ADB should increase the number of loans focusing directly on gender equality, and that gender equality considerations should be mainstreamed in planning all loan operations. Projects should address gender equality at both the national and subnational levels and across all key economic sectors in individual DMCs. Projects should be designed and implemented to encourage women to achieve their full economic potential and thereby expand the base for sustainable economic growth in a DMC, and to earn incomes and acquire access to social protection that reflect their full contribution to the nation's economic and social development. Donors agreed that the implementation of ADB's poverty reduction strategy, along with a new environment policy and revised guidelines for environmental assessment, as well as a performance-based allocation system including environmental criteria, provides an opportunity for improved mainstreaming of environmental considerations in all ADB operations. As the partnership with the Global Environment Facility (GEF) develops, DMCs will benefit from investment projects that blend ADB finance with GEF grant resources. On core labor standards (CLS), ADB will, in selected DMCs, assist in preparation of national compendia. These compendia will consist of studies, guidelines and checklists provided to policy makers of key ministries and staff of executing agencies of ADB-assisted projects. The compendia will identify relevant issues and address them when designing and implementing programs and projects. ADB will prepare an associated framework and action plan that will be readily applicable in ADB's operations. In 2001, ADB will expand the scope to other DMCs as well as cover other standards.

Supporting regional cooperation to achieve prosperity and stability. Donors reaffirmed that ADB has a special Charter mandate to promote cooperation among developing countries in the Region. As with governance, there is a consensus among Donors that ADB's regional character gives it a comparative advantage to support cooperation among DMCs. Regional cooperation, therefore, provides a potentially important mechanism for poverty reduction, especially where the cooperation involves marginal and less developed areas. Donors also agreed that regional cooperation should not be confined to the economic dimension of development. It is also highly relevant to addressing cross-border issues, such as common property resource management, labor migration, disease prevention and control, human resource development, and for resolving disputes on policies and practices in relation to these issues.

Combating Money Laundering, and Drug Trafficking. Donors agreed that money laundering—which is frequently associated with serious crimes, including drug trafficking—occurs in many countries, including developing countries in the Region. In ADF VIII, ADB will plan to combat money laundering in DMCs through various approaches. ADB will support operations that develop and improve the regulatory framework and supervisory systems for the financial sector in poorer DMCs, including law reform efforts that promote transparency practices and good governance principles, including effective internal controls. Drug trafficking related issues will be covered in country strategies, and ADB will seek opportunities to support

alternative development projects in those key drug-producing nations where it has lending programs. ADB will work closely with other relevant organizations, in particular the Financial Action Task Force (FATF) and the United Nations International Drug Control Program (UNDCP).

Building Partnerships. ADB is taking important measures to work closely with other development partners to carry out operations on the basis of its comparative advantages and to achieve greater development impact. Donors reaffirmed the need for development partnerships for ADF operations, including much closer and sustained donor coordination and taking a lead in building development partnerships using the principles of the Comprehensive Development Framework (CDF). Donors recommended ADB take the lead in strengthened donor coordination in DMCs in situations where ADB has a comparative advantage to do so and when requested by the Government, and to play an active role in donor coordination in situations where it does not take the lead role. On the basis of a new formal protocol (Appendix 3), ADB will collaborate closely with the Bretton Woods institutions, and the European Bank for Reconstruction and Development (EBRD) as appropriate, to assist DMCs in preparing national poverty reduction strategies. Each development partner will design its own country strategy or institutional business plan that will be consistent with the national poverty reduction strategy. In addition, ADB will build on the formal protocol and work with the World Bank to develop a mutually satisfactory memorandum of understanding to ensure that these institutions maximize their respective institutional and operational strengths, and concomitantly minimize any unnecessary duplication, for development efforts in this Region.

Allocating ADF's resources according to each country's policy performance. Donors reaffirmed that aid works best in reducing poverty in countries with sound policies and institutions. The main lesson has been that in order to realize the objectives for which aid is intended, it must flow to those who need it and make the best use of it. Against that background, Donors endorsed ADB's plans (Appendix 5) to strengthen its development impact and realize its overarching goal of poverty reduction through a closer linkage between country performance (effective development management) and the allocation of scarce ADF resources among recipient countries. Donors concluded that the proposals contained in ADB's work-in-progress establish a strong linkage between country performance and allocations and ensure a transparent and fair but flexible performance-based allocation of ADF resources. Donors also agreed that the performance-based allocation system should be structured to reflect the three pillars of ADB's Poverty Reduction Strategy (i.e., pro-poor sustainable economic growth, social development, and good governance). This approach will enable greater differentiation to be made in allocations to ADF recipients based upon their efforts and progress on measured reductions in poverty. Donors requested ADB to submit the country allocations derived from the performance-based allocation system to a formal meeting of the Board of Directors for their endorsement.

Reinforcing good governance principles in ADB's corporate management. Donors expect that the good governance principles of transparency, accountability, participation and predictability will be applied to ADB's own internal governance. They consider them to be relevant to relationships between Management and the Board of Directors, and between Management, senior management and staff in ADB. Donors emphasized that ADB should be a model for institutional governance, reflecting international best practice. They encouraged ADB to take measures to improve its internal governance. In this regard, Donors welcomed and endorsed Management's recent initiatives, including: (i) informal meetings with members of the Board of Directors, on a quarterly basis, to discuss the schedule of Board meetings and work program; (ii) meetings of the Budget Review Committee of the Board of Directors, as needed, to

review major undertakings with substantive budget implications, with meetings scheduled at least semi-annually; (iii) examining the strengthening of the Operations Evaluation Office (OEO); (iv) adoption of a formal Board meeting to endorse the Three-Year Rolling Work Program and Budget Framework paper; (v) examine how to incorporate Board input into the Country Strategy and Program (CSP) including CSP endorsement in a formal meeting of the Board; (vi) establishing the practice of semi-annual retreats, to further strengthen communication between the Board and Management; and (vii) work on the establishment of a Development Effectiveness Committee, and enhancing the Inspection Function. Donors requested that these initiatives be pursued forcefully and in full consultation with the Board of Directors. Donors also considered the experience with the Inspection Function. They expressed concern about the paucity of requests for inspection and the absence of instances of the actual inspection approved by the Board of Directors. In that context, Donors noted and welcomed that Management plans, in full consultation with the Board of Directors, to strengthen and make more independent the inspection function of ADB. Donors called on ADB to establish soon a Development Effectiveness Committee of the Board.

Developing better evaluation systems and strengthening their linkage to the planning of ADF operations. Donors agreed that timely access to results of evaluation of ADF-financed operations is necessary to enable Management, the Board of Directors and Donors to assess the stewardship of ADF resources. Donors considered existing evaluation systems and concluded that they limit ADB's ability to fully assess the results and impacts from ADF-financed operations. Donors requested ADB to continue its efforts to strengthen ADB's evaluation systems (in particular, methodologies, databases, and indicators) to allow for better measurement of both quantitative and qualitative impacts of ADF operations at the project, sector, and national and subregional levels, as well as contributing to cross-institutional comparisons of development impact.

Redesigning and strengthening operational processes to support ADF. Donors considered ADB's current operational processes. They concluded that these processes do not always result in the desired level of "quality at entry" for key products: country operational strategy (COS), country assistance plan (CAP), Technical Assistance (TA), and loans. This reduces the potential development impact of ADB's assistance. Donors noted and endorsed ADB's new integrated approach to operational business processes where country planning, programming, and TA and loan processing will be treated as one integrated process. Donors agreed that the redesign of the operational business processes should focus on three key areas: (i) ADB's procedures for accountability, review, and approval; (ii) improvement of economic and sector work; and (iii) improvement of the quality and efficiency of country planning, programming, and TA and loan processing. Donors endorsed the notion that the core of the redesign is to significantly change the processes for country planning, programming, and TA and loan processing. Donors endorsed ADB's plans to improve project quality and portfolio management, which aim to foster a proactive approach and to place the quality of portfolio performance at the forefront of ADB's dialogue with DMCs.

ADF's financial management. Donors decided to extend the existing ADF operational and financial planning systems with the exception of two changes. First, Donors recommended that operational planning for ADF should be in Special Drawing Rights (SDRs), to alleviate commitment risk. Second, Donors also recommended ADB adopt the IDA practice and have no loan loss provision for ADF loans. Donors believe that provisioning for ADF was not practicable because of ADF's concessional character. Donors requested the ADB to re-examine in ADF VIII the basis for the allocation of ADB's administrative expenses between ADF and OCR.

ADF VIII Funding. The ADF VIII replenishment will cover the four-year period from 1 January 2001 to 31 December 2004. In that context, Donors agreed to a replenishment size of \$5.645 billion consisting of \$2.905 billion of new donor contributions and \$2.740 billion of commitment authority to be generated from existing resources (Table 3). Two countries, i.e., Portugal and Singapore, became Donors to ADF. Donors agreed to plan to provide their installment payments as soon as possible in each calendar year of the replenishment, and also agreed on a fixed encashment schedule for their contributions. In ADF VIII, technical assistance will be financed from ADB's internal resources. Donors agreed that the operational priorities for ADB during the ADF VIII period were ambitious, and that continued strong support to ADF from Donors would be required, along with support from all members for strengthening the administrative budget and staff, and the exercise of sound judgement by Management and the Board of Directors for selecting and prioritizing operations.

ADF Accountability—The ADF VIII Mid-Term Review. Donors agreed that they should meet for a Mid-Term Review of ADF VIII immediately before ADB's 2003 Annual Meeting. In that context, Donors requested ADB to provide them with certain reports on ADF (p. xvi) at least one month before the 2003 Annual meeting. These reports should inform Donors on the status of implementing the operational priorities and recommendations contained in the ADF VIII Donors' Report. These reports should, if needed, formulate recommendations for strengthening timely implementation of the recommendations in the ADF VIII Donors Report, or where considered appropriate, provide explanations for any revisions to the original timetable in the Donors' Report.

Summary of Conclusions and Recommendations by ADF Donors

All ADF operations revolve around the overriding goal of poverty reduction. The IDGs for the 21st Century provide a long-term context for monitoring ADF's contributions to reducing regional and global poverty. Sustainable poverty reduction from ADF operations will be dependent on the support for a development process in poor countries in Asia that: involves systematic inclusion of the poor, women and other disadvantaged groups; gets demonstrable results that generate sustainable development impacts; allocates scarce resources on the basis of performance including performance on better governance; contributes to improving the environment; and contributes to a more equitable society by removing barriers to greater opportunities for the poor.

ADF Donors agreed on a series of specific recommendations to improve ADF's effectiveness. These are set out in the attached ADF VIII Donors' Report and summarized below.

COMMITMENT TO POVERTY REDUCTION

The International Development Goals (IDGs)

- ◆ Donors recommend that ADB use the IDGs, including any Asian-specific IDGs which could be prepared through ADB assistance, as the long-term strategic benchmarks against which ADB plans operations and views performance in DMCs. (para. 7 and Table 1)

Implementing ADB's Poverty Reduction Strategy

- ◆ Donors agreed that the primary responsibility for finding solutions to mass poverty in Asia lies with developing countries themselves. However, success will depend on the united efforts of government and civil society, and on strong support from the international community, including ADF. For all stakeholders, the strategies chosen to reduce poverty should be comprehensive enough to address its many causes. Those strategies should empower the poor to take on a greater role in the development process, in particular strengthening their participation and influence in decision-making processes at all levels of government and public administration. Donors recommended that ADB make cross-cutting issues (gender, environment, core labor standards, and regional cooperation) integral components of country strategies. (para. 52)
- ◆ The three pillars (i.e., pro-poor sustainable economic growth, social development, and good governance) of ADB's Poverty Reduction Strategy are mutually reinforcing. ADB's commitment to pursue them and link them in the poorer DMCs with the participation and support of DMC stakeholders will ultimately determine the development effectiveness of ADF's operations. Donors recommended that ADB expand its financing on the social sectors by investing in primary and secondary education, basic health, clean water, sanitation, and basic social services. (para. 52) Donors recommended that ADB use its Poverty Reduction Strategy to govern the planning, implementation and evaluation of all ADF VIII-financed operations. (para. 29)

- ◆ High-level forums will take place in various DMCs, including ADF borrowers, and DMC governments will be expected to sign partnership agreements with ADB. Appendix 4 provides an indicative implementation schedule of related activities. Donors recommended that ADB follow this timetable in close cooperation with other development partners. (para.57)
- ◆ Donors recommended that ADB ensure that various methodological improvements, as well as expanded statistical databases on poverty in the Region be developed taking into account existing databases and other technical assistance being provided by other development partners in individual DMCs. (para.56)
- ◆ Donors requested a report to be provided at the ADF VIII Mid-term review on progress on implementation of ADB's poverty reduction strategy in ADF borrowers. (para.57)

OPERATIONAL PRIORITIES

Development Partnership

- ◆ Donors recommended that ADB ensure that practical steps be taken, including staff training, to put partnership principles into practice. (para.35)
- ◆ Donors recommended that ADB incorporate the Comprehensive Development Framework (CDF) principles into its strategic planning and integrate the analysis, results and recommendations of the DMC's poverty reduction strategy, and where appropriate the technical analysis of other development partners, into the design of ADB's country strategy, and to use the CDF principles in promoting development in the Region. ADB's Partnership Agreements and country strategies should be consistent with PRSP processes in DMCs.(paras.41 and 57)
- ◆ Donors recommended ADB take the lead in strengthened donor coordination in DMCs in situations where ADB has a comparative advantage to do so and when requested by the Government, and to play an active role in donor coordination in situations where it does not take the lead role. (para.33).
- ◆ Donors recommended that ADB participate fully in the process of formulating comprehensive national poverty reduction strategies in ADF borrowers through a collaborative process led by the Government and involving all relevant stakeholders. (para. 57) Donors also recommended full implementation of the "Protocol on Collaboration Among MDBs/IMF on the Preparation of Poverty Reduction Strategies in Low-Income Countries" (Appendix 3). (para.53)
- ◆ Donors recommended full implementation of the 28 January 2000 joint memorandum "ADB-World Bank Cooperation: Framework and Structure" (Appendix 2). Donors noted that ADB will use this Framework as a starting point to develop a memorandum of understanding with the World Bank and urged the ADB to initiate appropriate actions. (para.53)

- ◆ Donors recommended that ADB participate, as an observer, in future concessional replenishments for the International Development Association (IDA) and the African Development Fund (AfDF). (para.42)

Performance-based Allocation System for ADF Resources

- ◆ Donors recommended that ADB prepare a policy on performance-based allocation for ADF resources on the basis of ADB's proposal (Appendix 5) endorsed by Donors in the negotiations and submit it to the Board of Directors before the end of 2000. Donors expect that the policy and associated staff instructions and guidelines will begin to be implemented and tested in early 2001 followed by full implementation of the system for determining ADF VIII allocations starting in year 2002. Donors called on ADB to make every effort to apply the principles of the system in the 2001-2003 CAPs to be discussed by the Board in October 2000, while recognizing that the system will be in a transition phase. Performance-based allocation of ADF resources will apply to all ADF borrowers on an annual basis. Donors recommended that the country allocations derived from the performance-based allocation system be presented to the Board of Directors for endorsement in a formal meeting of the Board. Donors also requested that ADB report to Donors, at the time of the ADF VIII Midterm Review, on the implementation of the performance-based allocation system in 2001 and 2002. (paras. 62 and 125)
- ◆ Acknowledging the strong relationship between governance and economic impact, Donors recommended that ADB systematically assess the quality of governance for all DMCs and strengthen the linkage between the quality of governance and ADF lending levels. Support to DMCs with poor governance (which occurs when a borrower is not pursuing policies conducive to pro-poor sustainable economic growth, social development and good governance) should be scaled back to non-lending services, or stopped entirely if necessary. Support to countries with weak governance (which occurs when a borrower has poor policies but is making sustained efforts to improve them) should mainly target strengthening of institutional capacity and basic human needs. (para. 60)
- ◆ Donors reaffirmed that one of the distinguishing features of ADB's Charter is the directive to give special consideration to the needs of small countries. Donors recommended that ADB's performance-based allocation system should treat small-island economies as a separate category and also recommended that a specific amount could be set apart for them as a group, and this could be allocated among them using the system being adopted for the main ADF borrowers. (para. 61)
- ◆ Because of the centrality of governance issues in sustainable development efforts, Donors agreed that DMCs' commitment to governance reforms and to combat corruption should be recognized. Donors recommended that any new ADB policy on a performance-based allocation system for ADF resources must include governance as a central criterion of a performance rating to determine future ADF lending to a DMC. (para. 66)

Governance

- ◆ Donors underscored the importance of interrelationships between political and economic issues in socio-economic development. They endorsed ADB taking due account of the demonstrable and direct economic effects on development from noneconomic factors. Donors consider that certain issues such as democratization and respect for human rights, can also have important long-term implications for the capacity of a country to initiate and sustain programs for effective poverty reduction, economic adjustment and growth, and environmental sustainability. They stressed that governance is a broad-based concept intended to encompass all factors that impact on a country's ability to assure sustained economic and social development and reduce poverty and noted that these factors should be addressed in a manner compatible with ADB's Charter. (para.26 and 64)
- ◆ Donors noted that ADB's role as a major development institution in the Region meant that ADB will be required to enhance its efforts to maintain its key position in the area of governance reforms focused on poverty reduction, and in leading the fight against corruption. In this regard, Donors approved of ADB's intention that governance activities become increasingly focused on those areas that can disproportionately benefit the poor in a demonstrable manner. Donors supported the ambitious medium-term agenda and the Action Plan for ADB's governance activities (Appendix 6). Donors recommended full and timely implementation of the Action Plan in ADF VIII. (paras. 67 and 70). Donors requested ADB to submit the Action Plan for approval by the Board of Directors before the effectivity of ADF VIII. (para. 124)

The Private Sector

- ◆ Donors recommended full implementation in ADF VIII of ADB's Private Sector Development Strategy, approved by the Board in March 2000. Under the strategy, ADB will use both its public and its private sector operations to help create an enabling environment for the private sector, including the effective establishment and implementation of the rule of law and international standards for corporate governance, tackling problems that impede private sector growth in the DMCs and the contribution of the private sector to poverty reduction. (para. 72)

Infectious Diseases and HIV/AIDS

- ◆ Donors strongly endorsed ADB's planned operations (Appendix 7) to combat infectious diseases, including HIV/AIDS. Donors recommended that ADB finance those operations as one of the priorities in ADF VIII. (para. 76)

Core Labor Standards (CLS)

- ◆ Donors recommended that ADB address the promotion of CLS on two fronts. First, ADB mainstream CLS considerations in planning its projects and programs. Second, ADB continue to support direct investments in projects that will enable ADB and its DMCs to address CLS issues in a more holistic manner. (para. 77)

- ◆ Donors recommended that the framework and action plan for addressing CLS issues in the design and implementation of ADB operations be completed as soon as possible so that it will be applied in ADF VIII. (para. 78)
- ◆ Donors recommended that ADB formalize its relationships with international organizations that promote CLS. (para. 80)

Gender and Development

- ◆ Donors recommended that in ADF VIII, ADB increase the number of loans focusing directly on gender equality, and that gender equality considerations are mainstreamed in loan operations. (para. 81)
- ◆ Donors recommended that increased investments providing poor women with access to education, health, income, and employment opportunities form the basis of ADB interventions to address poverty reduction. (para. 82)
- ◆ Donors were encouraged that the administrative arrangements for establishing the external forum on gender have been completed and that the first meeting of the forum would take place in the third quarter of 2000. To ensure effective dialogue, Donors recommended that Management and senior staff also meet with the gender forum members. (para. 84)
- ◆ Donors recommended that further collaborative work and cofinanced regional GAD initiatives be undertaken with regional organizations, other donors, and NGOs. (para. 86)

Environment

- ◆ Donors concluded that there is a strong link between the environment and poverty. Environmental degradation, through amongst other things overfishing, deforestation, erosion and excessive cultivation in marginal areas, reinforces poverty by further eroding the livelihood possibilities for the poor. In such circumstances, Donors also concluded that the need to improve the conditions for women deserves special attention. Donors recommended that in ADF VIII special attention be given to the environment-poverty nexus. (para. 87)
- ◆ Donors recommended that ADB integrate environmental concerns and expertise at each stage of the Poverty Reduction Strategy country-level process leading to the Partnership Agreement between ADB and the DMC. (para. 91)
- ◆ Donors recommended that ADB continue with the integration of environmental expertise in the country programming cycle to ensure that country strategies fully incorporate environmental concerns—both to avoid programs and projects entering the pipeline which are unacceptable from an environmental perspective, and to strengthen environmental assistance across sectors. (para. 91)

- ◆ Donors recommended that the environment policy and revisions to the environmental assessment guidelines be finalized in a timely manner so that they may apply during the ADF VIII period. (para. 91)

Cooperation among Developing Member Countries

- ◆ Donors recommended ADB examine how support for Regional cooperation could be better organized, funded and implemented—within the Long-Term Strategic Framework (LTSF)—as a more focused and core part of ADB operations in DMCs taking into account ADB’s comparative advantages. (para. 97)
- ◆ Donors recommended that ADB should consider development of a regional operational strategy and allocate an appropriate amount of total lending in ADF VIII for regional and subregional cooperation projects representing priority investments in ADF borrowers and to report on this at the time of the ADF VIII Mid-Term Review. (para. 97)
- ◆ Donors recommended that ADB continue its support to the Greater Mekong Subregion program, as well as preparations for a medium-term regional assistance plan for Central Asia, including ADF borrowers. (para. 96)
- ◆ Donors recommended that ADB continue to work with the South Asia Growth Quadrangle towards the promotion and financing of specific cross-border projects, or national projects with subregional implications. (para. 96)

Money Laundering

- ◆ Donors recommended that ADB combat money laundering in poorer DMCs through operations that develop and improve their regulatory framework and supervisory systems for the financial sector, and the legal framework for effectively dealing with the proceeds of drugs and similar crimes, as well as through operations in the financial and corporate sectors that promote transparency practices and good governance principles, including effective internal controls. Donors requested ADB to prepare a policy paper on ADB’s role in combating money laundering and to submit it to the Board of Directors for approval. (paras. 98 and 125)

Drug Trafficking

- ◆ Donors recommended that ADB take a strategic position on drug trafficking related issues, adopting a multisectoral approach. Where relevant, drug trafficking related issues should be covered in country strategies, and the Bank should seek opportunities to support alternative development projects in those key drug producing nations where it has lending programs. (para. 99)

CORPORATE GOVERNANCE AND INTERNAL SYSTEMS

ADB's Internal Governance

- ◆ Donors recommended that a Development Effectiveness Committee of the Board be established. (paras. 100 and 127)
- ◆ Donors specifically recommended that the Board of Directors should be more closely involved in the process leading to the formulation of the CSP and that the Board of Directors endorse the CSP at a formal meeting. (para. 127)
- ◆ Donors recommended a strengthened and more independent Inspection Function, and the Function should have oversight of private sector projects. (para. 129)
- ◆ Donors recommended that ADB's Management work with the Board of Directors on the implementation of the internal governance reforms that have been identified and on any additional initiatives that may be warranted. Donors also recommended that these initiatives be pursued forcefully and in full consultation with the Board. (para. 128)

Improving Evaluation and the Linkage to Planning Operations

- ◆ Donors recommended: (para. 100)
 - (i) that by the end of 2000 ADB review the implementation of the project performance management system (including the use of the logical framework in project design and in identifying meaningful indicators and data that executing agencies and ADB staff collect on development impacts during project implementation) and submit the review for Board consideration in the first year of ADF VIII;
 - (ii) OEO expand its on-line databases by the end of 2001 to facilitate access to the results of evaluation studies covering the impacts and lessons learned from ADF projects;
 - (iii) OEO prepare an impact evaluation study covering selected projects approved under ADF V and ADF VI as well as ADF VII projects where feasible, and submit the study to the Donors in conjunction with the ADF VIII midterm progress report;
 - (iv) OEO, in cooperation with Operations Departments, begin work to strengthen ADB's evaluation systems to allow for identification and measurement of direct and indirect as well as quantitative and qualitative impacts of ADF operations at the project, sector, and national and subregional levels, as this would enhance evaluation within the context of the CDF. Donors also recommended strengthening performance through systematic use of baseline data, performance targets and indicators, careful monitoring and supervision, and more effective feedback and use of lessons-learned;

- (v) OEO continue to collaborate closely with the MDBs and other relevant international organizations to harmonize evaluation systems, enabling ADB and the common shareholders in the organizations to make comparative assessments of the efficacy of operations in terms of development effectiveness as this would further enhance evaluation within the context of the CDF;
- (vi) OEO, in collaboration with Operations Departments mainstream gender and environmental considerations into ADB's evaluation processes; and
- (vii) that measures be undertaken to strengthen OEO and make it more independent, and that OEO provide results of ADF evaluations and special studies for consideration by a Development Effectiveness Committee of the Board of Directors, which Donors recommended be established.

Operational Business Processes and Portfolio Management

- ◆ Donors recommended that ADB continue to improve its procedures and practices for project quality and portfolio management, identify key areas of weakness, make specific recommendations to the Board, and undertake corrective measures as a matter of priority. (para.103)
- ◆ Donors emphasized that two key areas of operational importance are (i) the revised country programming processes and (ii) the revised loan/TA preparation processes, and noted, with approval, that ADB has commenced revision of the relevant guidelines for staff and expect them to be finalized and distributed to staff by 1 October 2000 followed by workshops in the last quarter of the year to familiarize staff with the new procedures. These revisions should recognize the planned implementation of an ADF performance-based allocation system and governance action plan. Donors recommended that all relevant actions (Appendix 8) be completed in a timely manner for application in ADF VIII. (para. 102)
- ◆ Donors recommended that ADB review its system of internal financial controls, identify key weaknesses, make recommendations to the Board, and undertake corrective actions, as appropriate, as a matter of priority. (para. 104)

Strengthening Resident Missions

- ◆ Donors recommended that ADB comply with the schedule for the planned implementation of the Resident Missions policy during the ADF VIII period (Appendix 9). (para.105)

LENDING FINANCIAL MANAGEMENT, AND RESOURCE MOBILIZATION

Eligibility and Access to ADF VIII Resources

- ◆ Donors reaffirmed the Board's approval in December 1998 of a graduation policy for the DMCs, and recommended continuation of eligibility as applied to ADF VII for allocating resources in the planned ADF VIII period (2001–2004). A list of planned borrowers of ADF VIII resources is provided in Appendix 10. Allocation to these DMCs in the first year of ADF VIII will be based on initial implementation of a formal performance-based allocation system, and in part on the existing CAPs for 2001. Allocations to these DMCs in 2002-2004 will be based on the full implementation of ADB's performance-based allocation system for ADF resources. (para. 108)
- ◆ Donors endorsed ADB's intention to assist reconstruction in East Timor through ADF-financed operations, if and when East Timor becomes a member of ADB. Donors noted that Azerbaijan may become eligible for ADF resources. (para. 109)
- ◆ Given ADB's overarching objective of poverty reduction and the large proportion of Asia's poor that live in India, Donors had a discussion on access to ADF VIII resources by India. After extensive deliberation, a consensus on India's access could, however, not be reached. (para.110)

ADF Financial Management

- ◆ Donors recommended to extend the existing planning systems in ADF for managing risk, with one change, namely the conduct of operational planning in Special Drawing Rights (SDRs) to alleviate commitment risk. Second, Donors also recommended that ADB adopt the IDA practice and have no loan loss provision for ADF loans. (paras.115 and 116). Donors recommended that their contributions be encashed on the basis of a fixed schedule on an approximately pro rata basis among Donors (Annex 2 of the ADF VIII Resolution). (para. 122) Donors recommended that the issue of financing TA be considered in the Mid-term review of ADF VIII. (para.123)

ADF VIII Replenishment and Burden Sharing

- ◆ The ADF VII replenishment will cover the four-year period 1 January 2001 to 31 December 2004. Donors agreed to a replenishment size of \$5.645 billion consisting of a recommended \$2.905 billion of new Donor contributions, and \$2.740 billion of commitment authority to be generated from existing resources. (paras. 112 and 120) (Table 3)

ADF VIII: Requests for Midterm Policy Reviews and Reports

In connection with these recommendations, Donors requested that the following documents be provided to Donors at a Midterm Review of ADF VIII to be held immediately preceding ADB's 2003 Annual Meeting:

1. A report on implementation of ADB's poverty reduction strategy in ADF borrowers.
2. A review of the initial testing and application of a performance-based allocation system for ADF resources in 2001 and 2002.
3. A progress report on implementation of ADB's Governance Action Plan in ADF borrowers.
4. A report on progress on policy reviews requested by Donors in the ADF VIII Donors' Report, and on the planned framework and action plan on core labor standards (CLS).
5. A policy paper on ADB's role in combating money laundering. This should be submitted to the Board of Directors for approval.
6. A report on progress on strengthening ADB's evaluation systems. This should report on the link between evaluation and country-based strategic planning for portfolio management and new operations in ADF borrowers, as well as collaboration with other MDBs on harmonizing evaluation systems.
7. A study on the impacts and results of ADF operations. This should include explanations of project success and project failure, focusing on operations financed in earlier replenishments.
8. A progress report on steps taken to strengthen operational business processes, project quality and portfolio management.
9. A report on the mobilization, allocation and uses of ADF VIII resources in 2001 and 2002, as well as a review of financing TA.
10. A status report on the participation of ADF borrowers in the HIPC Initiative.
11. A report on the status of implementing other recommendations, for example, progress on initiatives to improve internal governance in ADB, contained in the ADF VIII Donors' Report. The report should, if needed, formulate recommendations for strengthening timely implementation of the recommendations in the ADF VIII Donors' Report. Where considered appropriate, the report should provide explanations for any revisions to the original timetable in the Donors' Report.

I. INTRODUCTION

1. Poverty is a deprivation of essential assets and opportunities to which every human being is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as having some protection from external shocks. Beyond income and basic services, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making decisions that shape their lives. Poverty is thus best measured in terms of available basic education; health care; nutrition; water and sanitation; opportunities for expression and choice; as well as income, employment, and wages.

2. Today, 1.3 billion people live in poverty. Of these, two thirds live in the Asian and Pacific Region (the Region). This is a vast number of poor people, but there is hope. For the first time in human history, abject poverty could be eliminated from the human condition. The elimination of abject poverty is an achievable goal—but is not inevitable. This places great responsibility on developing countries, and on the international community and the development assistance organizations they support, including the Asian Development Bank (ADB).

3. The Asian Development Fund (ADF) is ADB's concessional lending window. The governments of ADB Donor members (Donors), both regional and nonregional, contribute to ADF. As ADB's concessional window, ADF is the only multilateral source of concessional assistance dedicated exclusively to the needs of the Region. Activities supported by ADF promote poverty reduction and improvement in the quality of life in ADB's poorer developing member countries (DMCs). ADF is thus an important instrument of multilateral cooperation for achieving poverty reduction through equitable and sustainable development.

4. In ADF VII (the current replenishment period), Donors endorsed a long-term vision for ADF, to (i) accelerate the pace of poverty reduction in the Region, and (ii) establish in ADF financing on the basis of resources other than new Donor contributions. In March 1999, ADB provided the Board of Directors with a midterm progress report on the implementation of ADF VII operational priorities and preparation of new ADF policies. In May 1999, Donors agreed to commence negotiations on the seventh replenishment of ADF (ADF VIII).

5. ADF's resources come primarily from periodic contributions by Donors. The number of Donors that support ADF has grown to include all developed members and several middle and higher-income DMCs. The Donors have decided to replenish ADF's resources to finance its operations for the four-year period 2001-2004 (the ADF VIII period) starting on 1 January 2001. This report presents Donors' guidance on ADF's objectives, policy directions, and priorities, and sets out their recommendations.¹

¹ The representatives of Donors met five times under CoChairmen Mr. John Lintjer, Vice President, and Mr. Peter McCawley, Deputy Director General, Australian Agency for International Development (AusAID). The papers provided to Donors as part of the replenishment meetings are listed in Appendix 1. The ADF VIII Donors' meetings took place in Brisbane (October 1999), Edinburgh (February 2000), Chiang Mai (May 2000), Rome (June 2000), and Okinawa (September 2000).

II. THE INTERNATIONAL DEVELOPMENT GOALS

6. Donors reaffirmed that the challenge of mass poverty reduction is daunting. Without a concerted effort from the development community to make its efforts more effective, it will be difficult to sustain progress in reducing the proportion of people living in extreme poverty which has been achieved in recent years. This has prompted an intense re-examination of development strategies to see that poverty reduction is achieved.

7. Because of the increased concern with mass poverty in the 1990s, the international community adopted the international development goals (IDGs) (Table 1). Addressing pervasive poverty has been given additional urgency by indications that progress toward poverty reduction has recently slowed, partly as a result of the recent Asian financial crisis. Donors reaffirmed that achievement of the IDGs is critically dependent on accelerated and sustained economic and social progress in poor countries in Asia. The success of the war against global poverty will in large part depend on how well countries in the Region, supported by the international community, fight poverty in Asia. In this context, Donors recommended that ADB use the IDGs, including any Asian-specific IDGs which could be prepared through ADB assistance, as the long-term strategic benchmarks against which ADB plans operations and views performance in DMCs. Donors called on ADB to stay firmly committed toward achieving the IDGs in all of its operations.

Table 1: International Development Goals

Goals	Target Year
For economic well-being:	
Reducing by half the proportion of people in extreme poverty.	2015
For social development:	
• Achieving universal primary education.	2015
• Eliminating gender disparities in primary and secondary education.	2005
• Reducing by two-thirds the mortality rates for infants and children under 5 and by three-fourths the mortality rates for mothers.	2015
• Providing access to reproductive health services for all females of appropriate age.	2015
For environmental sustainability and regeneration:	
• Implementing national strategies for sustainable development.	2005
• Reversing current loss of environmental resources globally and nationally	2015

III. POVERTY IN DEVELOPING ASIA

A. Poverty Reduction and Poor Countries in Asia

8. The Asian and Pacific Region contains close to 900 million poor people. This is by far the largest concentration of poor in the world. By comparison, sub-Saharan Africa, the region commonly perceived as the poorest, has about 250 million poor, while all other developing regions combined have around 200 million poor. Similarly, because of high population densities and high incidence of poverty in some parts as well as rapid economic growth in others, problems of environmental degradation and natural resource management are particularly severe in developing Asia.

9. Donors reaffirmed that poverty is widespread in ADF-borrowing DMCs (Table 2). Many people live below or near the poverty line, in both absolute numbers and the proportion of the total population. Thus, most ADF borrowers are afflicted with mass poverty. Given the current levels of development and limited resources of these borrowers, Donors emphasized that sustainable poverty reduction should be the long-term goal for the DMC governments, development agencies, and international community. Donors agreed that sustained progress on poverty reduction in developing Asia will go a long way toward combating global poverty. The rest of the world is not immune to the negative effects and benefits foregone as a result of continued widespread poverty in the Region.

B. The Asian Financial Crisis

10. Donors agreed that the 1997-1998 Asian financial crisis had major and pervasive negative economic and social impacts in countries in this Region. Donors agreed that the financial crisis offered lessons for all DMCs. Donors concluded that the Asian financial crisis, as well as recent reemergence from the crisis in several DMCs, has shown that economic and financial liberalization is a double-edged sword: it rewards good policies but punishes bad ones. Nevertheless, Donors also concluded that the difficulties that crisis-affected economies have experienced are not grounds for inaction by the poorer DMCs or for adopting measures that will retard the liberalization process across the Region.

11. Donors agreed that the financial crisis underlined the devastating social effects of economic crises. Effective social policy can ease the task of adjustment during times of crisis, helping to build support for necessary reforms and ensuring that the burden of adjustment does not fall disproportionately on the most vulnerable groups in society. However, effective social policies, particularly during crisis and post-crisis periods, are subject to a number of constraints. Resources available for social programs are limited, so policy makers must make difficult choices between safeguarding immediate social welfare and ensuring the adjustment necessary to restore confidence and promote stable growth. Donors recognized that a sound system of social protection is likely to involve a number of components to meet the needs of different groups. The optimal design generally depends on the structure of the needs, and on existing schemes and on institutional structures. It is particularly hard to introduce new schemes in the midst of a crisis. Thus, during noncrisis periods, the various parts of a social protection system must be designed that have the institutional capability to be quickly expanded in response to a shock.

12. Donors recognized that as a consequence of the crisis, ADB joined with the Bretton Woods institutions to provide large amounts of quick-disbursing financial assistance to crisis-affected economies. Donors recognize that at times of crisis, ADB has a comparative advantage in helping analyze some of the causes and potential economic and social impacts, and in devising means of assistance to support efforts of DMCs to overcome the crisis, particularly through financial sector restructuring and providing assistance to the social sectors. However, Donors also noted that the amounts of assistance provided resulted in a significant deterioration in ADB's key financial indicators. Therefore, during the ADF VIII period which is expected to be a crisis-recovery period, ADB should plan to return to prudential, policy-based levels for key financial indicators.

Table 2: Poverty/Development Indicators for Selected ADF Borrowing Countries

	Population (1999) (million)	Population in Poverty ^a (%)	Adult Illiteracy Rate (1998)		Prevalence of Child Malnutrition under Age 5 1992-1998 (%)	Population with Access to Safe Water (1990-96) (%)	Population with Access to Sanitation (1990-96) (%)	Average Annual Rate of Deforestation (1990-95) (%)	Per Capita GNP (1998) (US\$)
			Female(%)	Male(%)					
Bangladesh	128.1	35.6	71	49	56	84	35	0.8	350
Cambodia	11.4	36.1	80	43	n.a.	13	N.A.	1.6	260
Kyrgyz Republic	4.9	51	N.A.	N.A.	11	81	N.A.	0.0	380
Lao PDR	5.0	46.1	70	38	40	39	24	N.A.	320
Mongolia	2.43	36.3	49	28	9	54	N.A.	0.0	380
Nepal	22.36	42	78	43	57	44	6	1.1	210
Pakistan	134.5	34	71	42	38	60	30	2.9	470
Sri Lanka	18.8	35.3	12	6	38	46	52	1.1	810
Viet Nam	78.1	50.9	9	5	40	36	21	1.4	350

^a Proportion of the household falling below the national poverty line.

Sources: World Development Indicators (WB), 2000
Asian Development Bank

C. The Heavily Indebted Poor Countries

13. Donors concluded that there may be minimal or no request for ADB to finance debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative during the ADF VIII replenishment period (2001-2004). However, Donors recommended that ADB should report on any participation by ADF borrowers in the HIPC Initiative at the time of the ADF VIII midterm review, or at any other time as appropriate. Donors agreed to discuss how to finance any cost related to the HIPC Initiative when the situation warrants it, while maximizing the use of internal resources of ADB. In that context, however, Donors agreed that any financing should not undermine the financial integrity of ADB or compromise the capacity of ADF.

IV. ADB AND ADF: VISION AND ROLE

A. Poverty Reduction—The ADB’s Vision and Overarching Goal

14. Against the background of the IDGs, Donors reaffirmed that ADB’s vision is a Region free of absolute poverty. The overarching goal of all ADB operations, including those financed by ADF, is to fight and reduce poverty across the region. Donors also reaffirmed that because the long-term vision is an Asian and Pacific region free of poverty, ADB thus has an unambiguous and single-minded mission: the reduction of poverty is no longer just one of five objectives as in the past—rather, it is ADB’s principal *raison d’être*. The elimination of mass poverty in the Region is why ADB exists. To this end, Donors reaffirmed that the other strategic objectives (i.e., economic growth, human development and environmental management, and improving the status of women) should be pursued in ways that contribute most effectively to poverty reduction. Donors agreed that this fundamental shift must affect every aspect of ADB operations.

B. The Vision and Role of ADF

15. Donors noted that ADF is not a distinct or legally separate entity within ADB. The ADF is broadly governed by the same policies and practices as ADB’s nonconcessional resources. However, Donors agreed that ADF, being a concessional fund, has unique features. Donors therefore reaffirmed their support for ADF’s long-term vision established in ADF VII to (i) catalyze and accelerate the pace of poverty reduction in the Region by supporting broad-based—including promotion of the private sector—and equitable development in low-income DMCs, and (ii) establish in ADF financing on the basis of resources other than new Donor contributions. In light of the recent crisis, Donors expressed great concern about the vulnerability of past development gains. They emphasized that past and future gains—in terms of measurable poverty reduction—must be protected. ADB should, therefore, retain ADF’s long-term vision, and the strategic role of ADF VIII should be to fight poverty with operations formulated on the basis of closer partnerships, and better operational strategies, policies, and practices.

C. The Role of ADB in the International Community and in the Region

16. Donors thus consider that the ADB's responsibility is to serve the interests of the international community by accelerating the process of poverty reduction in the Region and contributing towards the achievement of the IDGs. The main way that ADB does this is by supporting the individual and collective efforts of the DMCs. Donors concluded that ADB's role has three dimensions: developmental, regional and financial. These three dimensions are complementary and reinforcing.

17. The development dimension is focused on using pro-poor economic growth, social development, and good governance as the three central themes in ADB's engagement with DMCs in the development process. It is also concerned with mainstreaming cross-cutting issues (e.g. environment, gender, core labor standards, and regional cooperation) in ADB operations, using demonstrated commitment and performance in DMCs as the primary basis for planning operations, and in applying ADB's experience as a multilateral and regional institution to the development process at the global, regional and national levels. This dimension of ADB's role also gives special consideration to the needs of small DMCs.

18. The regional dimension is concerned with encouraging DMCs to solve problems jointly. This would in turn instill among them a stronger sense of common understanding and ownership of the Region's development process. ADB assists DMCs to identify opportunities and potential benefits of improved cooperation or the real costs of its absence, fostering intra Region trade and investment that is fully consistent with an open multilateral system, translating global perspectives into regional initiatives, and integrating the Region's perspectives on development into a global framework.

19. The financial dimension of ADB's role is concerned with the provision of technical assistance and medium to long-term financing for policy and institutional reforms and investment projects in DMCs where the private sector would underinvest. The financial dimension is also concerned with mobilizing other international public resources, as well as catalyzing international and domestic private capital for financing, over time, a greater share of total investment for development in DMCs. This dimension supports the development and regional dimensions of ADB's role.

20. Donors considered that in implementing its role to accelerate poverty reduction, ADB draws on strengths that equip it uniquely for the task. These include the exclusive focus on Asia and the Pacific; regional location; and majority shareholding of regional members (and hence, greater ownership by them of ADB's strategic orientation). At the same time, besides providing additional resources, the participation of nonregional members ensures that global perspectives are brought to bear on regional development issues. ADB undertakes grant-financed technical assistance, public sector lending, and private sector operations within a single organization, and can take advantage of the synergies that result. ADB's regional character gives it a comparative advantage over other development partners in the fields of governance and anticorruption, and in promoting regional cooperation in the fight against poverty. ADB's response to the Asian financial crisis, in particular measures to mitigate the impacts on the poor, also demonstrate the institution's ability to effectively address questions of social protection.

V. ADB'S FRAMEWORK FOR POVERTY REDUCTION

21. Donors agreed that the general ADB-wide framework for poverty reduction is contained in ADB's Poverty Reduction Strategy, which is supported by ADB's Private Sector Development Strategy. This framework will govern all ADB operations including those financed in ADF VIII. The main features of the framework as reaffirmed by the Donors are summarized in this section.

22. Donors reaffirmed that the poor are not a single, homogenous group in a DMC. Women and children are the largest group of poor people in the Region. The nature, causes, and victims of poverty are diverse. The poor may have been unable to acquire essential assets because they live in a remote or resource-poor area; or because they are vulnerable on account of age, health, education, living environment, or occupation. They may be denied access to assets because they belong to an ethnic minority or a community considered socially inferior, or simply because they are female or disabled. At a broader level, poverty may stem from situations where gross inequality of assets persists because of vested interests and entrenched power structures. Finally, essential assets may not be available to the poor because of the lack of political will, inadequate governance, and inappropriate public policies and programs.

23. Donors noted that poor policies, poor governance, and weak institutions hurt performance and present major obstacles to poverty reduction efforts, thereby undermining ADB's effectiveness. Donors agreed that the primary responsibility for finding solutions to mass poverty lies with countries themselves. However, success will depend on the united efforts of government and civil society, and on strong support from the international community. For all stakeholders, the strategies chosen to reduce poverty must be comprehensive enough to address its many causes. Those strategies should empower the poor to take on a greater role in the development process, in particular strengthening their participation and influence in decision-making processes at all levels of government and public administration. For this reason, ADB sees the twin pillars of pro-poor, sustainable economic growth and social development as elements in any framework for reducing poverty. To achieve either element requires sound macroeconomic management and good governance, the third pillar. Together, the three pillars result in socially inclusive development.

A. Pro-Poor Sustainable Economic Growth

24. Donors reaffirmed that growth needs to be pro-poor. Pro-poor growth creates jobs, and is accompanied by policies and programs that reduce inequalities and facilitate income generation for the poor. Policies include, in particular,

- (i) the removal of market-distorting interventions such as overvalued exchange rates, import or export restrictions, credit subsidies, and excessive reliance on state-owned enterprises;
- (ii) development of a conducive environment for the private sector;
- (iii) programs (e.g., microfinance) aimed at increasing income generating opportunities for women and other groups that may be outside the formal labor force;

- (iv) infrastructure development, which can make a considerable contribution to growth through job creation and improvement of access to economic activities and basic social services; and
- (v) promotion of opportunities for self-employment by the poor.

B. Social Development

25. Donors endorsed the framework's tenet that economic growth can effectively reduce poverty only when accompanied by a comprehensive program for social development. Just as some targeting of economic development is necessary to reach bypassed areas, so social development must be targeted. Therefore, every country needs to have a comprehensive national poverty reduction strategy that provides for:

- (i) adequate budgetary allocations for human capital,
- (ii) targeting of basic social services to the poor,
- (iii) removal of gender discrimination,
- (iv) an effective population policy,
- (v) social protection, and
- (vi) the promotion of good governance and empowerment of the poor and disadvantaged.

Beyond developing human capital, the aim must be to strengthen social capital, especially for people subject to social exclusion. In that regard, Donors also reaffirmed that targeted programs will be required for human capital development,¹ population policy, social capital development,² gender and development, and social protection.³

C. Good Governance

26. Donors reaffirmed the framework's emphasis on governance. Improved governance is critical to poverty reduction because it facilitates participatory, pro-poor policies as well as sound macroeconomic management and good corporate governance. Good governance encourages the transparent use of public and private funds, stimulates growth of the private sector, promotes effective delivery of public services, and helps establish the rule of law and promotes legal and judicial reforms. As the Asian crisis has shown, good governance is also essential to avoid or reduce the severity of economic crises in an era of increasing liberalization and globalization. Recognizing that the mandates of most MDBs require them to make decisions solely on economic and social grounds, Donors underscored the importance of interrelationships between political and economic issues in socio-economic development. Donors consider that certain issues such as democratization and respect for human rights, can also have important long-term implications for the capacity of a country to initiate and sustain programs for effective poverty reduction, economic adjustment and growth, and environmental sustainability. They stressed that governance is a broad-based concept intended to encompass

¹ Human capital is the primary asset of the poor, and its development requires basic education, primary health care, and other essential services.

² Strengthening social capital of the poor means increasing their opportunities to participate in the workings of society. This includes promoting participatory institutions, antidiscrimination legislation, land reform, property rights, and accessible justice systems.

³ Social protection comprises a family of programs designed to assist individuals, households, and communities to better manage risks and ensure economic security.

all factors that impact on a country's ability to assure sustained economic and social development and reduce poverty and noted that those factors should be addressed in a manner compatible with ADB's Charter.⁴

27. Donors reaffirmed the framework's conclusion that since the effective and efficient delivery of basic services by the public sector matters most to the poor, weak governance hurts them disproportionately, but that denial of basic services is not just a matter of lack of investment. Often, it is the result of (i) institutional structures that lack accountability, (ii) domination by local elites, (iii) widespread corruption, (iv) culturally determined and institutionally perpetuated inequality, (v) lack of participation by the poor, and (vi) absence of the rule of law governing private and public affairs. Where such problems exist, systemic changes are needed to move from bad governance to government accountable to the poor. Unless issues of inequality are tackled, it will be difficult to raise living standards of the poor. Action must proceed at two levels. Public administration and expenditure management at the national level must be strengthened. At the same time, responsibility for provision of public services should be devolved to the appropriate level of government. Finally, Donors reaffirmed that in achieving this objective, as well as in poverty reduction efforts generally, a diverse range of stakeholders must be involved, including national, subnational and local governments and representative assemblies at all levels. Apart from the government and the private sector, civil society institutions have an essential and therefore critically important role.

28. Donors concluded that the three pillars of ADB's Poverty Reduction Strategy are mutually supportive and reinforcing. ADB's commitment to pursue them and link them in the poorer DMCs with the participation and support of DMC stakeholders will ultimately determine the development effectiveness of ADF's operations.

29. Donors recommended that ADB use its Poverty Reduction Strategy to govern the planning, implementation and evaluation of all ADF VIII-financed operations.

VI. DEVELOPMENT THROUGH PARTNERSHIP

A. Development Effectiveness

30. Donors expressed concern about the limited effectiveness of existing aid policies and practices. However, Donors also agreed that much has been learned about the development process. After decades of debate there is far more—although by no means complete—agreement about

- (i) how pro-poor sustainable economic growth is stimulated;
- (ii) why environmental sustainability must be factored in;

⁴ Article 36, Section 2 of ADB's Charter provides that "The Bank, Vice Presidents, officers and staff shall not interfere in the political affairs of any member: nor shall they be influenced in their decisions by the political character of the member or members concerned. However, according to the General Counsel's opinion circulated to the Board with the governance policy, "it is appropriate to interpret Article 36 as allowing ADB to take into account demonstrable and direct economic effects of noneconomic factors...". Sec. M46-95: *Compatibility of the Board Paper on Governance with ADB's Charter*, 17 August.

- (iii) how mass poverty can be substantially reduced in a reasonable period of time;
- (iv) why it is important for growth as well as targeted poverty eradication to reduce income inequalities; and
- (v) and how good governance matters not only for human rights but also for improved economic well-being.

Donors also concluded that persistent shortcomings remain in the provision of aid to these ends. Donors pointed to evidence that good policies must be in place in recipient countries if aid is to work effectively to support economic growth. Where those policies exist, aid can contribute strongly to countries' efforts; where they do not, aid will have little positive effect. Therefore, aid should be allocated more selectively and more on the basis of performance than in the past, with both the level and type of aid tailored to country performance. Furthermore, Donors agreed that activities supported through aid programs must have local ownership in recipient countries. However, the significantly different practices of aid agencies, including multilateral development banks (MDBs), may stretch the DMCs' capacities to manage their aid. Clearly, the delivery as well as the allocation of aid needs to be improved. Donors strongly endorsed continued harmonization of practices and procedures across development institutions.

31. And finally, Donors pointed to the need for development effectiveness to be demonstrable and sustainable, that is, for aid agencies including ADB to be able to identify, measure, and report in a timely manner on their contributions to reducing poverty. These agencies should set goals and benchmarks and establish processes for systematic monitoring of achievement. The articulation of development goals and benchmarks and regular monitoring of results promotes participation and accountability. To those ends, Donors strongly urged ADB to continue to work with other MDBs to harmonize relevant practices and procedures.

32. Donors concluded that continued mass poverty in the Region does not, by itself, justify further support for ADF. Rather, the case for support also rests on ADB's commitment that the concessional resources will be made to work more effectively in support of development.

B. Development Partnership

1. Donor Coordination

33. Donors reaffirmed the need for development partnerships, including much closer and sustained donor coordination. Partnerships should be fundamentally concerned with (i) promoting DMC leadership in and ownership of development policies and programs, (ii) performance-based allocation of concessional resources, and (iii) the effective delivery of assistance. In this context, Donors affirmed that problems of coordination in the Region have intensified as the number of aid donors, development institutions, aid programs, and projects has increased. Donors are concerned that poor coordination between agencies not only leads to waste, but puts a heavy burden on the limited managerial capacities of DMC governments. Donors reaffirmed that ADB should be one of the organizations in the Region taking a lead in donor coordination, both at headquarters and through resident missions and building development partnerships, including with the DMCs. Donors recommended ADB take the lead in strengthened donor coordination in DMCs in situations where ADB has a comparative advantage to do so and when requested by the Government, and to play an active role in donor coordination in situations where it does not take the lead role.

34. Donors concluded that today the international development community is working with many more partners to meet demands for greater efficiency; respond to more pluralistic and decentralized political systems; and recognize the importance of a dynamic private sector, local ownership, and participation by civil society. Defining development needs and planning and implementing programs and projects should be done through partnerships, with government (national, state, and municipal) providing leadership and involving civil society in all its forms including NGOs, the private sector, and development agencies. Consultation should take place as early as possible in the ADB's country strategic planning process and project cycle, particularly with those impacted by ADB programs and projects, and ADB should look for innovative opportunities to harness civil society expertise. Such partnerships may also be needed at the regional and global levels to supply public goods required to overcome specific barriers to development.

35. Donors recognized that partnership approaches to development can be time-consuming, especially in the beginning. However, they agreed that development agencies such as ADB, should consider this as an investment towards achieving sustainable development. Donors recommended that ADB ensure that practical steps are taken, including staff training, to put partnership principles into practice.

2. The Comprehensive Development Framework (CDF) and Poverty Reduction Strategies

36. Donors reaffirmed the importance of the concept of Comprehensive Development Framework, or CDF, seeing this as an effective set of principles for development partnerships to promote and support measurable performance in DMCs and to achieve poverty reduction. The CDF seeks a better balance in policy-making and development investment planning by highlighting the interdependence of all elements of development—social, structural, human, governance, environmental, economic, and financial. Donors reaffirmed that the CDF approach must be led by DMCs with the participation of civil society and the private sector—and with the support of multilateral and bilateral organizations.

37. The CDF is based on the following principles:

- (i) *ownership by the country*: the country, not assistance agencies, determines the goals, phasing, timing, and sequencing of its development programs;
- (ii) *partnership*: with government, civil society, assistance agencies, and the private sector in defining development needs and implementing programs;
- (iii) *a long-term vision of needs and solutions*: built on national consultations, which can engender sustained national support; and
- (iv) *structural and social concerns*: treated equally and at the same time with macroeconomic and financial concerns.

38. Donors agreed that the CDF approach is meant to be a compass, not a blueprint. How the principles are put into practice will vary from country to country depending on their needs and priorities. Donors reaffirmed that the CDF aims to give all stakeholders in a country's development the information that provides a basis for each to contribute according to its comparative advantage. The arrangements for inter-agency coordination and division of labor

will be unique to each. These arrangements must not undermine the country's ownership and decision-making, and they must facilitate the participation of all major stakeholders. Each agency will remain individually accountable, according to its own standards, for carrying out its agreed contributions. Donors also reaffirmed that the CDF approach is concerned with much more than aid coordination. The broader framework of the CDF can allow participants (including ADB) to think more strategically about the sequencing of policies, programs, and projects and about the pacing of reforms. It can encourage a better balance between sectors and greater transparency in tradeoffs between economic and social needs. Further, with better alignment of strategies and greater selectivity for each participant in the development effort, more can be done with available resources; in that context CDF should promote and incorporate performance-based allocation of scarce resources for development. Costs to the DMC also can be reduced when aid agencies harmonize their work. In addition, because the CDF approach emphasizes giving voice to the poor, resources will go where they are most needed.

39. Donors agreed that to overcome the fragmentation of development efforts, it is essential that all development partners working in a DMC should support a locally led poverty reduction strategy. In response to a request of the G7 at the Cologne Summit in June 1999, and in the context of the enhanced HIPC Initiative, the World Bank and IMF have developed the concept of poverty reduction strategy papers (PRSPs) formulated under the leadership of the DMCs; PRSPs are to provide the context for financial assistance to low-income countries.⁵ PRSPs are to be prepared in accordance with CDF principles. They are to

- (i) be country-owned, designed in a participatory fashion,
- (ii) be comprehensive, be based on a medium- and long-term perspective,
- (iii) include appropriate monitoring indicators, and
- (iv) form the basis for building partnerships with multilateral and bilateral agencies.

40. Donors agreed that although poverty reduction strategies are country-owned documents, they need to be supported by all relevant stakeholders and a country's development partners. These partnerships can help build capacity to devise a successful poverty reduction strategy that promotes and addresses good governance and includes broad participation from all elements of society. They also provide a common framework for donor assistance programs. A comprehensive poverty reduction strategy will allow Donors to plan their aid commitments and to lend their expertise to government and civil society, based on the country's own strategy. Finally, coordinated participation by the entire donor community will help track progress toward the international development goals.

41. Donors consider CDF and preparation of poverty reduction strategies as joint processes involving the developing countries, including all relevant stakeholders and Donors, with ADB playing an important role, and when called upon by the Government, to provide the lead supporting role (among development partners) to the Government. Donors recommended ADB incorporate the CDF principles into its strategic planning and integrate the analysis, results and recommendations of the DMC's poverty reduction strategy, and where appropriate the technical analysis of other development partners, into the design of ADB's country strategy, and to use the CDF principles for promoting development in the Region. Donors also recommended that ADB participate fully in the process of formulating comprehensive national poverty reduction strategies in ADF borrowers. Donors emphasized that ADB, in partnership with other development agencies, will best serve its borrowers by providing sound direction based on an

⁵ PRSPs will also integrate into the Heavily Indebted Poor Countries (HIPC) process, with HIPC countries expected to have PRSPs in place by the time of their HIPC decision point.

appropriate policy and operational framework. Where government ownership and commitment are strong, ADB should plan an appropriate lending and non-lending program. Where ownership and commitment are lacking, ADB's involvement should be scaled back and focused on non-lending services.

3. Planning Concessional Resource Mobilization

42. Donors agreed that the latest concessional fund replenishments for the International Development Association (IDA12) and the African Development Fund (AfDF8) provided a valuable guide for the ADF VIII negotiations. The two replenishments were conducted in parallel with staff of each organization attending the other's negotiations as observers. Synergy between the two negotiations resulted in a substantial convergence in operational priorities and strategies for their implementation. Differences in approaches tended to reflect the unique characteristics of each organization. Donors concluded early in the ADF VIII negotiations that the operational directions of IDA12 and AfDF8 should be a basis for planning ADF VIII. Following the suggestion by Donors at the first ADF VIII meeting, representatives of IDA and AfDB participated as observers in subsequent meetings on the ADF VIII replenishment. Donors recommended that ADB participate, as observer, in negotiations on future concessional replenishments for IDA and AfDF.

VII. ADF RESOURCES: PORTFOLIO MANAGEMENT AND PERFORMANCE

A. Portfolio Management

43. Donors emphasized the importance of project design and portfolio management. They urged ADB to take decisive steps to improve these. In this regard, Donors noted that ADB recently introduced a project performance management system (PPMS) to assess progress and impact during the whole of the project cycle. Donors endorsed PPMS progressively replacing the former benefit monitoring and evaluation system in ADB projects. The new system includes monitoring and management focusing on a limited number of performance indicators that are used throughout the project cycle. This notwithstanding, Donors also concluded that some projects had inadequately defined performance indicators and targets.

44. Given that portfolio management is properly concerned with the entire project cycle, Donors concluded that an assessment of ADB's country-focused strategic planning documents showed that these documents are often not consistent and have a tendency to be needs-oriented rather than acting as an instrument for change. Donors agreed that these shortcomings should be addressed as part of ADB's Review of Business Processes (Section VIII.N.1).

45. Donors took into consideration an ADB working group review of ADB's experience in portfolio restructuring during FY 1998/99 and concluded that ADB should move more resolutely toward comprehensive portfolio management, in particular to adopt and use the "project at risk" concept as the basic measure of portfolio performance. Performance-based lending indicators should be introduced in consultation with DMCs to enhance the development impact of its operations. Portfolio management should be at the forefront of ADB's dialogue with DMCs in planning future operations, and in the assessment of internal efficiency and external effectiveness (Section VIII.N.2).

B. Performance

1. Results and Impacts

46. Donors agreed that a definition of the need for further development assistance in a DMC is not a sufficient basis for planning resource requirements; equally important is quantitative and qualitative information on the positive impacts of operations financed under earlier replenishments. In that regard, Donors considered an interim report “Report on the Results and Impacts of ADF Operations” (March 2000) prepared by OEO. Donors concluded that the report confirmed earlier evaluation findings that projects tend to perform more successfully in more rapidly growing economies, pointing to the stronger institutional capacity of such countries. Regarding development effectiveness and impact, Donors noted with some concern that while this report concludes most projects have generated significant socioeconomic benefits anticipated at project design, in many cases they have generated fewer benefits than planned. Most infrastructure projects have been successful. Their financial and economic rate of return calculations give an indication of the benefits generated. Agriculture and social sector projects generally have lower success ratings based on these efficiency calculations, but have contributed much to the overall economic and social development of DMCs, although it is not possible to make any quantitative assessment of this. Increased family incomes and employment, and increased access to social services including health and education, have been the key benefits.

47. In addition to the special OEO analysis conducted for the ADF VIII negotiations, Donors also considered another recent OEO study⁶ with information on ADF performance at reducing poverty. That study showed that households in project areas benefited from short-term project employment with wages above the poverty line. The positive effects of projects in these areas resulted in impacts, or could produce impacts, on productive activities and income and health status of beneficiaries. Whether these impacts resulted in poverty reduction by moving households above the poverty line cannot be determined for lack of baseline data and traceable households. However, since the projects focused on only one or two dimensions of poverty, they could not produce results that can be captured by a composite poverty index.

48. Against that background, Donors expressed serious concern with the share of ADF projects that have been assessed by ADB as less than “generally successful”. They also expressed similar concern about the limitations of past evaluation methods. Past methods have prevented a broader definition and assessment of impacts at the project, sectoral and national/subregional levels, where appropriate, and have constrained cross-institutional comparisons of development impact in a DMC and subregion. With the preceding in mind, Donors advised ADB to prepare a detailed and thorough impact evaluation report in conjunction with the ADF VIII Midterm Progress Report.

2. Implementation of the ADF VII Framework

49. Donors agreed that an ADF Donors’ Report is an understanding between the Donors and ADB which sets out conclusions, recommendations and proposals for time-bound actions by the ADB on the basis of which Donors pledge new contributions to ADF. In that context,

⁶ IN.16-00. Special Evaluation Study, Effectiveness of ADF Approaches and Assistance to Poverty Reduction in Bangladesh, Kyrgyz Republic, Lao People’s Democratic Republic, Nepal, and Philippines, 12 January 2000.

during the ADF VIII negotiations, ADB submitted to Donors a review of the implementation of the ADF VII framework (in the ADF VII Donors' Report, January 1997).

50. Donors concluded that ADB has followed the operational priorities established by the Donors for ADF VII, with emphasis on targeted investments in the social sectors and in poverty reduction combined with efforts to stimulate broad-based economic growth. Significant progress has been made in directing ADF lending to social and environmental areas. The project mix targets have been met, with the proportion of projects targeting economic growth only falling to 37 percent. The social and environment target has largely been attained through increased emphasis on human development which accounted for a third of ADF lending (mostly for education, but also for health and sanitation). However, although the overarching goal of poverty reduction is now reflected in many COSs, few projects have been designed specifically to address this objective (although 20 percent of projects have poverty reduction as a secondary objective). Little lending has been directly targeted at women or the environment.

51. Donors concluded that on a country basis, lending approved for Group B countries met the project mix targets, although economic growth remained the primary objective of most lending to Group A countries. Group A includes many small countries where growth remains the primary objective because of their relatively better social indicators yet relatively slow growth. This emphasis on growth seems appropriate given their low capacity and limited resource base, although the benefits of growth need to be distributed more equitably. Donors recognized that most of the COSs that have guided operations during the ADF VII period were prepared before the ADF VII strategic objective mix was adopted and show economic growth as the key to poverty reduction. The CAPs have reflected this. However, several COSs have now been or are being revised and reflect the change in ADB's approach to development with a greater focus on poverty reduction. At the project level, there has been a noticeable improvement in the quality of the design of projects approved during ADF VII. Their scope and components have generally been consistent with claimed project purposes and strategic objectives. Implementation of the classification system for these objectives still has weaknesses. Donors recognized that almost all projects and advisory technical assistance now have logical frameworks and monitoring and evaluation mechanisms. They concluded that there is still need for significant improvement. Many projects have poorly defined performance indicators or indicators that focus on project outputs rather than assessment of project purpose and objectives. Donors also noted that measures for capacity building are included in most projects; but, they expressed concern that capacity building still tends to be related to the needs of loan projects rather than of institutions. There are also doubts as to the sustainability of capacity building efforts.

VIII. THE STRATEGY FOR IMPLEMENTING ADF VIII

A. General Strategy and Partnership

52. Donors agreed that, broadly, the implementation of ADB's role in ADF VIII should be based on the Poverty Reduction Strategy—supported by the Private Sector Development Strategy—and made operational through high-quality and prioritized technical assistance and lending operations that focus on, among others: (i) close cooperation with DMC authorities and civil society to improve the quality of governance—including sound fiscal choices—at all levels of public administration and public services; (ii) environmental problems—global as well as regional—that require concerted efforts from within the Region if they are to be properly and adequately alleviated; (iii) close cooperation with DMC authorities and civil society to achieve gender equity and protection of minorities and indigenous peoples by removing legal and

culturally determined constraints; (iv) investments in physical and social infrastructure and social development that will bring substantial direct and indirect benefits of growth to poor groups and poor regions—both urban and rural—in DMCs; (v) cooperation among DMCs on “regional public goods”, i.e., economic opportunities and social and environmental problems with well defined, proximate cross-border externalities; (vi) policy reform and institutional development for creating a private sector where the poor have non-discriminatory access to asset ownership, finance, and employment; and (vii) rewarding performance. Within its role to reduce poverty, Donors recommended that ADB take all relevant issues into account by making cross-cutting issues (i.e., gender, environment, core labor standards, and regional cooperation) integral components (i.e., mainstreaming) of the country strategies. Based on ADB’s comparative advantage and the needs within each DMC, ADB should continue to support programs and projects that either directly or indirectly address cross-cutting issues. As social development is one of the three pillars of the ADB’s poverty reduction strategy, Donors recommended that the ADB expands its financing in the social sectors by investing in primary and secondary education, basic health, clean water, sanitation, and basic social services.

53. Implementation of ADB’s role in ADF VIII will involve close partnerships with government and civil society in the DMCs and with bilateral and other multilateral organizations. In that context, Donors requested ADB to pro-actively pursue closer collaboration with all relevant multilateral donors and to support the formulation and implementation of DMC’s poverty reduction strategies. Donors recommended full implementation of the 28 January 2000 joint memorandum “ADB-World Bank Cooperation: Framework and Structure” (Appendix 2) signed by vice presidents of ADB and World Bank, outlining procedures for close collaboration between the institutions. Donors noted that ADB will use this framework as a starting point to develop a memorandum of understanding with the World Bank and urged the ADB to initiate appropriate actions. Donors also recommended full implementation of the “Protocol on Collaboration Among MDBs/IMF on the Preparation of Poverty Reduction Strategies in Low-Income Countries” (Appendix 3).

B. Implementing ADB’s Poverty Reduction Strategy

54. Donors reaffirmed their strong support for ADB’s Poverty Reduction Strategy and called for its vigorous implementation in ADF VIII. Donors noted that an information paper “Annual Action Plan 2000: Implementing the Poverty Reduction Strategy” was provided to the Board of Directors in April 2000. That paper was in response to the commitment made in the Poverty Reduction Strategy to produce annual action plans of the strategy. Donors endorsed two key actions: recruitment of staff specialized in poverty reduction, and expansion of ADB’s statistical databases.

55. Donors noted that twenty-one new staff positions have been provided to nine departments, specifically for purposes of poverty reduction. Of these, 15 are in the projects and programs departments and Office of Pacific Operations (OPO). Recruitment for these positions is under way. Training modules for staff are being pilot-tested. Training will be arranged for about 100 staff. The reform of ADB’s business processes, which will start in 2000, will take into account the need to make operational procedures more responsive to the requirements of poverty reduction. Feedback from the operational departments and support offices will be used to ensure that changes in business processes facilitate the design and implementation of poverty interventions.

56. Donors noted that the ADB’s poverty reduction analysis process is critical, and urged ADB to prepare relevant Departmental action plans as well as review sectoral policies to ensure

adequate and appropriate analyses in DMCs. This should include, among others, CSP and project design processes that would include a focus on domestic fiscal allocations to reduce poverty, and clearly defining planned poverty reduction impacts. In support of analytical activities, ADB's Economics and Development Resource Center is building a poverty database. Methodological work started in 2000 includes developing indicators for measuring performance at the country level. The indicators will be included in partnership agreements, and used for poverty assessments to prepare projects. *Guidelines for Economic Analysis of Development Projects* will be updated, in particular the sections on distribution analysis and poverty impact ratio. In addition, work will start on developing methods for aggregating project results and identifying their linkage to country-level performance indicators, and for helping to make choices on projects to be included in country portfolios. Identifying the linkage to country-level performance indicators will involve developing tools that help set priorities and establish an appropriate sequence of assistance, aiming at optimum antipoverty impacts. This work will be complemented by the International Institute for Sustainable Development Study to build aggregate indicators useful to decision-makers. All of these methodological efforts are designed to support the central goal of sharpening the poverty reduction focus of ADB's operations. Donors recommended that ADB ensure that this work be implemented taking into account existing databases and other technical assistance being provided by other development partners in individual DMCs.

57. Donors agreed that the Poverty Reduction Strategy will incorporate a country-level process involving government-owned poverty analysis, donor coordination, COS and partnership agreements. Donors expect that high-level forums will take place in various DMCs, including ADF borrowers. DMC governments will be expected to sign partnership agreements with ADB. Appendix 4 provides an indicative implementation schedule of related activities. Donors recommended that ADB follow this timetable in close cooperation with other development partners. Detailed advisory notes have been developed to guide staff on the standards and requirements of the poverty analyses, high level forums, and partnership agreements. A revised project classification system is being introduced, in line with the indications contained in the Poverty Reduction Strategy. The revised system will apply from 2001 onwards. Donors recommended that the implementation of the Poverty Reduction Strategy's country-level process be based on CDF principles and pro-actively support the formulation and implementation of the DMC's national comprehensive poverty reduction strategy. In this context, Donors recommended that ADB's Partnership Agreements and country strategies should be based on national poverty reduction strategies prepared through a collaborative process led by the Government and involving all relevant stakeholders including NGOs, academics, other multilateral and experienced bilateral donors, and be consistent with PRSP processes in DMCs. Donors requested a report to be provided at the ADF VIII Mid-term review on progress on implementation of ADB's poverty reduction strategy in ADF borrowers.

C. Performance-Based Allocation System for ADF Resources

58. Donors reaffirmed that aid works best in reducing poverty in countries with sound policies and institutions. The main lesson has been that in order to realize the objectives for which aid is intended, it must flow to those who need it and make the best use of it. Against that background, Donors agreed that ADB should plan to strengthen its development impact and realize its overarching goal of poverty reduction through a closer linkage between country performance (effective development management) and the allocation of scarce ADF resources among recipient countries.

59. Donors considered ADB's existing allocation system for ADF resources against the systems developed in IDA 12 and AfDF8. Donors advised ADB to strengthen the link between assessed development performance and ADF allocation based on measurable indicators and objective criteria to encourage the adoption of sound policies and sound management of development resources. This strengthened linkage should take into account, inter alia, (i) commitment and effectiveness with which a DMC addressed good governance, and economic, social, and environmental concerns; (ii) receptiveness to policy dialogue with ADB and donors and willingness to undertake necessary reforms; and (iii) efforts at domestic resource mobilization and public expenditure management. In that context, Donors also requested that the linkage with DMC creditworthiness and access to international capital markets should be maintained to ensure that low income DMCs with limited access to external commercial capital are allocated the dominant share of ADF resources. Donors agreed that ADB's future performance-based allocation system need not be completely identical to the one in IDA or in AfDF8, so as to allow for the unique characteristics of ADB and the Region. However, Donors also agreed that the future system should be firmly grounded on the fundamental principle of a very robust relationship between performance—including performance on governance—and allocation of concessional resources, and should not convey or support the concept of an entitlement of ADF resources for ADF borrowers.

60. Against that background Donors reviewed ADB's work-in-progress towards a formal performance-based allocation system for ADF resources. Appendix 5 provides information on the proposed criteria and weights assigned in the performance-based allocation system discussed and strongly endorsed by Donors. Donors concluded that the proposals contained in ADB's work-in-progress establish a strong link between country performance and allocations and would ensure a transparent and fair but flexible performance-based allocation of ADF resources. Donors also endorsed the proposal that the performance-based allocation system should be structured on the three pillars of ADB's Poverty Reduction Strategy (i.e., pro-poor sustainable economic growth, social development, and good governance). This will make the system unique, and will enable greater differentiation to be made in allocations to ADF recipients based upon their efforts and progress on measured reductions in poverty. Acknowledging the strong relationship between governance and economic impact, Donors recommended that ADB systematically promote the quality of governance for all DMCs and strengthen the linkage between the quality of governance and ADF lending levels. Support to DMCs with poor governance (i.e., a borrower is not pursuing policies conducive to pro-poor sustainable economic growth, social development and good governance) should be scaled back to non-lending services, or stopped entirely if necessary. Support to countries with weak governance (i.e., a borrower has poor policies but is making sustained efforts to improve them) should mainly target strengthening of institutional capacity and basic human needs. Donors acknowledged the need for ADB to exercise the necessary judgement and 'flexibility' in the application of a performance-based allocation system and in a transparent manner involving the Board of Directors. Donors also emphasized that the implementation of the system should not assume that ADF borrowers would consistently rank among the top performers, on the basis of a global comparison, and thereby convey or support a system of entitlement of ADF resources for ADF borrowers.

61. Donors agreed that it would be appropriate that ADB's future performance-based allocation system reflect the unique characteristics of ADB and the Region. Donors reaffirmed that one of the distinguishing features of ADB's Charter is the mandate to give special consideration to the needs of small countries. Many of these have high levels of per capita GNP that belie the significant development constraints they face. If these countries were treated on par with other countries for resource allocation purposes, their resulting shares would be too

small to be operationally meaningful. Donors recommended that ADB's performance-based allocation system should treat small-island economies as a separate category, that is, within an indicative or notional aggregate allocation of ADF resources (the percentage of resources allocated to small-island economies in ADF VII provides a useful reference). These economies would be subject to the same performance-based allocation system as other ADF borrowers.

62. Donors recommended that ADB prepare a policy on performance-based allocation for ADF resources, fully reflecting the understandings reached during the ADF VIII replenishment negotiations, and submit it to the Board of Directors before the end of 2000, with the expectation that the policy and associated staff instructions and guidelines will begin implementation and testing in early 2001, followed by full implementation of the system for determining ADF VIII allocations starting in year 2002. Donors called on ADB to make every effort to apply the principles of the system in the 2001-2003 CAPs to be discussed by the Board of Directors in October 2000, while recognizing that the system will be in a transition phase. Donors recommended that the country allocations derived from the performance-based allocation system be presented to the Board of Directors for endorsement in a formal meeting of the Board. Donors also requested that ADB provide information to Donors, at the time of the ADF VIII Midterm Review, on the implementation of the performance-based allocation system in 2001 and 2002.

D. Governance Action Plan

63. Donors emphasized that issues of good governance are multifaceted, combining economic and political dimensions, and lie at the core of ADF borrowers' efforts at poverty reduction and sustainable development. Processes that promote good governance benefit the overall population, including the poor. However, these processes often benefit the poor more than those in the higher income levels as they empower the poor to take advantage of opportunities opened up by sustainable development.

64. Donors noted and endorsed ADB's position, learned through experience, that good governance processes are more likely to succeed if the political realities underlying governance problems are also taken into account. ADB has learned that political and economic aspects of governance are inseparable and cannot be addressed in abstract. ADB's policy on governance is consistent with this view, as it recognizes that ADB can take into account demonstrable and direct economic effects of noneconomic factors as part of the economic considerations on which it must base its decisions. ADB's poverty reduction strategy, of which good governance is a main pillar, recognizes poverty as an "unacceptable human condition" thereby recognizing the rights of every person to decent living conditions. ADB's policies on NGOs and participation are inextricably weaved with the rights of assembly, expression, and association. Freedom of access to information is also inseparable from the transparency requirements of good governance.

65. Donors emphasized that good decision-making processes can not be exempted from accountability for outcomes. ADB believes that policy mistakes and economic inefficiencies associated with them are, indeed, capable of subverting sustainable development. For example, decisions made by public officials in terms of the magnitude of unproductive expenditure, as part of the strategic allocation of public resources, directly affect availability of resources for poverty reduction. For this reason, ADB's action plan includes steps to review the level and trends in public expenditure, including non-productive expenditure and spending on social programs.

66. Because of the centrality of governance issues in sustainable development efforts, Donors agreed that DMCs' commitment to governance reforms and to combat corruption should be recognized. Donors recommended that any new ADB policy on a performance-based allocation system for ADF resources must include governance as a central criterion of a performance rating to determine future ADF lending to a DMC.

67. Donors noted that ADB's role as a major development institution in the Region meant that ADB will be required to enhance its efforts to maintain its key position in the area of governance reforms focused on poverty reduction, and in leading the fight against corruption. In this regard, Donors noted ADB's intention that governance activities become increasingly focused on those areas that can disproportionately benefit the poor in a demonstrable manner. Donors supported the ambitious medium-term agenda and the Action Plan for ADB's governance activities (see Appendix 6), and viewed favorably ADB's emphasis on poverty reduction as the overarching objective of governance reforms.

68. In its Action Plan, ADB eyes activities to enhance governance quality in the DMCs by conducting rigorous and structured studies to analyze governance issues in individual DMCs and the risks they pose, and consider ways to focus these activities on areas that will disproportionately benefit the poor. The analysis will pay particular attention to: transparency in budget preparation, trends in nonproductive government expenditures and spending on social sector programs, opportunities for and degree of participation in development processes, prevalence of the rule of law, success in fighting corruption, and factors inhibiting public access to information. These studies will form the basis for formulating strategies and programs to address the key governance issues identified, together with relevant performance indicators. This whole structure will also inform the level and sectoral composition of ADB assistance to a DMC.

69. To help elevate good governance to the top level of the development agenda in the Region, ADB shall begin in 2001 a regional program of governance initiatives aimed at promoting the four elements of good governance (i.e., accountability, participation, predictability and transparency) in the DMCs' antipoverty programs. ADB shall also promote a regional network on governance comprising representatives from governments, civil society, private sector, and aid agencies, to build a consensus on relevant benchmarks, codes of conduct and indicators of good governance, and review progress in achieving better governance in the Region. Further, as part of its Action Plan, ADB will be at the forefront of efforts in the Region to fight corruption and coordinate governance work of MDBs and other aid agencies. In that development context, ADB shall further strengthen its internal capacity for governance operations by providing governance specialists in all operational departments, developing governance and institutional databases on each DMC, and providing staff with training and toolkits for effectively addressing governance issues in project design. ADB shall also ensure that there is effective monitoring of the implementation of its Action Plan by presenting to the Board in the first quarter of 2001 a work program on governance with measurable and monitorable actions and targets for the year, and beginning 2002 an annual report with information on achievements against the actions and targets in the work program, lessons learned, and the work program for the next year.

70. Donors recommended full and timely implementation of the Governance Action Plan in ADF VIII.

E. Development of the Private Sector

71. Donors reaffirmed that the private sector is needed for sustaining economic growth and that the Asian experience has shown that growth is a powerful weapon in the fight against poverty. Growth creates jobs that use labor, the main asset of the poor. As growth proceeds, private sector employment becomes the major source of economic support for most workers and their families. Growth also increases the tax base that enables government to finance labor market programs and provide basic social services. Health and education services, in particular, give the poor a better chance to increase their productivity and earning capacity. Data for several developing regions in the world illustrate that a country's poverty incidence is largely a reflection of its previous economic growth performance. This important relationship between poverty reduction and growth in the private sector is exemplified more clearly by the experiences of developing Asia. In East Asia, for example, poverty incidence decreased following growth accelerated in the 1980s and early 1990s. By contrast, also in East Asia, the 1997 financial crisis led to a rise in poverty incidence in the affected countries. Indeed, no country or region in the world has successfully reduced poverty without growth. However, Donors agreed that growth in itself is a necessary but not sufficient condition for poverty alleviation.

72. Against this background, Donors recommended full implementation in ADF VIII of ADB's Private Sector Development Strategy, approved by the Board in March 2000. Under the strategy, ADB will use both its public and its private sector operations to help create an enabling environment for the private sector by tackling problems that impede private sector growth in the DMCs and the contribution of the private sector to poverty reduction. In public sector operations, the strategy has three thrusts: (i) to support DMC governments in enabling business; (ii) to generate business opportunities in ADB-financed public sector projects; and (iii) to catalyze private investments through direct financing, credit enhancements, and risk mitigation instruments. All of ADB's instruments for advice and financing will be used to pursue private sector development (PSD) outcomes targeted by the three strategic thrusts. Donors concurred that the three thrusts are mutually reinforcing when brought to bear on the challenge of poverty reduction. Donors also reaffirmed that the three strategic thrusts will be focused primarily on four priority areas of operation.

- (i) governance in the public and private sectors, including well-established rule of law and international standards for corporate governance,
- (ii) financial intermediation,
- (iii) public-private partnerships, and
- (iv) regional and subregional cooperation.

73. Donors supported ADB's proposed implementation of the strategy through the following action:

- (i) a core staff of PSD specialists will be recruited to focus on PSD issues;
- (ii) preparation of country-specific strategies for PSD;
- (iii) use of scorecards for public and private sector operations;
- (iv) a checklist to assess private sector participation in public sector projects.
- (v) business leaders from DMCs and countries providing bilateral assistance will exchange ideas on PSD; and
- (vi) performance indicators will be developed to monitor implementation of the strategy

F. Infectious Diseases including HIV/AIDS

74. Donors concluded that infectious or communicable diseases primarily affect the poor. The benefits for the whole population from addressing communicable diseases are very high due to the “public good” characteristics of the disease control interventions. Furthermore, experience has shown that communicable disease control interventions are generally low-cost and cost-efficient. Donors concluded that it is appropriate for DMCs and ADF to allocate scarce domestic and international resources to combat these diseases. Donors noted that primary health care in the DMCs is still largely, although not exclusively, concerned with communicable diseases, and that most of ADB’s health sector projects planned for 2001-2004 will strengthen primary health care services by improving quality of and access to a comprehensive program of basic health services, enhancing skills of the health service providers and improving effective demand for services. Donors also noted, and endorsed, that these planned projects will be prepared using participatory approaches to project design, ensuring that local needs and priorities—including communicable diseases such as tuberculosis, vaccine preventable diseases, and water and food born diseases—will be addressed. In this context, Donors noted that ADB has started an Asian Vaccination Initiative under which support will be provided for strengthening immunization programs for vaccine-preventable communicable diseases, and that ADB expects to support the ongoing Roll Back Malaria Initiative begun by WHO/UNICEF and other programs to reduce the regional incidence and impact of tuberculosis.

75. Donors noted that according to UNAIDS estimates, close to one-third of the world’s HIV/AIDS population lives in Asia and Pacific. South and Southeast Asia are the most affected Regions. HIV/AIDS came to these areas later than to Sub-Saharan Africa but already more than one million people have died. The share of HIV/AIDS related illnesses in the total burden of disease are expected to triple in the next 20 years. The present epidemiological picture of HIV/AIDS prevalence in Asia is quite diverse. There is near-epidemic prevalence in some countries including India (4,100,000 cases), Thailand (850,000 cases), Myanmar (320,000-480,000 cases) and Cambodia (180,000 cases). Trends in recent infections suggest increasing vulnerability of countries with large populations and relatively newer epidemics including PRC and Viet Nam. Reported new cases of HIV/AIDS in 1997 increased by over 50 percent in Lao PDR (albeit from a low base), 26 percent in PRC and 60 percent in Viet Nam over those reported in 1996.

76. Donors agreed that there is a strong role for ADB in supporting its DMC governments in preventing and controlling HIV/AIDS as well as providing care to AIDS patients. The HIV/AIDS epidemic in the Region is not only a serious health problem but also has important economic and social implications. Since young people and children are more likely to be infected by HIV/AIDS, the potential loss of human capital and earning potential is immense. The spread of HIV is linked with poverty through both cause and effect. While widespread poverty and unequal distribution of income stimulate the spread of the disease, HIV/AIDS infection in households exacerbates poverty and social inequality, creating conditions for a larger epidemic in the Region. Breaking the vicious circle is essential for improving the quality of life across the Region. Donors strongly endorsed ADB’s operational plans for the medium-term (Appendix 7). Donors recommended that ADB finance operations to combat HIV/AIDS and other infectious diseases as one of the priorities in ADF VIII.

G. Core Labor Standards

77. Donors reaffirmed that international declarations on core labor standards (CLS) include labor standards concerned with freedom of association, the right to organize and collective

bargaining, forced labor, minimum age, and discrimination in employment. Donors also concluded that a consensus is emerging in the Region on elimination of the worst forms of child labor, and many countries are planning to ratify the new ILO convention on this. Donors noted that ADB's Charter does not provide explicit support for an ADB policy that would require its DMCs to apply CLS at the national level as a condition for ADB support. CLS, however, are highly relevant to poverty reduction as most of the poor in the Region are the working poor. The mainstreaming of CLS is thus important for achieving poverty reduction, improving the status of women, promoting harmonious social development, and creation of a stable pro-growth environment. Donors recommended that ADB should address the promotion of CLS on two fronts. First, ADB mainstream CLS considerations in planning its projects and programs. Second, ADB continue to support direct investments in projects that will enable ADB and its DMCs to address CLS issues in a more holistic manner.

78. Donors noted that ADB already incorporates CLS issues in developing CAPs with its DMCs and that a 1999 Regional TA will strengthen ADB's information base available in this area. The TA will enhance a better understanding of the role of selected CLS in broad-based development, especially those related to child labor and discrimination at work. In selected DMCs, national compendia will be prepared. These compendia will consist of studies, guidelines and checklists provided to policy makers of key ministries and staff of executing agencies of ADB-assisted projects, to identify such issues and address them when designing and implementing programs and projects. ADB will prepare a framework and action plan that will be readily applicable in ADB's operations. In 2001, ADB will expand the scope to other DMCs as well as cover other standards. Donors recommended that the framework and action plan be completed as soon as possible so that it will be applied in ADF VIII.

79. The Donors advised ADB to continue to support projects that contribute to the elimination of violations of CLS. ADB-supported projects, including those that promote microenterprise among women, will aim in part at reducing the pressures that drive parents to send their children to work and at enabling governments to increasingly support social development programs targeted at child development. Efforts to improve the quality of and access to primary education for children will be continued to be made.

80. Finally, Donors recommended ADB formalize its relationships with international organizations that promote CLS.

H. Gender and Development

81. Donors stressed the need for ADB to accelerate implementation of the Policy on Gender and Development (GAD) adopted in June 1998. Donors concluded that insufficient attention was being given to including gender issues in ADB's overall lending program. Donors recommended that in ADF VIII ADB increase the number of loans focusing directly on gender equality, and that gender equality considerations are mainstreamed in loan operations. Projects should address gender equality at both the national and subnational levels and across all key economic sectors in a DMC. Projects should be planned, designed and implemented to allow women to achieve their full economic potential and thereby expand the base for sustainable economic growth in a DMC, and to earn incomes and acquire access to social protection that reflects their full contribution to the nation's economic and social development.

82. Donors concluded that the adoption of poverty reduction as the overarching goal should spur ADB to mainstream gender issues more vigorously in all its operations. With two thirds of the Region's poor being women, Donors felt that any poverty reduction strategy in the Region

will necessitate approaches that involve both policy changes and investments to correct gender disparities across all sectors. Donors concluded that achieving meaningful poverty reduction in the Region will require substantial improvements in the economic, political, social, and legal status of women. With this in mind, Donors recommended that increased investments providing poor women with access to education, health, income, and employment opportunities form the basis of ADB interventions to address poverty reduction. The Donors stressed that all poverty assessments conducted by ADB must include gender-disaggregated data and qualitative assessments of the nature of women's poverty. Donors also emphasized the need to include representatives of women's organizations in the high-level poverty forums.

83. Donors endorsed ADB's GAD policy that adopts mainstreaming as a key strategy for addressing gender equity and recognized recent efforts, especially the recruitment of additional GAD staff to help implement the policy. However, Donors felt that much more needs to be done to intensify this effort and to translate policy intentions into a program reflected in ADB's lending operations. Donors observed recent progress in mainstreaming gender into ADB operations, especially in economic and sector work, such as the preparation of country briefing papers on women and gender strategies incorporated into COSs. But Donors felt the upstream work is yet to be systematically reflected downstream in the CAPs. Thus, the Donors are awaiting ADB's gender action plan which is currently being prepared. They requested that the GAD action plan be provided to the Board of Directors in 2000 and that it contains clear, monitorable goals and targets to be achieved over a three-year period. Donors agreed that to mainstream GAD in ADB's lending operations, more effort needs to be placed on GAD policy dialogue with ADF borrowing members.

84. Donors endorsed ADB's three new GAD initiatives: (i) establishment of the external forum on GAD which will facilitate regular dialogue between ADB and representatives of civil society on implementation of the GAD policy; and (ii) the Regional TA on GAD initiatives which will provide small grants to DMC governments and women's NGOs for innovative GAD projects that could be replicated and enlarged; and (iii) Swedish financed initiative on ADB staff training in gender mainstreaming and poverty reduction. Donors were encouraged that the administrative arrangements for establishing the external forum on gender have been completed and that the first meeting of the forum would take place in the third quarter of 2000. To ensure effective dialogue, Donors recommended that Management and senior staff also meet with the gender forum members.

85. The Donors also noted that under a regional TA financed by the Danish International Development Agency (DANIDA), GAD national consultants have been placed in six resident missions to help integrate GAD considerations into projects and strengthen the GAD capacity of executing agencies. They endorsed the regional TA's emphasis on close monitoring of GAD concerns in project implementation and the carrying out of midcourse corrections.

86. ADB's efforts to collaborate with regional organizations, donors, and NGOs on regional GAD activities, such as the meetings on progress since the Beijing Platform for Action, were commended by the Donors. Donors recommended that further collaborative work and cofinanced regional GAD initiatives be undertaken with regional organizations, other donors and NGOs. Finally, Donors expressed a keen interest in OEO's forthcoming review of GAD in ADB's lending program.

I. Environment

87. Donors stressed that there is a strong link between the environment and poverty. Poverty is both a cause and a result of environmental degradation. Poverty shortens the time horizon for both individual and collective decision making, which often results in unsustainable use of natural resources. At the same time, environmental degradation through amongst other things overfishing, deforestation, erosion and excessive cultivation in marginal areas, reinforces poverty by further eroding the livelihood possibilities for the poor. Against this background Donors recommended that in ADF VIII special attention be given to the environment-poverty nexus. In this context, Donors also noted that the need to improve the conditions for women deserves special attention.

88. Donors reaffirmed that ADB started to mainstream environment into its operations in the late 1980s. This approach was enhanced when ADB included environmental protection as one of its five strategic development objectives. Recent lending for projects with environmental objectives has averaged about \$800 million annually. Lending volume has increased for projects designed to conserve biodiversity, improve urban air quality, promote cleaner production processes and technologies (including energy efficiency), promote waste management, and implement other urban environmental improvements. Donors also reaffirmed that ADB has actively assisted its DMCs to meet their global commitments, such as under the UN Framework Convention on Climate Change (UNFCCC). Implementation of the Asia Least-Cost Greenhouse Gas Abatement Strategy (ALGAS) was recently completed with the preparation of 81-greenhouse gas abatement project concepts for investment consideration.

89. Donors reaffirmed the importance of the policy on environment that is currently under preparation. The working paper is scheduled for discussion by ADB Board in late 2000. The policy on environment will outline ADB's approach to environmental issues; set forth the policy and procedures to ensure integration of environmental concerns in lending activities; and define ADB's role in global environmental actions and strategies, including partnership with the Global Environment Facility (GEF) for subregional and national actions, and for achieving global environmental benefits. The principal aim for preparing the policy is to realign ADB's approach to achieve greater synergy with poverty reduction. The policy will identify themes in pollution abatement and natural resource conservation where, through its loan operations, ADB could strongly impact poverty and social development issues. The policy also will identify means of mainstreaming the implementation of environmental aspects in ADB's loan operations in respect of their environmental aspects; identify themes for environmental policy dialogue; and strengthen ADB's environmental assessment procedures, in particular institutionalizing the conduct of strategic environmental assessment and strengthening the implementation of environmental protection measures during project implementation.

90. Donors reaffirmed the importance of the planned revision of ADB environmental assessment guidelines in 2000. While ADB has an established track record in applying environmental impact assessment at the project level, broader issues should be addressed more effectively. Such issues include strategic environmental assessment; cumulative environmental assessment; and the impacts of other development policies. The guidelines will help to better address these issues and project-level environment impact assessment. ADB also will develop guidelines for environmental monitoring and review during project implementation, test the guidelines, and institutionalize them by early 2001 through training programs for relevant staff at headquarters and resident missions.

91. Donors concluded that the implementation of ADB's poverty reduction strategy, along with a new environment policy and revised guidelines for environmental assessment, as well as a performance-based allocation system including environmental criteria, provides an opportunity for improving mainstreaming of environment in all ADB operations. In this context, Donors recommended that ADB integrate environmental concerns and expertise at each stage of the Poverty Reduction Strategy country-level process leading to the Partnership Agreement between ADB and the DMC. Similarly, Donors recommended that ADB continue with the integration of environmental expertise in the country programming cycle to ensure that the CSP fully incorporates environmental concerns--both to avoid programs and projects entering the pipeline which are unacceptable from an environmental perspective, and to strengthen environmental assistance across sectors. Donors recommended that the environment policy and revisions to the environmental assessment guidelines be finalized in a timely manner so that they may apply during the ADF VIII period.

J. Cooperation Among DMCs

92. Donors reaffirmed that ADB has a special Charter mandate to promote cooperation among DMCs and has a policy on ADB support for regional cooperation. There is a consensus among Donors that ADB's regional character gives it a comparative advantage to support cooperation among DMCs.

93. Donors concluded that while differences between DMCs in Asia are marked, the efficacy of efforts to promote development will depend in no small part on cooperation among the DMCs, and between them and countries outside the Region. Donors also concluded that regional economic cooperation and restructuring have been uneven among the DMCs. Many DMCs in South Asia, Central Asia and the Pacific have been left outside the 'virtuous circle' of globalization and open economic regionalism, as have particular groups within DMCs (e.g. the traditional rural sector). Regional cooperation, therefore, provides a potentially important mechanism for poverty reduction, especially where it involves marginal and less developed areas with untapped economic potential. The heterogeneity of economic conditions across developing Asia offers opportunities for further exploiting comparative advantage through more effective trade and investment cooperation among the DMCs and between them and the rest of the world.

94. Donors agreed that regional cooperation should not be confined to the economic dimension of development. It is also highly relevant to addressing cross-border issues such as common property resource management, labor migration, disease prevention and control, and human resource development. This requires closer cooperation among DMCs on a wider range of issues as well as developing effective, stable means of resolving disputes arising from associated policies and practices, and a capacity to draw on knowledge and expertise from outside the Region.

95. Donors noted a recent OEO evaluation of the Greater Mekong Subregion initiative that pointed to important and valuable impacts from that subregional cooperation. However, Donors also noted, with concern, that it also indicated that the GMS Initiative may have been constrained by such factors as ADB's organizational structure, staff resources and incentives, and current funding arrangements for TAs and loans.

96. Donors recommended ADB continue its support to the Greater Mekong Subregion program, as well as preparations for a medium-term regional assistance plan for Central Asia, including ADF borrowers. Donors also recommended that ADB should continue to work with the

South Asia Growth Quadrangle⁷ towards the promotion and financing of specific cross-border projects, or national projects with subregional implications. And finally, Donors were pleased to note that ADB's Office of Pacific Operations (OPO) has several RETAs under preparation (to be implemented during the ADF VIII period) on various regional cooperation initiatives including development management information systems, human resource development for supreme audit institutions, and support for closer cooperation among central woman's' organizations for integrating gender and development considerations into policy and program implementation.

97. Donors recommended ADB examine how support for regional cooperation could be better organized, funded and implemented within the LTSF as a more focused and core part of ADB operations in DMCs taking into account ADB's comparative advantage. In this context, Donors recommended that ADB should consider development of a regional operational strategy and allocate an appropriate amount of total lending in ADF VIII for regional and subregional cooperation projects representing priority investments in ADF borrowers and to report on this at the time of the ADF VIII Mid-Term Review.

K. Money Laundering

98. Increasingly, money laundering—which is associated with serious crimes including drug trafficking—occurs in many countries, including developing countries in the Region. Donors recommended that ADB combat money laundering in poorer DMCs through operations that develop and improve their regulatory framework and supervisory systems for the financial sector, and the legal framework for effectively dealing with the proceeds of drugs and similar crimes, as well as through operations in the financial and corporate sectors that promote transparency practices and good governance principles, including effective internal controls. As has been done in the past, ADB should also host conferences on anti-corruption and money laundering with other international agencies, including participation of officials from ADF borrowers. ADB should explore other ways to support cooperation between member countries to develop anti-money laundering policies and systems. Donors noted that ADB closely cooperates with and supports the Asia Pacific Group on Money Laundering, and recommended ADB prepare a policy paper on ADB's role in combating money laundering. Donors noted that ADB is closely following the Financial Action Task Force (FATF) and the work of other similar organizations as well as their various recommendations, with the intention of determining which of such recommendations can be furthered by ADB's own initiatives.

L. Drug Trafficking

99. Asia is one of the world's major areas for illicit drug production. Donors recommended that ADB take a strategic position on drug related issues, adopting a multisectoral approach. Where relevant, drug related issues should be covered in country strategies, and the Bank should seek opportunities to support alternative development projects in those key drugs producing nations where it has lending programmes. By tackling poverty and helping to develop legitimate livelihoods for poor people, the ADB can play a part in helping to stem the production and trafficking of drugs. ADB should assist the poorer DMCs to examine how their agriculture sector development can discourage the cultivation and processing of illegal substances by poor rural communities and support the development of alternative sustainable livelihoods in these communities. Furthermore, ADB's operations on anti-corruption and good governance can strengthen local institutions that administer regions where drug trafficking is prevalent. ADB

⁷ Established by Bangladesh, Bhutan, Nepal, and India in December 1996, SAGQ is an arrangement for subRegional cooperation that allows for participation by agencies providing multilateral assistance.

should also support programmes to develop the capacity of law enforcement agencies to tackle drug trafficking and of Government and nongovernment organizations involved in reducing the demand for drugs. Where appropriate, the ADB should work closely with the United Nations International Drug Control Program (UNDCP).

M. Improving Evaluation and the Linkage to Planning Operations

100. Donors emphasized that timely access to results of independent OEO evaluation of ADF-financed operations is necessary to enable both Management and the Board to ensure sound stewardship of ADF resources. On the basis of OEO analyses, Donors recommended:

- (i) that by the end of 2000 ADB review the implementation of the project performance management system (including the use of the logical framework in project design and in identifying meaningful indicators and data that executing agencies and ADB staff collect on development impacts during project implementation) and submit the review for Board consideration in the first year of ADF VIII;
- (ii) OEO expand its on-line databases by the end of 2001 to facilitate access to the results of evaluation studies covering the impacts and lessons learned from ADF projects;
- (iii) OEO prepare an impact evaluation study covering selected projects approved under ADF V and ADF VI as well as ADF VII projects where feasible, and submit the study to the Donors in conjunction with the ADF VIII midterm progress report;
- (iv) OEO, in cooperation with Operations Departments, begin work to strengthen ADB's evaluation systems to allow for identification and measurement of direct and indirect as well as quantitative and qualitative impacts of ADF operations at the project, sector, and national and subregional levels, as this would enhance evaluation within the context of the CDF. Donors also recommended strengthening performance through systematic use of baseline data, performance targets and indicators, careful monitoring and supervision, and more effective feedback and use of lessons-learned;
- (v) OEO continue to collaborate closely with the MDBs and other relevant international organizations to harmonize evaluation systems, enabling ADB and the common shareholders in the organizations to make comparative assessments of the efficacy of operations in terms of development effectiveness, as this would further enhance evaluation within the context of the CDF;
- (vi) OEO, in collaboration with Operations Departments mainstream gender and environmental considerations into ADB's evaluation processes; and
- (vii) that measures be taken to strengthen OEO and make it more independent, and that OEO provide results of ADF evaluations and special studies for consideration by a Development Effectiveness Committee of the Board of Directors, which Donors recommended be established.

N. Redesign of Operational Business Processes and Portfolio Management

1. Operational Business Processes

101. Donors noted that ADB recently completed a review of its operational business processes. Donors noted, with concern, that this review suggested that current processes do not result in the desired level of “quality at entry” for key products: country operational strategy (COS), country assistance plan (CAP), Technical Assistance (TAs), and loans. This reduces the potential development impact of ADB’s assistance. Donors noted that ADB is taking an integrated approach to operational business processes. Country planning, programming, and TA and loan processing will be treated as one continuous integrated process and redesign will focus on three key areas: (i) ADB’s procedures for accountability, review, and approval; (ii) improvement of economic and sector work; and (iii) improvement of the quality and efficiency of country planning, programming, and TA and loan processing. There will be one single country strategy and program document (CSP). It will be prepared every five years and updated each year in between. The CSP will relate ADB’s strategic development objectives, detailed economic and sector work, and DMC strategies into a focused strategy for ADB assistance. ADB will concentrate on fewer sectors, with a longer-term horizon for assistance of 10-15 years. The CSP and its updates will be prepared with effective participation of DMC stakeholders including civil society, other development partners, as well as the views of the Board of Directors and will be endorsed through a formal meeting of the Board. The CSP will reflect findings from the relevant assessments and sector analyses including poverty analyses (and PRSPs, where these exist), public expenditure reviews—including assessment of fiscal choices and nonproductive expenditures—and private sector development strategies. Where ADB has not done such work, it should reflect the work of other institutions, as appropriate. Donors endorsed actions required to support the introduction of the revised processes (Appendix 8).

102. Donors took note of Management’s decision that the overall objective is to make changes in operational business processes effective latest by 1 January 2001. Donors went on to emphasize that two key areas of operational importance are (i) revised country programming processes and (ii) revised loan/TA preparation processes, and noted, with approval, that ADB has commenced revision of the relevant guidelines for staff and expect them to be finalized and distributed to staff by 1 October 2000 followed by workshops in the last quarter of the year to familiarize staff with the new procedures. These revisions should recognize the planned implementation of an ADF performance-based allocation system and governance action plan. Donors recommended that all relevant actions (Appendix 8) be completed in a timely manner for application in ADF VIII.

2. Improving Project Quality and Portfolio Management

103. Donors recommended that ADB continue to improve its procedures and practices for project quality and portfolio management, identify key areas of weakness, make specific recommendations to the Board, and undertake corrective measures as a matter of priority. In this context, Donors considered that in 1998-1999, a working group reviewed ADB’s experience in portfolio restructuring and spring-cleaning. Donors noted that, as a direct result of the findings and conclusions of the working group, new activities are being undertaken to improve project quality and portfolio management. The aim is to foster a proactive approach and to place the quality of portfolio performance at the forefront of ADB’s dialogue with DMCs. Donors also noted that a team has been established to prepare a portfolio management action plan (PMAP). Donors endorsed that the action plan will (i) improve the planning of future operations in DMCs, and the allocation of resources; (ii) highlight areas within ADB that need improvement; (iii) link

portfolio performance to sectors and overall development in DMCs; (iv) focus Management's attention on projects, sectors, and countries with severe performance problems; and (v) make systems for managing ADB's portfolio more effective. Donors also endorsed Management's decision to use the "project at risk" concept as the basic measure of portfolio performance. The "project at risk" concept comprises a system of reporting on projects at risk of not meeting their objectives. This risk can be due to a project not meeting criteria on implementation progress and/or development objectives having performance factors associated with unsatisfactory outcomes. Donors concluded that the concept would harmonize ADB's approach with that of the World Bank, InterAmerican Development Bank, and the African Development Bank.

3. Strengthening Internal Financial Controls

104. Donors recommended the ADB review its system of internal financial controls, identify key weaknesses, make recommendations to the Board, and undertake corrective actions, as appropriate, as a matter of priority. This should include, inter alia, strengthened procurement controls, audits and adequate staffing for the Anti-corruption Unit.

O. Strengthening Resident Missions

105. Donors emphasized that by strengthening its resident missions (RMs) and delegating more authority to them, ADB could take greater advantage of opportunities for closer and more effective relationships with DMCs and with other donors operating in-country in ADF borrowers. In this context, Donors commended ADB's approval of a Resident Mission policy in February 2000. They endorsed the policy's principal objectives and key functions that focused on (i) improving the efficiency of ADB's operations for poverty reduction; and (ii) creating and sustaining strong partnerships with government, civil society, and other aid agencies. Donors supported the RM policy's key recommendations, including inter alia, (i) ensuring that RM functions are determined by country considerations and in full consultation with the DMC concerned; and (ii) that delegation of functions is subject to strong anticorruption, control and audit procedures, and that the normal procurement guidelines are strictly enforced. Donors concluded that the RM policy will have an impact on areas such as ADB's operational business processes, allocation of work between units, staffing, and budget and information technology. Implementing these changes will require considerable coordination within ADB and consultations with DMCs. In that context, Donors recommended that ADB comply with the schedule for the planned implementation of the RM policy during the ADF VIII period (Appendix 9).

P. Strengthening ADB's Institutional Capacity

106. In recognition of the significant challenges in implementing the strategy for ADF VIII, Donors agreed to continue to provide strong support to ADB, including support for strengthening staff and the Bank's Administration Budget to enable it to effectively implement the operational priorities endorsed by Donors in ADF VIII.

IX. PLANNED LENDING IN ADF VIII

107. Donors agreed that the planned level of lending in ADF VIII is \$5.645 billion. This equals the size of the ADF VIII replenishment (Section X) on the basis of new Donor contributions plus commitment authority generated from existing and other internal resources expected to be made available to ADF in ADF VIII. A list of borrowers with access to ADF in ADF VIII is given in Appendix 10. Allocations to these DMCs in the first year of ADF VIII will be based on initial implementation of a formal performance-based allocation system, and in part on the existing CAPs for 2001. Allocations to these DMCs in 2002-2004 will be based on the full implementation of ADB's performance-based allocation system for ADF resources.

A. Lending to Current ADF Borrowers

108. Donors reaffirmed the Board's approval in December 1998 of a graduation policy for the DMCs, whereby several ADF-only borrowers graduated to the status of blend borrowers and several other DMCs graduated from ADF. Donors recommended continuation of eligibility as applied to ADF VII for allocating resources in the planned ADF VIII period (2001–2004). Donors also reaffirmed that small island DMCs faced special problems because of their size, location, high transport costs, lack of natural resources, and limited creditworthiness.

B. New Borrowers

109. Donors endorsed ADB's intention to assist reconstruction in East Timor through ADF-financed operations, if and when East Timor becomes a member of ADB. Donors noted that Azerbaijan may become eligible for ADF resources.

110. Given ADB's overarching objective of poverty reduction and the large proportion of Asia's poor that live in India, Donors had a discussion on access to ADF VIII resources by India. After extensive deliberation, a consensus on India's access could, however, not be reached on that occasion.

X. FINANCING FRAMEWORK FOR ADF VIII

A. Financial Management

1. Existing Resources

111. Donors considered the experience with the new ADF financial planning framework introduced in ADF VII. The expanded advance commitment authority (EACA) scheme, through which future reflows are used to generate advance commitment authority, was taking hold. Its introduction was accompanied by exchange rate fluctuations, the negative impact that took place during ADF VII period which was alleviated, in part, by a number of initiatives to increase the volume of reflows, i.e., ADF loan term hardening, advanced use of loan savings and cancellations, and higher ADF net income.

112. In terms of both the efficiency of the EACA scheme and the volume of reflows, Donors recognized that at \$2.740 billion ADB had maximized planned commitment authority for the ADF VIII period from existing resources within prudent limits. They confirmed the need to keep the EACA scheme under regular review to continue to examine the possibility of increasing commitment authority. Donors recognized the importance of balancing the use of existing

resources to make advance commitments with the need for prudential management of risks associated with financial inflows from past loans and financial conditions well into the future.

113. In the context of ADF net income, Donors raised the issue of the basis for the allocation of ADB's administrative expenses between ADF and OCR. Currently, ADB allocates its administrative expenses on an ex-post basis between OCR and ADF based on the ratio of loan approvals from the two windows, with all administrative expenses being considered allocable. The ongoing implementation of the Information Systems and Technology Strategy, which is expected to be completed in 2002, will lead to an improvement in the information base that is needed to make an assessment of existing cost-sharing arrangements and should allow ADB to consider options for reviewing and refining or possibly changing the basis for allocation of administrative expenses between OCR and ADF. Such a review would also include a detailed analysis of cost-sharing implications of any possible change therefrom.

114. Donors urged Management to increase the volume of existing resources through net income transfers from ADB's ordinary capital resources (OCR). They noted, however, that the current financial situation put constraints on the allocation of OCR net income transfers to ADF. However, they emphasized that, as the financial situation improves in future years, ADB should continue to examine the possibility of such transfers, subject to the provisions of ADB's Charter and financial policy requirements.

2. Currency Risk Management

115. Donors noted that the currency imbalance between resources in national currencies and loan commitments in special drawing rights (SDRs) can lead to two types of currency risk problems: the commitment risk and the disbursement risk. Donors considered a variety of options to address these risks. They felt that while the options provided technical solutions, they may not be feasible on other considerations. Further, the volatility in exchange rates experienced during ADF VII may not be representative. During previous replenishment periods, exchange rate movements led to significant increases in commitment authority. Therefore, Donors recommended to extend the existing planning systems in ADF for managing risk with one change, namely, the conduct of operational planning in SDRs to alleviate commitment risk.

3. Loan Loss Provision

116. Donors considered the fact that there had been delays in payments by some borrowers that would impact negatively on the level of EACA. They further considered the existing loan loss provisioning policy for ADF. In this connection, they noted that although ADF loans are essentially grant or highly concessional, ADF delinquent borrowers are subject to the same sanctions as those applicable for OCR delinquent borrowers, i.e., suspension of disbursement and new loan approvals. ADF loans are not subject to rescheduling. While Donors agreed that the existing sanctions should continue, they recommended ADB to adopt the IDA practice and have no loan loss provision for ADF loans. Donors felt that provisioning for ADF was not practicable because of its concessional character. They indicated that since ADF is a completely segregated account from OCR, and has no external investors, any impairment of contributions and volatility of ADF net income would not have any adverse impact on ADB's creditworthiness.

B. Burden Sharing and Replenishment Size

117. Donors emphasized that the fundamental principle underpinning ADF replenishments should continue to be fair burden sharing through which Donors are expected to contribute according to their relative position globally and/or within the Region. The principle of fair burden sharing has provided a disciplined framework for undertaking ADF replenishments and continues to be highly relevant. Donors felt that the principle of fair burden sharing can be applied at three levels: pledge at the conclusion of a replenishment negotiation, installment payment or deposit of promissory notes to generate operational commitment authority, and encashment of promissory notes in a timely and appropriate manner.

118. Burden sharing discussions have been a regular feature of ADF negotiations. Donors agreed to share the cost of the replenishment in a way that balances the demand for a sense of fairness or equity (as measured by accepted burden sharing indicators) and the desire for adequate funding of the legitimate prioritized concessional needs of ADF borrowers. They acknowledged that burden sharing at the time of pledge is based on negotiated shares, with some Donors taking on more than their “fair” shares reflecting their particular budgetary circumstances and development assistance priorities. The second aspect of fair burden sharing is timely installment or deposit of promissory notes. These notes constitute the financial commitment of Donors to the replenishment. Ideally, the burden sharing agreed at the time of the pledge should be reflected in installment payments or the deposit of promissory notes. Donors felt that any violation undermines the burden sharing principles agreed upon as well as operational planning. The third aspect of fair burden sharing, i.e., encashment of promissory notes, relates to actual cash outflows for Donors. Fair burden sharing is ensured by the notes being encashed pro rata on demand. Donors regretted that some of them had put restrictions on note encashments related to their budgetary planning. These restrictions impact negatively on fair burden sharing. Further, they seriously undermined the financial planning of ADF.

1. Burden Sharing Pledge

119. Donors considered the burden sharing arrangements in ADF VII as the starting point for determining their burden shares for ADF VIII. They had adopted a planned basic burden share of 53:47 between nonregional and regional Donors for ADF VII and expected that it would be 50:50 for ADF VIII. While some Donors increased their burden shares in ADF VIII, most Donors maintained their ADF VII burden shares. Portugal and Singapore are new Donors to ADF. Donors generally agreed that 50:50 burden sharing between regional and nonregional Donors should be a target for the medium-term, possibly starting with the next replenishment

120. Against this background, Donors wished to ensure that along with commitment authority on the basis of existing resources, the Donor replenishment must be adequate in size and must be achieved within an acceptable burden sharing arrangement. The Donors recommended that the ADF VIII Donor contributions should reach \$2.905 billion (including encashment schedule, and reflecting proposed burden-shared contribution by Hong Kong, China). Contributions shown in Table 3 reflect the agreement among Donors.

Table 3: Overview of Financing ADF VIII and Burden Sharing

Member	Burden Share	Basic Contributions		Unit of Obligation	Amount in Unit of Obligation	Exchange Rates (NC/SDR)
		(US\$)	(SDR)			
Austria	0.87	24,855,900	18,197,039	Euro	24,577,103	1.350610
Belgium	0.72	20,570,400	15,059,619	Euro	20,339,672	1.350610
Canada	4.66	133,136,200	97,469,199	Can\$	194,757,007	1.998139
Denmark	0.89	25,427,300	18,615,362	DKr	186,885,929	10.039339
Finland	0.50	14,285,000	10,458,069	Euro	14,124,772	1.350610
France	4.41	126,000,000	92,244,777	Euro	124,586,718	1.350610
Germany	5.78	165,100,000	120,869,941	Euro	163,248,152	1.350610
Italy	3.90	111,430,000	81,578,059	Euro	110,180,143	1.350610
Netherlands	2.90	82,853,000	60,656,797	Euro	81,923,677	1.350610
Norway	0.95	27,141,500	19,870,330	NKr	218,650,669	11.003877
Portugal ^a	0.60	17,142,000	12,549,682	Euro	16,949,726	1.350610
Spain	1.00	28,570,000	20,916,137	Euro	28,249,544	1.350610
Sweden	1.37	39,140,900	28,655,108	SKr	331,220,264	11.558856
Switzerland	1.23	35,141,100	25,726,849	SwF	55,705,934	2.165284
Turkey	0.18	5,000,000	3,660,507	US\$	5,000,000	1.365931
United Kingdom	4.80	137,136,000	100,397,458	£	84,718,086	0.843827
United States	14.42	412,000,000	301,625,778	US\$	412,000,000	1.365931
Nonregional Subtotal	49.18	1,404,929,300	1,028,550,710			
Australia	6.49	185,419,300	135,745,729	A\$	291,078,482	2.144292
Japan	35.13 ^b	1,003,664,100	734,783,895	¥	106,146,990,169	144.460148
New Zealand	0.65	18,570,500	13,595,489	NZ\$	36,794,301	2.706361
Developed Asian Economies	42.27	1,207,653,900	884,125,113			
Hong Kong, China ^a	-	-	-	US\$	-	1.365931
Singapore	0.14	4,000,000	2,928,406	S\$	6,741,037	2.301948
Taipei, China	0.54	15,427,800	11,294,714	NT\$	481,686,772	42.647098
Nonborrowing	0.68	19,427,800	14,223,120			
Korea, Rep. Of	2.85	81,410,000	59,600,375	W	93,782,765,086	1,573.526423
Thailand	0.09	2,641,920	1,934,153	B	101,000,000	52.219232
Borrowing	2.94	84,051,920	61,534,528			
Regional Subtotal	45.89	1,311,133,620	959,882,761			
A. Total Burden Share Contribution	95.07	2,716,062,920^d	1,988,433,471			
B. Burden Shared Replenishment	100.00	2,857,000,000	2,091,613,705			
C. Structural Gap (B-A)	4.93	140,937,080^d	103,180,234			
D. Encashment Schedule		115,000,000^d	84,191,661			
E. Supplementary Contribution		9,653,057^c	7,067,017			
F. Donors' Contributions (A+D+E)		2,840,715,977^d	2,079,692,149			
G. Existing Resources		2,740,000,000	2,005,957,841			
H. ADF VIII Replenishment Size (F+G)		5,580,715,977^d	4,085,649,990			
I. Special Contribution		48,058,343^c	35,183,580			
J. Total ADF VIII Replenishment Size (H+I)		5,628,774,320^d	4,120,833,570			

Note: This table is based on the IMF's average of daily exchange rates for the six month period 1 October 1999 to 31 March 2000.

^a Portugal and Hong Kong, China have indicated their intention to contribute to the replenishment, with the amounts to be confirmed.

^b Japan considers its historic burden share to be 33.69 percent but has agreed for ADF VIII negotiations, to the higher burden share indicated.

^c Made by Japan, amounts in unit of obligation: supplementary contribution = ¥1,020,902,258; special contribution = ¥5,082,625,215.

^d Upon confirmation from Hong Kong, China, the amounts will be adjusted accordingly.

121. The Donors agreed that they could denominate their contributions in their national currency, another convertible currency, or in SDRs. To establish the equivalence of value among different currencies, Donors agreed to use the average daily exchange rate for 1 October 1999 to 31 March 2000.

2. Note Encashment

122. The Donors recommended that their contributions be encashed on the basis of a fixed schedule on an approximately pro rata basis among Donors (Annex 2 of the ADF VIII Resolution). They noted that in exceptional circumstances Donors may, with the agreement of Management, adjust their encashments to reflect their budgetary requirements. The Donors agreed to indicate any special preferences in this regard to Management when they deposit their Instrument of Contribution. They recognized that the timing of encashments affects ADF's resource base.

C. Financing Technical Assistance

123. The Donors initially considered financing a part of technical assistance (TA) operations in ADF countries from their contributions to ADF VIII. After substantial discussion, they felt that ADB should finance the TA operations as it had done during ADF VII. The ADB indicated that there were significant constraints in making OCR net income transfers to the Special Funds, i.e., the Technical Assistance Special Fund (TASF) and ADF during the ADF VIII period. In the context of the uncertainty in OCR net income transfers and given the importance of TA operations, it was imperative to ensure a sound financing plan for them during the ADF VIII period. The ADB proposed that TA operations could be financed by treating them as services to member countries and charging them as an expense against OCR current income. Donors recommended that the issue of financing TA be considered in the Mid-term review of ADF VIII.

XI. ISSUES FOR POLICY REVIEW

A. Governance Action Plan

124. Donors supported the ambitious medium-term agenda and the Action Plan for ADB's governance activities (Appendix 6), and viewed favorably ADB's emphasis on poverty reduction as the overarching objective of governance reforms. Donors requested ADB to submit the Action Plan for approval by the Board of Directors before the effectivity of ADF VIII and to report on progress on implementation of the Action Plan at the time of the ADF VIII Mid-Term Review.

B. Performance-Based Allocation System for ADF Resources

125. Donors concluded that ADB's proposals establish a strong linkage between country performance and allocations. Greater differentiation in allocations to ADF recipients should be based upon efforts made in four major areas: pro-poor sustainable economic growth; social development; governance and public sector management; and portfolio performance. In this manner, the performance-based allocation system will be premised on the three pillars of ADB's Poverty Reduction Strategy, as well as the goal of ADB's new operational business processes to improve portfolio quality and development effectiveness in the DMCs. Therefore, Donors recommended that ADB prepare a policy paper on performance-based allocation for ADF

resources on the basis of ADB proposal endorsed by Donors in the negotiations, as reflected in Appendix 5, and submit it to the Board of Directors for approval before the effectivity of ADF VIII.

C. Money Laundering

126. Donors requested ADB to prepare a policy paper on combatting money laundering and to submit it to the Board of Directors for approval.

D. ADB's Internal Governance

127. Donors endorsed ADB's approach in ensuring good governance in all aspects of project formulation and implementation in DMCs and suggested that the same level of attention be applied to the internal governance of ADB. Donors expect that good governance principles of transparency, accountability, participation and predictability apply to ADB's own internal governance, and consider them to be relevant to relationships between Management and the Board of Directors, and between Management, senior staff, and staff in ADB. Donors considered it important that the multilateral character of ADB be maintained through more consultative exchange of views between Management and the Board. In this connection, Donors urged Management to review the role of the Board vis-a-vis Management in the exercise of powers allocated to it and the performance of the functions entrusted to it under the Charter. Donors specifically recommended that the Board of Directors should be more closely involved in the process leading to the formulation of the CSP and that the Board of Directors endorse the CSP at a formal meeting of the Board. Donors noted that Management has informed the Board of Directors that it is working on the establishment of a Development Effectiveness Committee, including issues on how to demarcate the role of this Committee, if established, from the Budget Committee and Audit Committee, and also its budget implications. In that context, Donors recommended that a Development Effectiveness Committee of the Board be established.

128. Donors also noted that Management has announced several other initiatives to strengthen further ADB's internal governance. These include: (i) informal meetings with members of the Board of Directors, on a quarterly basis, to discuss the schedule of Board meetings and work program; (ii) meetings of the Budget Review Committee of the Board of Directors, as needed, to review major undertakings with substantive budget implications, with meetings scheduled at least semi-annually; (iii) examining measures for strengthening OEO; (iv) adoption of a formal Board meeting to endorse the Three-Year Rolling Work Program and Budget Framework paper; (v) examining measures for incorporating evaluation results and Board input into ongoing operations and the Country Operational Strategy and Country Assistance Plan; (vi) establishing the practice of semi-annual retreats, to further strengthen communication between the Board and Management; and (vii) work towards the establishment of a Development Effectiveness Committee. Donors recommended that these initiatives be pursued forcefully and in full consultation with the Board, and that ADB's management work with the Board of Directors on the implementation of the internal governance reforms that have been identified and on any additional initiatives that may be warranted.

129. Donors noted, with some concern, a paucity of requests for inspection and the absence of instances of the actual inspection approved by the Board of Directors since the establishment of ADB Inspection Function, apart from the Korangi Wastewater Management Project in Pakistan, which was reviewed by the Board Inspection Committee. Although Donors noted that ADB's two projects co-financed by the World Bank had been subject to the latter's

Inspection Panel's examination (the Jamuna Bridge Project in Bangladesh and the Arun III Hydroelectric Project in Nepal), they expressed concern about the need for the wider and more effective dissemination of information regarding the Inspection Function. Donors also felt that there is a need for review of procedures for making requests for inspection. In that regard, Donors noted and welcomed that Management plans, in full consultation with the Board of Directors, to strengthen the Inspection Function of ADB. Donors recommended a strengthened and more independent Inspection Function, and the Function should have oversight of private sector projects.

XII. MIDTERM REVIEW OF ADF VIII

130. Donors agreed that they should meet for a midterm review in ADF VIII to be held immediately preceding ADB's 2003 Annual Meeting. In that context, Donors requested ADB to provide them with reports on ADF at least one month before the 2003 Annual meeting. These reports should include: (i) report on implementation of ADB's poverty reduction strategy in ADF borrowers; (ii) a review of the initial testing and application of a performance-based allocation system for ADF resources in 2001 and 2002; (iii) a progress report on implementation of ADB's Governance Action Plan in ADF borrowers; (iv) a report on progress on policy reviews requested by Donors in the ADF VIII Donors' Report, and on the planned framework and action plan on core labor standards (CLS); (v) a policy paper on ADB's role in combating money laundering. This should be submitted to the Board of Directors for approval; (vi) a report on progress on strengthening ADB's evaluation systems. This should report on the link between evaluation and country-based strategic planning for portfolio management and new operations in ADF borrowers, as well as collaboration with other MDBs on harmonizing evaluation systems; (vii) a study on the impacts and results of ADF operations. This should include explanations of project success and project failure, focusing on operations financed in earlier replenishments; (viii) a progress report on steps taken to strengthen operational business processes, project quality and portfolio management; (ix) a report on the mobilization, allocation and uses of ADF VIII resources in 2001 and 2002, as well as a review of financing TA; (x) a status report on the participation of ADF borrowers in the HIPC Initiative; and (xi) a report on the status of implementing other recommendations, for example, progress on initiatives to improve internal governance in ADB, contained in the ADF VIII Donors' Report. This report should, if needed, formulate recommendations for strengthening timely implementation of the recommendations in the ADF VIII Donors Report. Where considered appropriate, this report should provide explanations for any revisions to the original timetable in the Donors' Report.(para. 130)

APPENDICES

Number	Title	Page	Cited on (page, para.)
1	Papers considered by Donors in the ADF VIII Negotiations	39	1, footnote 1
2	“ADB-World Bank Cooperation – Framework and Structure”	40	16, 53
3	“Protocol on Collaboration among MDBs/IMF in the Preparation of Poverty Reduction Strategies in Low-Income Countries”	44	16, 53
4	Indicative Implementation Schedule for ADB’s Poverty Reduction Strategy	47	17, 57
5	ADB’s Performance-based Allocation Framework for ADF Resources: Indicators and Formula	49	18, 60
6	Medium-Term Governance Agenda and Action Plan 2000-2004	51	20, 67 35,124
7	Infectious Diseases including HIV/AIDS—Medium-Term Actions	61	22,76
8	Action Plan for the Operational Business Process	62	29, 101
9	Resident Mission Policy: Implementation Schedule	66	30, 105
10	Borrowers in ADF VIII (2001-2004)	67	31, 107

PAPERS CONSIDERED BY DONORS IN THE ADF VIII NEGOTIATIONS

1. **Brisbane, 13-14 October 1999**

- a. ADF VIII: Fighting Poverty in Asia
- b. Exchange Rates for Use in the Seventh Replenishment of ADF
- c. Financial Management of the Asian Development Fund
- d. Legal Implications Concerning A Conversion of Asian Development Fund Resources into Other Currencies
- e. Provisioning for ADF

2. **Edinburgh, 2-4 February 2000**

- a. Recommendations of the ADF VII Donors' Report: Interim Review of Implementation
- b. Governance, Anticorruption, and Public Management at the Asian Development Bank
- c. Performance-Based Allocation of ADF Resources
- d. Preliminary Draft ADF VIII Donors' Report
- e. Value Added by ADF—An Information Paper for the ADF VIII Donors

3. **Chiang Mai, 9-10 May 2000**

- a. Performance-Based Allocation of ADF Resources (revised paper)
- b. Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan
- c. Draft Donors' Report (revised paper)
- d. Planned Level of Lending and Technical Assistance in ADF VIII
- e. Financial Framework for ADF VIII
- f. Report on the Results and Impact of ADF Operations—An Information Paper for ADF VIII Donors

4. **Rome, 14-15 June 2000**

- a. Performance-Based Allocation of ADF Resources: A Supplementary Analysis
- b. Currency Risk Management in ADF
- c. Technical Assistance Operations for ADF VIII: Financing from Ordinary Capital Resources
- d. ADF VIII Replenishment Framework and Burden Sharing
- e. Revised ADF VIII Draft Donors' Report
- f. Draft Board of Governors' Resolution

5. **Okinawa, 6-7 September 2000**

- a. Draft Board of Governors Resolution
- b. Draft ADF VIII Donors' Report: Fighting Poverty in Asia

The Asian Development Bank
Manila, Philippines



The World Bank
Washington, D.C. 20433
U.S.A.



8 January 2000

Subject: ADB-WB Cooperation: Framework and Structure

Dear Colleagues and Friends,

The Asian Development Bank (ADB) and the World Bank [East Asia and Pacific (EAP) and South Asia Regions (SAR)] account for a significant portion of public flows to Asia, and represent the majority of ODA to lower-income countries. This places a responsibility on both our institutions to coordinate our activities and optimize the services we provide to our developing member countries in Asia, who are also our shareholders.

Senior managers of ADB and World Bank held two one-day retreats¹ in July and November 1999 to examine how to strengthen our relationship. We agreed on the need for enhanced cooperation between our two institutions toward the shared goal of assisting more effectively developing member countries in Asia and the Pacific.

Against that background, the following proposals were endorsed by senior managers of ADB and World Bank.

1. Managerial Messages

It is important for all staff in both institutions to be aware of the priority placed by management on cooperation between our two institutions. Accordingly, we agreed to continue the current practice of meetings at the levels of both senior management and operations, and in particular, to conduct:

- Annual meetings of senior management teams between ADB and World Bank to review the cooperation process, to consider joint initiatives, and to consider other areas of potential collaboration.
- Annual meetings of World Bank Country Directors and ADB Programs/Project Directors for country-level discussions and the review of country programs; and
- Regular consultations between senior management of the two institutions, followed by brief joint reports to staff.

We hope to supplement our Regional-level cooperation Bank-wide with a common letter from each President to be sent to his staff, followed by a regular review of collaboration by the two Presidents.

¹ For ADB (West) and World Bank (South Asia Region) in Islamabad in July, and for ADB (East) and World Bank (East Asia and Pacific Region) in Manila in November.

2. Strategic Collaboration

In order that both institutions deliver higher quality services to the developing member countries, we need to ensure complementarity in operations at the Regional, country, and sectoral levels. We believe that enhanced coordination begins with understanding each other better, which requires closer consultations regarding the definition of our respective plans. Accordingly, all are encouraged to initiate joint work at the global, regional, and sectoral levels. We also encourage our Country/Program Directors to coordinate the preparation of Country Assistance Strategies/Country Operations and Strategy papers, and ensure their complementarity, particularly in our small, low-income client countries with limited absorptive capacities.

Finally, we will enhance coordination between our two institutions in the following areas: (a) Regional Strategic Initiatives; (b) Global Initiatives; and (c) the EAP led 2010 Strategy exercise.

3. Codes of Conduct

In past years, there has been a general feeling that, while coordination between both our institutions was satisfactory, dispute resolution of difficult cases could be improved. We have agreed, therefore, to adopt rules of etiquette² attached as Appendix 1 to this document and to request staff in both our institutions to abide by them.

4. Follow-up is crucial

Cooperation is a continuous process. It requires commitment, trust and professional respect. Cooperation does not mean agreement on all issues. Differences of ideas and methods may arise. The cooperation we seek is one that prevents counter-productive differences, exploits professional and operational synergies, and acknowledges and respects genuine professional differences.

Strengthening cooperation is an imperative. And, it is really a matter of our will. Together, we can do it.



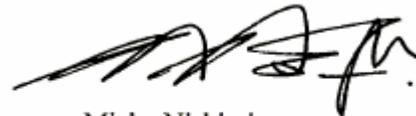
Peter Sullivan
Vice President (East)
Asian Development Bank



Jean-Michel Severino
Vice President
East Asia and Pacific Region
The World Bank



Myoung-Ho Shin
Vice President (West)
Asian Development Bank



Mieko Nishimizu
Vice President
South Asia Region
The World Bank

² Developed at the Islamabad meeting in July.

SIMPLE RULES OF ETIQUETTE

1. **Know your counterparts.** *Develop a matrix of Task Managers/Mission Leaders and Management Teams for sharing between two institutions (to be updated semiannually).*
2. **Pay a visit.** *Task Managers/Mission Leaders should visit WB Country offices and ADB Resident Missions, exchange views and share MOU/Aide Memoires at the end of each Mission. Courtesy visits are also encouraged: have coffee! have dinner!! meet the kids, etc.*
3. **Exchange documents.** *In the spirit of partnership, “documents” to be shared can and should include “dirty drafts”, works in progress, draft TORs, draft BTOs, etc. We should eschew formality and “waiting for the final draft cleared by Management” and maximize early, friendly and upstream involvement in each other’s work. Invite your counterparts to wrap-up meetings, if appropriate and other meetings, too.*
4. **Exhaust informal means before formal correspondence.** *Talk on the phone and (e-mail, etc.) first, second, third, and fourth before sending formal letters (especially where the views are perceived to be different). Electronic communication adds to informality and efficiency. Kick the issue upstairs for further informal discussion (e.g. by Managers and or a last resort, Directors), only when issues are unresolved at Staff level. Sending a formal complaint in writing should be avoided and should only be considered as the last resort when required to document. Make sure that the other party is aware that the formal correspondence is being forwarded and consult with them on the draft, if possible.*
5. **Understand each other and build trust.** *Try to understand the other side and listen with an open mind. Learn how the WB/ADB organization/system/management works before immediately casting views based on our system. We should “agree to agree” and “agree to disagree,” but “first seek to understand.”*
6. **Promote consultations and visits.** *Opportunities for consultations should be explored; such consultations could resolve existing issues and even better avoid future issue. Invitations to visit ADB/WB should be encouraged (travel to Manila by WB staff on mission to Asia is easier than for ADB Staff to travel to Washington). Selected visits to World Bank by ADB Staff will also be required to reciprocate and update.*
7. **Promote joint work.** *Joint partnerships of international/Regional conferences, and other upstream work (e.g. sector work) will be promoted. Upfront joint work to lay out road maps may be of particular interest.*

8. **Share knowledge.** Opportunities for knowledge-sharing should be explored. Try to get to WB's knowledge network/"thematic group" distribution list and promote electronic sharing of knowledge.
9. **Attend retreats, quarterly management reviews.** Senior staff should consider attending retreats, quarterly Regional meetings of the other organization.
10. **Participate in joint missions.** Consider where possible conducting joint missions or inviting colleagues from the other institution (where desirable) to attend key missions.
11. **Develop trust, friendship and sincerity.** Above all, develop trust, friendship, sincerity and professional respect. Or simply remember: "**RICE**: Respect, Integrity, Commitment and Excellence." Partnership comes from the heart and together, we can do it.

PROTOCOL ON COLLABORATION AMONG MDBs/IMF IN THE PREPARATION OF POVERTY REDUCTION STRATEGIES IN DEVELOPING COUNTRIES

A. Purpose

1. In recent years, the international community has converged around poverty reduction as the overarching development goal. The Multilateral Development Banks and International Monetary Fund (MDBs/IMF), in support of country owned, poverty reduction strategies, aim to increase their collaboration to maximize the effectiveness of their resources. It is expected that effectiveness will increase by

- (i) MDBs/IMF supporting the development of country owned development strategies, focused on poverty reduction through sustainable growth and direct public action.
- (ii) MDBs/IMF supporting these strategies through their lending and other assistance operations.
- (iii) Freeing up the resources of governments of developing and transition countries, as better coordination between the MDBs/IMF will ease the pressure on time and resources (financial and staff) of governments;
- (iv) Minimizing duplication and increasing synergy effects of policy dialogue, programs, projects, and technical assistance so that maximum benefits can be derived from their assistance; and
- (v) Expanding MDBs/IMF knowledge and understanding by listening to stakeholders (governments, civil society, and private sector) in developing and transition countries and to one another.

2. Greater collaboration is also required in view of the increasing pressure on the development community, including the MDBs/IMF, to demonstrate the impact of their efforts on poverty as a justification for continued resource allocations from donor countries.

B. Areas and Modes of Collaboration.

1. Poverty Reduction Strategies

3. The MDBs/IMF will each design a country strategy or institutional business plan that will be consistent with the national poverty reduction strategy, but with due account taken of the unique mandate of the EBRD to foster the transition to a market economy.¹ Effective coordination and the development of partnerships will be important to limit the demands of MDBs/IMF strategy processes on the resources of recipient country governments. Country authorities will lead the preparation of their own strategies, and thus will also lead in coordinating participation of MDBs/IMF.

¹ The European Bank for Reconstruction and Development has a mandate unique among the MDBs, to foster the transition to a market economy rather than to promote poverty reduction directly.

4. Country authorities undertaking poverty analysis or preparing antipoverty strategies might seek the support of several MDBs/IMF and other external agencies and will coordinate amongst MDBs/IMF to agree on a lead or focal agency, and determine the contributions that each agency will make. The determination of these contributions will be consistent with existing agreements on collaboration among the MDBs/IMF. The analytical work of the MDBs/IMF will be conducted in a coordinated manner, reflecting relevant expertise and mandates. As countries move to implementing their poverty reduction strategies, MDBs/IMF will work closely with governments and other partners. Assistance (on policy, projects, and programs) will be provided in a coordinated manner to support these strategies, with an emphasis on partnerships and selectivity, taking into account the comparative advantage of each institution.

2. Crosscutting Strategic Areas

5. The MDBs/IMF agree to work together on strategic regional and global initiatives that involve poverty reduction and related crosscutting issues.

3. Country Strategies and Economic and Sector Work

6. The MDBs/IMF will continue with their practice of having separate country strategies or institutional business plans, that will increasingly (and for some completely) be based on the national poverty reduction strategy.

7. They will share results of sector profiles or economic work, as agreed at the operational level and respecting the government's decision on confidentiality. For specific issues and topics at the country level, and sector-specific subjects, it will be agreed whether and which of the MDBs/IMF should take the lead, with the other MDBs/IMF being consulted and given the opportunity, if they wish, to provide inputs and comments on draft reports.

4. Implementation Arrangements

8. Collaborative implementation arrangements are necessary to enhance the use of recipient country government resources (staff, time, and finance) and increase the impact on poverty. In the short term, such collaborative arrangements will be worked out on a country-by-country and sector-by-sector basis, which will be reviewed to assess whether standard modalities can be formalized.

5. Exchange of Information

9. The MDBs/IMF will share with each other information on country, sector, and operational work as agreed at the operational level, and respecting the government's decision on confidentiality.

10. Staff is encouraged to build good personal relations with colleagues in other MDBs/IMF, to have informal exchanges of information by meeting missions (if at the same time in the client country), visits to country offices of each MDB/IMF, and through joint working groups and frequent telephone and e-mail exchanges between staff.

C. Difference of mandate and views—Conflict Resolution

11. Each MDB/IMF has its own mandate, approach and relationship with governments. Collaboration does not imply identity of views. Staff of MDBs/IMF will try to resolve conflicts and debate differing views at the working level before involving senior staff/management. They should not make any point of contention a public issue. Conflict resolution mechanisms established between individual MDBs/IMF are to be fully respected.

INDICATIVE IMPLEMENTATION SCHEDULE OF POVERTY REDUCTION STRATEGY

Country	COS Update ^a	Partnership Agreement	CAP/CSP
<i>Region West</i>			
Bangladesh	1 st Qtr 2000	2 nd Qtr 2000	3 rd Qtr 2000
Bhutan	3 rd Qtr 2000	4 th Qtr 2000	2 nd Qtr 2001
Cambodia	2001	2001	2 nd Qtr 2001
India	4 th Qtr 2000	4 th Qtr 2000	2 nd Qtr 2001
Lao PDR	2001	2001	2 nd Qtr 2001
Maldives	4 th Qtr 2000	4 th Qtr 2000	2 nd Qtr 2001
Nepal	4 th Qtr 2000	4 th Qtr 2000	2 nd Qtr 2001
Pakistan	4 th Qtr 2000	4 th Qtr 2000	2 nd Qtr 2001
Sri Lanka	4 th Qtr 2000	4 th Qtr 2000	2 nd Qtr 2001
Thailand	2 nd Qtr 2001	2 nd Qtr 2001	2 nd Qtr 2001
Viet Nam	1 st Qtr 2001	1 st Qtr 2001	2 nd Qtr 2001
<i>Region East</i>			
Azerbaijan	2002/2003	2 nd Qtr 2001	4 th Qtr 2001
Indonesia	4 th Qtr 2000	3 rd Qtr 2000	mid-2000
Kyrgyz Republic	2001	1 st Qtr 2001	2 nd Qtr 2001
Mongolia	1 st Qtr 2000	1 st Qtr – 2 nd Qtr 2000	2 nd Qtr 2001
Tajikistan	2002	1 st Qtr 2001	2 nd Qtr 2001

COS = country operational strategy, CAP = country assistance plan, CSP = country strategy and program, Lao PDR = Lao People's Democratic Republic

^a Preceded by and prepared on the basis of poverty assessment and high-level forum in the DMC.

INDICATIVE IMPLEMENTATION SCHEDULE OF POVERTY REDUCTION STRATEGY

Country	COS Update^a	Partnership Agreement	CAP/CSP
Pacific			
Cook Islands	1 st Qtr 2001	Pls. refer to footnote a	1 st Qtr 2001
East Timor	1 st Qtr 2001	1 st Qtr 2001	1 st Qtr 2001
Fiji Islands	1 st Qtr 2001	1 st Qtr 2001	1 st Qtr 2001
Kiribati	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
Marshall Islands	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
FSM	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
Nauru	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
Papua New Guinea	1 st Qtr 2001	1 st Qtr 2001	1 st Qtr 2001
Samoa	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
Solomon Islands	1 st Qtr 2001	1 st Qtr 2001	1 st Qtr 2001
Tonga	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
Tuvalu	1 st Qtr 2001	Pls. refer to footnote b	1 st Qtr 2001
Vanuatu	1 st Qtr 2001	1 st Qtr 2001	1 st Qtr 2001

COS = country operational strategy, CAP = country assistance plan, CSP = country strategy and program, FSM = Federated States of Micronesia

^a Preceded by and prepared on the basis of poverty assessment and high-level forum in the DMC.

^b For these countries, discussion with governments during the forthcoming country programming missions will determine the necessity and the timing for a high-level forum and subsequent partnership agreements.

COUNTRY PERFORMANCE RATING: THE COMMON CRITERIA	
	Weight
A. Pro-Poor Sustainable Economic Growth	25%
(i) Macroeconomic Management	10%
1. Fiscal Policy	
2. Monetary Policy	
3. External Financing Policies	
(ii) Structural Policies	10%
4. Trade Policy and Foreign Exchange Regime	
5. Financial Sector Efficiency and Soundness	
6. Factor and Product Markets and Prices	
7. Enabling Environment for Private Sector Development	
(iii) Environment Protection	5%
8. Environmental Laws and Institutions	
9. Environmentally Damaging Subsidies	
B. Social Development	30%
10. Framework for Poverty Monitoring and Policy Formulation	
11. Enhancing the Economic Capital of the Poor	
12. Developing the Human Capital of the Poor	
13. Equity and Social Safety Nets	
14. Empowerment and Participation	
C. Governance and Public Sector Management	30%
15. Rule of Law	
16. Anticorruption and Accountability Institutions	
17. Civil Service	
18. Revenue Mobilization and Budget Management	
19. Management and Efficiency of Public Expenditures	
D. Portfolio Performance	15%
Total	100%

The ADF Allocation Formula

1. While performance (*PR*) is crucial in allocating resources, two other factors, population (*Pop*) and per capita gross national product (*GNPC*), must be taken into account. The three variables are suitably embodied in a formula that determines allocations. The construction of the formula is based on the following principles.
2. First, the formula must reward good performance: a country with a high *PR* ought to be allocated more resources than a country with a lower *PR*.
3. Second, country size matters. The formula should ensure that the larger the population (*Pop*), the larger the allocation on an absolute basis. However, large allocations to big countries may crowd out small countries. Hence, there is a need to moderate the effect of population in the allocation formula. The formula incorporates what is termed the small country bias, namely the smaller the population, the higher the per capita allocation.
4. Third, the formula must cater to needs. The general principle is the poorer the country, the larger the allocation, other factors being the same. This implies an inverse relationship between allocation and *GNPC*. Excluding the Pacific developing member countries (PDMCs) that have relatively high per capita incomes, there is a wide range of per capita incomes among ADF recipient countries. *GNPC* levels range from \$210 (Nepal) to \$1180 (Maldives).¹ Hence, overemphasis on per capita GNP can distort the allocation of resources among Asian Development Fund (ADF) recipients. While the formula must indeed retain the poor country bias, it has to be carefully calibrated.
5. The resultant formula is given below.

$$\text{Allocation share of country } i \text{ (\%)} = \frac{PR_i^{1.8} * GNPC_i^{-0.25} * Pop_i^{0.75}}{\sum_i (PR_i^{1.8} * GNPC_i^{-0.25} * Pop_i^{0.75})}$$

¹ ADB's policy on ADF eligibility takes into account not only per capita GNP but also debt repayment capacity in determining which countries should have access to ADF resources. The DMCs that currently are ADF-eligible and have ADF access are identified in R204-98. *A Graduation Policy for the Bank's DMCs*, 4 November.

MEDIUM-TERM GOVERNANCE AGENDA AND ACTION PLAN 2000-2004¹

A. Objectives

ADB shall play a lead role in promoting good governance in the Asian and Pacific Region. More specifically, ADB shall aim to elevate governance issues to the top level of the development agenda in the region, develop a consensus on regional benchmarks, codes of conduct and best practices across the whole range of public and private sectors, and indicators of good governance, and enhance the quality of governance in individual DMCs. To achieve these objectives, ADB shall:

- (i) Optimize the impact of ADB's operations on poverty reduction by addressing key governance issues in DMCs in a systematic and focused manner.
- (ii) Initiate a regional governance program to raise the profile of governance, and provide a regional focal point for governance issues.
- (iii) Demonstrate to borrowing DMCs the cost of corruption and the value of eliminating it by setting an example of zero tolerance for it in ADB's own activities, and promote the spread of good financial and other internal control systems to DMCs by encouraging their use in all agencies involved in ADB related activities.
- (iv) Actively seek to improve the coordination of governance activities by development agencies in the Asian and Pacific Region through enhanced cooperation and partnership.
- (v) Strengthen ADB's capacity to effectively address governance issues.
- (vi) Provide regular and frequent feedback to all stakeholders on implementation of the Action Plan and the lessons learned.

B. Approach

1. A principal lesson learned from five years of designing and implementing governance reforms in the DMCs is the need for commitment on the part of the government or agency concerned if the improvements introduced are to be "owned" by them and sustained. Where commitment to improving governance is weak, ADB will aim to enhance it through dialogue, advocacy, promotion and support to sympathetic stakeholders. If such commitment is lacking or poor, governance reforms will not succeed and poverty reduction will suffer as a consequence. Therefore, ADB will introduce a performance-based allocation system, with governance as a central criterion of the performance rating, so that scarce ADF funds can be directed to DMCs where they will have the greatest impact.

2. ADB will develop/reinforce strengths in a selected number of key governance areas. Its approach will be focused, selective, and strategic. The areas of specialization will be determined in relation to ADB's overarching goal of poverty reduction and the priorities of the DMC.²

¹ The loans and TA focusing on governance each year will be identified in the three-year rolling work program and budget framework document.

² If DMCs seek ADB's assistance outside the areas of specialization chosen, the advice to be given will be outsourced.

3. Other important elements of the proposed approach include:

- (i) consensually developing realistic and progressive long-term programs of governance reform for individual DMCs and reporting on progress;
- (ii) focusing on governance issues which militate against effective and efficient service delivery in poverty reduction programs and projects, particularly in DMCs with weak governance;
- (iii) addressing weak governance and institutional capacity concurrently;
- (iv) promoting good governance on a regional basis and supporting champions of change to learn from one another and to promote the message to other DMCs;
- (v) using TA strategically to test a DMC's commitment to change and as an incentive for public sector reform;
- (vi) working with the ADB Institute to augment ADB's governance efforts with a focused program of seminars, workshops, and training courses.

C. Action Plan (summarized in Table 1)

(i) Enhance governance quality in the DMCs:

- (a) Beginning in 2001, as part of the Country Strategy and Program (CSP) process, more rigorous and structured studies will be undertaken to analyze governance issues in individual DMCs and the risks they pose.³ In addition, public expenditure reviews for all DMCs will be undertaken in collaboration with the World Bank, IMF and other development agencies.
- (b) This analysis will pay particular attention to the extent of transparency in budget preparation, level and trend of non-productive government expenditures and spending on social sector programs, opportunities for and degree of participation in development processes (at national, sector, local, and project levels), prevalence of the rule of law, success in fighting corruption, existence of legal and bureaucratic factors promoting official secrecy and inhibiting public access to information, and the need to ensure that complex, large, and unusual patterns of financial transactions are monitored and reported.
- (c) Based on this analysis, the CSPs will formulate strategies and programs to address the key governance issues, including noneconomic factors that have demonstrable and direct economic effects, that have been identified⁴, and specify relevant performance indicators (future CSPs will assess the effectiveness of these programs and identify successes and failures).⁵ Governance assessments and progress in improving the quality of governance will inform both the level and sectoral composition of ADB assistance to a DMC.

³ Preparation of governance review papers has already started as part of the present COS/CAP process.

⁴ The governance strategy for a country will be formulated as an integral part of the process for preparation of the CSP outlined under the ADB's Poverty Reduction Strategy, including full consultation of all stakeholders.

⁵ The quality assurance panel (proposed under the business process redesign) will include a governance specialist to ensure that projects with major institutional development components are consistent with ADB's governance policy and priorities, as well as project quality.

- (d) Targeted capacity building will be a major part of ADB's efforts in improving governance in DMCs. In this regard, ADB will focus on areas of weakness in governance identified in the CSP process.⁶ Such activities will also include strengthening capacity of the public sector to monitor and evaluate government performance, and of civil society, particularly NGOs and other groups that represent vulnerable segments of the population, to maintain the debate about improvements in governance.
 - (e) Enhancing participation in development decision-making is another area of importance for ADB. Therefore, ADB shall promote participation in DMCs by ensuring that, in the design of projects and programs, attention is given to expanding opportunities for involvement by local representative assemblies and civil society, including women's groups, and creating a favorable environment for citizens to have a meaningful input into development decisions.
 - (f) By 2001, ADB will develop indicators for the four elements of good governance, i.e., accountability, participation, predictability and transparency, for all DMCs. These indicators will be used to identify the strengths and weaknesses in governance in individual DMCs, determine priority areas for ADB governance activities in the DMC concerned, and track the broad impact of governance interventions. The indicators will be implemented on the basis of rigorous studies undertaken as part of the CSP process and revised annually in the context of the CSP updates.
- (ii) Elevate good governance to the top level of the development agenda in the Region:**
- (a) Focusing on the principles of accountability, participation, predictability, and transparency, ADB will develop a regional program of governance initiatives. This program will begin in 2001 and will directly promote good governance principles in the DMCs' antipoverty programs.⁷ The aim is to identify and implement effective methodologies that could be applied in all or most DMCs, demonstrate the positive impact of good governance, and create a momentum for an expanded set of governance activities. (Possible initiatives under consideration are listed in Table 2).
 - (b) By 2001, ADB will promote a regional partnership network on governance, comprising representatives from governments, civil society, private sector, and development agencies, to build a consensus on relevant benchmarks, best practices and codes of conduct, and indicators of good governance, and review progress in achieving better governance in the region. The network will also be a venue for successful "champions of change" to promote the value of good governance. ADB will provide a web site to support this partnership network.
 - (c) ADB will work with the ADB Institute to develop a program of workshops and training courses to enhance understanding of DMC politicians, officials, and leaders of civil society on the value and principles of good governance. The

⁶ The ongoing country financial accountability assessments will also identify weaknesses in the accounting and auditing professions, and ADB will provide assistance to remedy the deficiencies identified.

⁷ This proposal and the proposal for a regional partnership will require a reassessment of regional TA priorities.

workshops and courses will be demand driven, reflecting the impact of the dialogue and other initiatives undertaken by ADB.

- (d) ADB will actively lead a continuing public debate on the importance of governance issues through the commissioning of studies and publication of the results and through other public affairs' initiatives.

(iii) Fight corruption by setting an example of zero-tolerance, and by promoting the spread of good financial and other internal control systems:⁸

- (a) Through project procurement related audits, ADB shall assist DMCs in strengthening the control systems of executing agencies and identifying fraud and corruption. Whenever, pursuant to ADB guidelines, fraud or corruption is identified, appropriate steps will be taken including sanctions against the contractor and cancellation of the loan.
- (b) Beginning 2000, ADB will develop a training program for ADB staff to assist them in detecting fraud and corruption in ADB-financed projects.
- (c) By 2001, ADB shall introduce measures to strengthen borrower capacity to carry out audits with appropriate independence. Attention will also be paid to professional accountancy bodies and the way they manage their own ethical standards.⁹
- (d) ADB will expand its assistance to supreme audit institutions (SAIs) in the DMCs for developing programs and training to strengthen their capability to detect corruption and fraud. ADB continues to provide support to the Asian Organization of Supreme Audit Institutions (ASOSAI) and South Pacific Association of Supreme Audit Institutions (SPASAI)¹⁰ to strengthen SAIs in the Region. Attention will also be paid to benchmarking the performance of supreme audit institutions.
- (e) ADB shall prepare, in consultation with other MDBs, Master Standard Bidding Documents with the aim of introducing standard terms and conditions for bidding and award of contract, as well as generally accepted international best practices, into ADB procurement procedures and practices.

(iv) Coordination of governance work of MDBs and other development agencies:

- (a) The MDB Working Group on Governance, Anticorruption, and Capacity Building has set up four subgroups to actively promote unified approaches and cooperation in key areas.¹¹ The working group will complete the first phase of work to develop understandings on major issues by 2001.

⁸ This is in addition to country specific anticorruption projects and programs that shall form part of the CSP for the DMC concerned.

⁹ Such a focus would also produce benefits in the corporate governance field.

¹⁰ TA 5872-REG: *Regional Long-Term Audit Training Program for Members of the ASOSAI, Phase II*, for \$300,000, approved on 03 December 1999 and TA 5910-REG: *Long-Term Regional Training Program for Members of SPASAI, Phase II*, for \$200,000, approved on 6 April 2000.

¹¹ The four subgroups cover (i) incorporating improvements in performance-based allocation systems; (ii) improved DMC governance environment; (iii) improved project management; and (iv) improved anticorruption work.

- (b) ADB will set up cooperative arrangements with the IMF, the World Bank, UNDP and major bilateral aid agencies to carry out governance assessments and public expenditure reviews in the DMCs.

(v) Strengthen ADB capacity for governance operations:

- (a) Provide governance specialist positions to all operational department and ensure that a minimum critical mass is built up for the effective implementation of the governance policy. In addition, resources will be provided to engage specialized experts to respond to the demand for governance reforms, as reflected in CSPs through TAs or as staff consultants.
- (b) Develop governance and institutional databases on each DMC.¹² The latter will include information about the strengths and weaknesses of key executing agencies in the priority sectors assisted by ADB. The ADB will also enhance its Project Performance Reports so that hard information is collected about the contribution that projects are making to improved governance.
- (c) Elaborate the links between good governance and poverty reduction, private sector development, and political and institutional frameworks and ensure that those linkages are recognized in project designs and in promotional material prepared by the ADB.
- (d) Provide managers and mission leaders with training and tool kits for effectively addressing governance issues in project design. The training will encompass case studies illustrating key lessons learned about governance and these case studies will be updated regularly as more information becomes available.

(vi) Monitor implementation of the Action Plan:

- (a) In the first quarter of 2001, based on the approved Action Plan, ADB shall present to the Board a work program on governance which shall include measurable and monitorable actions and targets for 2001.
- (b) Beginning 2002, ADB shall provide an annual report to the Board on implementation of the Action Plan. The report shall include information on actual achievements against the actions and targets in the annual work program, lessons learned, and a work program for the next year.

¹² To avoid duplication of effort, work on establishment of databases will be coordinated with the World Bank and other concerned development agencies.

Table 1: Governance Action Plan 2000-2004

Objective	Actions	Targeted Date	Outcomes
<p>To optimize the impacts of ADB's operations on poverty reduction by addressing key governance issues in developing member countries (DMCs) in a systematic and focused manner</p>	<p>Undertake more rigorous and structured studies to analyze governance issues in individual DMCs and the risks they pose. In addition, public expenditure reviews for all DMCs will be undertaken in collaboration with the World Bank, IMF and other development agencies.</p> <p>This analysis will pay particular attention to the extent of transparency in budget preparation, level and trend of non-productive government expenditures and spending on social sector programs, opportunities for and degree of participation in development processes (at national, sector, local and project levels), prevalence of the rule of law, success in fighting corruption, existence of legal and bureaucratic factors promoting official secrecy and inhibiting public access to information, and the need to ensure that complex, large, and unusual patterns of financial transactions are monitored and reported.</p>	<p>Beginning in 2001</p>	<ul style="list-style-type: none"> ▪ Key DMC weaknesses addressed effectively ▪ Public expenditure prioritization with regard to poverty reduction improved ▪ Consistent application of the law ▪ Reduced corruption
	<p>Formulate strategies and programs to address the key governance issues, including noneconomic factors that have demonstrable and direct economic effects, that have been identified, and specify relevant performance indicators (future CSPs will assess the effectiveness of these programs and identify successes and failures). Governance assessments and progress in improving the quality of governance will inform both the level and sectoral composition of ADB assistance to a DMC.</p>	<p>Beginning in 2001</p>	<ul style="list-style-type: none"> ▪ Elimination of factors contributing to weak governance ▪ Increased effectiveness and impact of ADB's governance activities ▪ Civil society empowered
	<p>Targeted capacity building will be a major part of ADB's efforts in improving governance in DMCs. In this regard, ADB will focus on areas of weakness in governance identified in the CSP process. Such activities will also include strengthening capacity of the public sector to monitor and evaluate government performance, and of civil society, particularly NGOs and other groups that represent vulnerable segments of the population, to maintain the debate about improvements in governance.</p>		

Objective	Actions	Targeted Date	Outcomes
	Promote participation in DMCs by ensuring that, in the design of projects and programs, attention is given to expanding opportunities for involvement by local representative assemblies and civil society, including women's groups, and creating a favorable environment for citizens to have a meaningful input into development decisions.		
	Develop indicators for the four elements of good governance, i.e., accountability, participation, predictability and transparency, for all DMCs. The indicators will be implemented on the basis of rigorous studies undertaken as part of the CSP process and revised annually in the context of the CSP updates.	By 2001	<ul style="list-style-type: none"> ▪ Strengths and weaknesses in governance in individual DMCs identified ▪ Priority areas for ADB governance activities in each DMC determined ▪ Broad impact of governance interventions tracked
To elevate good governance to the top level of the development agenda in the Region	Develop a regional program to improve application of good governance principles in the DMCs' poverty programs. (Table 2 provides examples of actions).	Beginning in 2001	<ul style="list-style-type: none"> ▪ Enhanced public scrutiny of government performance ▪ Improved voice of beneficiaries in quality of government services ▪ Consistent application of government regulations ▪ Effective methodologies identified ▪ Demonstration effect of positive impact of good governance ▪ Expanded set of governance activities
	<p>Establish a Regional partnership network on governance comprising representatives from governments, civil society, private sector, and development agencies.</p> <p>Build a regional consensus on relevant benchmarks, best practices, codes of conduct and indicators of good governance and review progress in achieving better governance in the Region. ADB will provide a web site to support the network.</p> <p>Commission and publish studies on important governance issues and concerns.</p>		<ul style="list-style-type: none"> ▪ Wider acceptance of good governance principles in the DMCs, including benchmarks, codes of conduct and indicators of good governance and of the need to improve their application ▪ Commitment to governance reforms enhanced ▪ Regional consensus on the attributes of good governance in the Asian and Pacific Region

Objective	Actions	Targeted Date	Outcomes
	Develop a program with the ADB Institute to run workshops and training courses directed at enhancing the understanding of DMC politicians, officials, and leaders of civil society on the value and principles of good governance.	Continuous	<ul style="list-style-type: none"> • Expanding constituency in favor of programs of institutional change
To fight corruption by setting an example of zero-tolerance, and by promoting the spread of good financial and other internal control systems	Through project procurement related audits, assist DMCs to strengthen the control systems of executing agencies and identifying fraud and corruption. Whenever, pursuant to ADB guidelines, fraud or corruption is identified, appropriate steps will be taken including sanctions against the contractor and cancellation of the loan. Develop a training program for ADB staff to assist them in detecting fraud and corruption in ADB-financed projects.	Starting 2001	<ul style="list-style-type: none"> ▪ Gradual elimination of corrupt practices associated with ADB projects; ▪ Corrupt businesses put out of business • Spread of good financial and other internal control systems in the DMCs
	Introduce measures to strengthen borrower capacity to carry out audits with appropriate independence.	2001	<ul style="list-style-type: none"> ▪ Effective project audits
	Expand assistance to supreme audit institutions in the DMCs for developing programs and training to strengthen their capability to detect corruption and fraud.	Continuous	<ul style="list-style-type: none"> ▪ Effective supreme audit institutions in DMCs
	Prepare, in consultation with other MDBs, Master Standard Bidding Documents with the aim of introducing standard terms and conditions for bidding and award of contract, as well as generally accepted international best practices, into ADB procurement procedures and practices.	2001	<ul style="list-style-type: none"> ▪ Standard Bidding Documents used for all international and domestic procurement
	To coordinate governance initiatives with development agencies in the Asian and Pacific Region	Develop key understandings on major governance issues within the MDB Working Group on Governance, Anticorruption and Capacity Building.	2001
Formalize arrangements with the IMF, World Bank, UNDP and major bilateral donors for cooperation in carrying out governance assessments and public expenditure reviews in the DMCs.		2001	<ul style="list-style-type: none"> ▪ Cooperative governance programs conducted by ADB and other development agencies
To strengthen ADB's capacity for governance operations	Establish a critical mass of general governance specialists.	2001	<ul style="list-style-type: none"> ▪ Leadership of ADB in governance ▪ Improved governance interventions in project and sector operations
	Establish governance and institutional databases to ensure that information about the strengths and weaknesses of key executing agencies is stored and updated systematically.	Beginning 2001	<ul style="list-style-type: none"> ▪ Improved project designs producing institutional sustainability

Objective	Actions	Targeted Date	Outcomes
	Elaborate the links between good governance/poverty reduction, private sector development and institutional frameworks, and poverty.	ongoing	<ul style="list-style-type: none"> ▪ Better understanding of links ▪ Improved service delivery efficiency in the DMCs
	Develop protocols/tool kits for use by mission leaders and managers to ensure that governance issues are addressed effectively in all project designs.	2001	<ul style="list-style-type: none"> ▪ Improved project design ▪ Enhanced focus on key governance constraints
	Develop a program of courses on governance targeted at mission leaders and senior staff.	2000	<ul style="list-style-type: none"> ▪ Enhanced understanding of ADB staff of governance issues
To provide quick feedback to all stakeholders of progress in implementing of the Action Plan and the lessons learned.	Present to the Board a work program on governance which shall include measurable and monitorable actions and targets for 2001.	1 st quarter 2001	<ul style="list-style-type: none"> ▪ Effective ADB performance and scrutiny by the Board
	Provide an annual report to the Board on the implementation of the Action Plan. The report shall include information on actual achievements against the actions and targets in the annual work program, lessons learned, and a work program for the next year.	Beginning 2002	

Table 2: Regional Program For Good Governance

1. The Regional program for good governance is additional to specific programs to be developed for individual DMCs in the CSP process. This program will concentrate on governance issues which are common to the whole Region or to groups of DMCs. The program is in the concept development phase. Its objective is to test ideas that will promote improvements in the four elements of good governance—accountability, participation, predictability, and transparency—as they directly influence poverty reduction. For each two-year program, 3 or 4 initiatives will be selected for implementation across the maximum number of developing member countries (DMCs) possible. It is expected that the high degree of visibility of the initiatives will prompt the DMCs to adopt the successes.
2. The 2001-2002 program could include initiatives such as:
 - (i) establishing annual awards for good governance, focusing primarily on change and innovation, and including awards in corporate governance;
 - (ii) launching a DMC-wide intervention, in partnership with local non-government organizations (NGOs) and other aid agencies, to extend legal literacy to the excluded and, in particular, to women;
 - (iii) developing annual perception surveys of key state institutions, in partnership with regional, international, and/or local NGOs, to determine how well they are perceived by different segments of a population;
 - (iv) developing customer surveys and scorecards as a way to enhance accountability for service delivery and increase participation of the poor in the quality of a service;
 - (v) supporting constituencies for the poor to lobby the government to improve service delivery or other areas of government activity that impact on the poor; an example of constituencies that have proved effective in improving the quality of primary education in some countries in Africa is the primary teachers associations;
 - (vi) developing initiatives with the private sector to act as good corporate citizens by promoting a service of value to the poor that reflects an aspect of good governance;
 - (vii) testing performance-based service delivery targeting the poor in which contractors tender a fixed price to deliver a service or product and payment is based on an independent audit/inspection confirming delivery of the service or product; products of inferior quality would be returned to the supplier, and services below the quality tendered would not be paid; and
 - (viii) enhancing the work of standing committees of national assemblies, particularly as they relate to the accountability of government departments and agencies.

INFECTIOUS DISEASES INCLUDING HIV/AIDS – MEDIUM-TERM ACTIONS

1. **Increasing Awareness on Infectious Diseases and HIV/AIDS:** ADB will work with other international agencies (including UNAIDS, WHO and UNICEF) to disseminate information about infectious diseases and HIV/AIDS and to raise awareness among policy makers in DMCs, to convince them to reassess their circumstances and re-examine spending priorities. ADB will assist the Greater Mekong Sub-Region (GMS) working group on human development, to disseminate information and engage governments in policy dialogue to increase awareness of infectious diseases and HIV/AIDS. ADB Operational Strategy and Country programming Missions will be encouraged to incorporate HIV/AIDS-related issues in regular dialogue with policy makers.
2. **Regional Technical Assistance Activities:** Regional technical assistance, such as the ongoing Study of Health and Education needs of Ethnic Minorities in GMS, will assist in identifying problems and identifying possible policy and program responses. This technical assistance will develop guidelines and toolkits for organizing prevention activities for these groups and attempt to mainstream these guidelines in the national infectious diseases and HIV/AIDS programs of the participating GMS countries.
3. **Capacity Building for Infectious Diseases and HIV/AIDS:** Country-specific technical assistance to strengthen the capacity of Ministries of Health for infectious diseases and HIV/AIDS surveillance, prevention and control and care of patients.
4. **Retrofitting Existing Health Projects to Address HIV/AIDS:** Assistance to strengthen the capacity of public health systems to address HIV/AIDS prevention activities. Several ongoing ADB financed projects have information components that could be strengthened to better focus on HIV/AIDS prevention and control.
5. **Regional Projection for Prevention and Control of HIV/AIDS:** A Regional HIV/AIDS project in 2002 for the GMS, which will support HIV/AIDS prevention and control programs in the border areas of Viet Nam, Cambodia, and Lao PDR.
6. **Integrating HIV/AIDS Concerns into Projects:** Ensure that HIV/AIDS information and prevention activities are integrated in all relevant projects. Toolkits are being developed for this purpose.
7. **Reducing Infectious Diseases and HIV/AIDS Cofactors:** Addressing factors that contribute to the spread of infectious diseases and HIV/AIDS. Effective implementation of ADB Poverty Reduction Strategy would reduce pressures among the poor to engage in high-risk behaviors such as commercial sex work or intravenous drug use. Increased efforts through health sector projects to reduce the prevalence of sexually transmitted infections will further reduce communicable diseases and HIV infectivity.
8. Technical assistance and loans to combat tuberculosis, malaria, vaccine- preventable diseases, and the most serious water and food-borne diseases.

ACTION PLAN FOR THE OPERATIONAL BUSINESS PROCESSES

Major Findings of Review	Key Recommendations	Follow-up Action
<ul style="list-style-type: none"> Current review, approval, and accountability structures have strong bureaucratic and procedural character 	<ul style="list-style-type: none"> Managers to be responsible for product development and delivery, and directors for quality assurance and strategic direction Streamline current review procedures Establish on pilot basis quality assurance panel 	<ul style="list-style-type: none"> Issue staff instruction on revision of accountability of managers and directors Modify Operations Manual (OM)/Guidelines and Procedures to ensure (i) reductions in number of reviews, (ii) introduction of sign-off system to record department's concurrence with a specific product, and (iii) strengthened of the use of issues papers Develop operational procedures and instructions for quality assurance panel and pilot test of the panel in 10-15 projects
<ul style="list-style-type: none"> Mission approach does not ensure optimal use of available expertise in the Asian Development Bank (ADB) and does not facilitate smooth coordination and cooperation between departments 	<ul style="list-style-type: none"> Establish formal country teams for each developing member country (DMC) to oversee country planning and programming Formalize project teams to be responsible for preparing and processing loan projects 	<ul style="list-style-type: none"> Draft guidelines on the composition and tasks of country teams, and on composition and tasks of teams responsible for country operational strategy (COS) and county assistance plan (CAP) preparation Set up country teams and teams for COS and CAP preparation Draft guidelines on the composition and tasks of project teams Introduce team concept for processing new projects
<ul style="list-style-type: none"> DMC ownership of country and sector strategies and ADB-assisted projects is often weak 	<ul style="list-style-type: none"> ADB will encourage DMCs to work toward broader levels of participation in country planning and programming and project design; however, in recognition of their diversity, DMCs should be allowed to determine their own approach to participation 	<ul style="list-style-type: none"> Develop minimum standards for participation in terms of range of stakeholders involved and level of participation Develop a set of good practices that document effective participatory mechanisms, to guide ADB staff in assessing DMC participatory approaches Issue staff instruction on participation
<ul style="list-style-type: none"> Economic and sector work (ESW) needs substantial strengthening 	<ul style="list-style-type: none"> Define scope, objectives, and responsibilities for ESW 	<ul style="list-style-type: none"> Develop staff instruction on ESW Improve dissemination of high quality ESW

Major Findings of Review	Key Recommendations	Follow-up Action
	<ul style="list-style-type: none"> • Introduce a planning and monitoring system for ESW • Improve coordination and monitoring of ADB-wide ESW 	<ul style="list-style-type: none"> • Improve planning of ESW through medium-term agenda for ESW, specific resource allocation in annual work plans, and more monitoring of ESW • Strengthen quality of ESW, e.g., through sector panel or network and peer review • RETA Screening Committee to coordinate and monitor ADB-wide ESW • Adopt three-year rolling work plan for Bankwide policy development and review
<ul style="list-style-type: none"> • Current COS and CAP lack strategic focus, linkage, and often do not drive project selection 	<ul style="list-style-type: none"> • Merge COS and CAP into one document called country strategy and program (CSP) to strengthen linkage between strategy and program • ADB assistance for a country should focus on fewer sectors and subsectors • ADB's assistance strategy to be anchored in well defined strategies for support to a sector or subsector 	<ul style="list-style-type: none"> • Design formats for CSP on 5 year basis, with annual CSP updates for intermediate years, which integrate public and private sector assistance • Process of preparing CSP to start with evaluation of previous CSP and early identification of overall strategic and sector focus • Introduce a country sector matrix to facilitate monitoring of CSP's focus and its contribution towards ADB's sector development objectives • Issue instruction to include sector strategies and performance targets in CSP with 5-10 year time horizon • Include sector strategies and performance targets in CSP with 5-10 year time horizon • Projects and advisory technical assistance (TA) entering ADB's 3-year assistance program require a project selection brief (attached to country and strategy program)
<ul style="list-style-type: none"> • Current project preparatory TA/loan processing cycle is not fully efficient in resource use and quality at entry can be strengthened 	<ul style="list-style-type: none"> • Integrate current project preparatory TA phase and loan fact finding into a project preparatory phase • Strengthen project preparatory phase • Clarify responsibilities of projects and programs departments for project 	<ul style="list-style-type: none"> • Issue staff instruction on integrated project preparatory phase, which includes formats for project concept paper and project design report • Introduce project concept paper to start processing of project and project design report, required to structure design process of the project • Redesign formats of report and recommendation of the president, project preparatory TA papers, and consultants design report • Revise relevant OM sections

Major Findings of Review	Key Recommendations	Follow-up Action
	preparation and processing	
<ul style="list-style-type: none"> • Culture that emphasizes meeting annual lending targets negatively impacts project quality 	<ul style="list-style-type: none"> • Review in depth the advantages and disadvantages of current indicative planning figure planning approach • Develop and introduce measures to minimize current bunching problems 	<ul style="list-style-type: none"> • Define in detail problems of current system in terms of impact on project quality and scheduling problems • Assess compatibility of current indicative planning figure system with envisaged system of performance based lending and strategic sector focus • Assess the possibilities for reducing bunching through more effective program and staff management and other possible options
<ul style="list-style-type: none"> • Advisory TA quality at entry is often not satisfactory 	<ul style="list-style-type: none"> • Acknowledge the importance of advisory TAs as a strategic product in ADB efforts to catalyze policy and institutional change in DMCs, and strengthen their quality 	<ul style="list-style-type: none"> • Develop project selection brief for advisory TAs, to enter assistance pipeline and project concept paper to start processing of advisory TAs • Strengthen design phase of advisory TA with greater staff input in the beginning and better use of logical framework approach • Revise advisory TA paper format

SUPPORT FOR REDESIGNED OPERATIONAL BUSINESS PROCESSES

Issue	Recommended Follow-up Action
<ul style="list-style-type: none"> Compliance with (redesigned) business processes 	<ul style="list-style-type: none"> Strengthen compliance by individual staff through the use of staff work plans and performance evaluation review Increase use of strategic reviews of compliance with business processes at sector, country, and department level New policy documents to contain proposed plan for monitoring compliance with policy, including indicators to be used for this Policy documents, staff instructions, etc., to include realistic estimates of resource requirements
<ul style="list-style-type: none"> Strengthening linkage between staff resource management and operational planning 	<ul style="list-style-type: none"> Develop staff coefficients for revised operational business processes Ensure that all main operational outputs are sufficiently specified in divisional work plans and are based on realistic estimate of resource requirements Develop and adopt output-based resource planning and management system for main operational business processes including the possibility to reintroduce time recording (as part of the automated FM-HRMIS)
<ul style="list-style-type: none"> Strengthening staff skills 	<ul style="list-style-type: none"> Policy papers adopted by Asian Development Bank and reviews of policy papers need to focus more strongly on identifying skills gaps Strengthening in skills development through more attention for needs analysis for skills development at divisional and departmental level, adoption of a 3-5 year training strategy, strengthening of assessment of training impact
<ul style="list-style-type: none"> Strengthening the use of information technology (IT) in operational business processes 	<ul style="list-style-type: none"> Hasten integration of individual databases and enhance their user friendliness Ensure greater reliability of databases Structurally integrate use of IT in management of operational departments and increase training of professional staff, managers, and directors in (potential) use of IT Assess potential use of IT instead of paper circulation and meetings
<ul style="list-style-type: none"> Review of project administration 	<ul style="list-style-type: none"> Review in detail the project administration for loan projects and advisory technical assistance, incorporating results of the Working Group on Spring Cleaning Review the current and possible future role of resident missions in project administration
<ul style="list-style-type: none"> Streamlining of administrative processes that impact on operations 	<ul style="list-style-type: none"> Review general administrative procedures and requirements related to operational business processes and streamline where possible
<ul style="list-style-type: none"> Strengthening of efficiency and effectiveness of ADB's organizational structure 	<ul style="list-style-type: none"> Update the 1997 review of the effectiveness and efficiency of the organizational structure of the Office of Pacific Operations Review efforts by other multilateral development banks to improve their effectiveness and efficiency through modifications in their organizational structure

RESIDENT MISSION POLICY: IMPLEMENTATION SCHEDULE

Immediate

- (i) Assess the functions and staff requirements for developing member countries currently without RMs, and seek Board approval of new resident missions as required.
- (ii) Assess and revise the functions of existing RMs on the basis of the approach proposed in the Draft Donors' Report.
- (iii) Increase RM staffing to at least two headquarters staff per mission.
- (iv) Initiate pilot tests in selected RMs of (a) country programming in at least two DMCs, (b) project processing of about five loan projects, and (c) delegation of administration of all projects to two DMCs.
- (v) Issue instructions requiring RM staff to be included as full members of headquarters programming, project processing, and review missions.
- (vi) Upgrade information technology and communications to support pilot testing.

Short-term (within 12 months):

- (i) Review arrangements for all special location of work cases.
- (ii) Upgrade information technology and telecommunications to bring all RMs to the standard commensurate with their redefined functions.
- (iii) Review human resource, compensation, and benefits policies relating to RM staff.
- (iv) Prepare guidelines for delegating projects to RMs, and delegate projects accordingly.
- (v) Review and revise the delegation of authority to RMs in the context of their revised responsibilities.

Medium-term (18-24 months):

- (i) Deploy staff to existing RMs in accordance with revised functions.
- (ii) Issue guidelines to ensure integrity of disbursement, control, and procurement procedures consistent with redefined RM functions.
- (iii) Review and introduce alternate recruitment procedures aimed at increasing RM staffing flexibility.
- (iv) Review accommodation options and facilities for existing and planned RMs.
- (v) Review the organizational impact of the revised RM structure and revise business processes as necessary.

BORROWERS IN ADF VIII (2001-2004)

Group	Classification
A	Bhutan
	Cambodia
	Lao PDR
	Maldives
	Nepal
	Kyrgyz Republic
	Mongolia
	Tajikistan
	Kiribati
	Samoa
	Solomon Islands
Tuvalu	
Vanuatu	
B1	Cook Islands
	Marshall Islands
	FSM
	Tonga
	Bangladesh
	Pakistan
	Sri Lanka
	Viet Nam
B2	Indonesia
New Borrowers	East Timor
	Azerbaijan

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