

INSPIRING ADB'S FUTURE: BETTER RESULTS IN A DYNAMIC WORLD

Vinod Thomas

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Inspiring ADB's Future: Better Results in a Dynamic Region

Vinod Thomas
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ABSTRACT

The Asian Development Bank, with its 50-year track record of expertise, experience, and effectiveness, has a unique opportunity to help Asia and the Pacific confront its growing socioeconomic challenges. The region has witnessed the fastest economic growth and reduction in income poverty worldwide. At the same time, nearly 550 million people live below the \$1.25 per day poverty threshold in a region where income disparities have widened in countries that make up 80% of the region's population. Urban challenges abound, runaway climate change threatens continued progress, and weaknesses in governance remain a common concern.

The strategic thrust of the institution's Strategy 2020 of inclusion, environmental sustainability, and regional integration are more important than ever. This is the chance to go the distance in making these goals integral to lending operations. In the past three years ADB has improved achievements of the objectives in its portfolio of projects and programs, even as no clear long-term trends in performance emerge. More can be done especially in improving the efficiency of the portfolio in delivering outputs and outcomes and in sustaining results over time.

Today the organization looks to delivering more and better, with an expanded portfolio based on a combination of the ordinary capital resources and the Asian Development Fund. The past provides valuable lessons for raising development effectiveness, while new considerations revise the choices to be made. One way forward would simply be to expand the allocations of lending in proportion to their current composition. But a superior option would be to shift, on the basis of a larger lending base, to a more effective mix of lending and a new strategic direction.

This opportunity for a shift in strategy can be seized. This paper sees the value of a two-pronged approach going forward—as a business proposition.

The first part is about doing things right. Continued actions are warranted to improve the efficiency and sustainability of investments both in the sovereign and nonsovereign areas. Getting the most from the portfolio also involves efforts to exploit synergies across themes, across public and private sectors, across lending and knowledge, as well as efforts to build partnerships within and outside the organization.

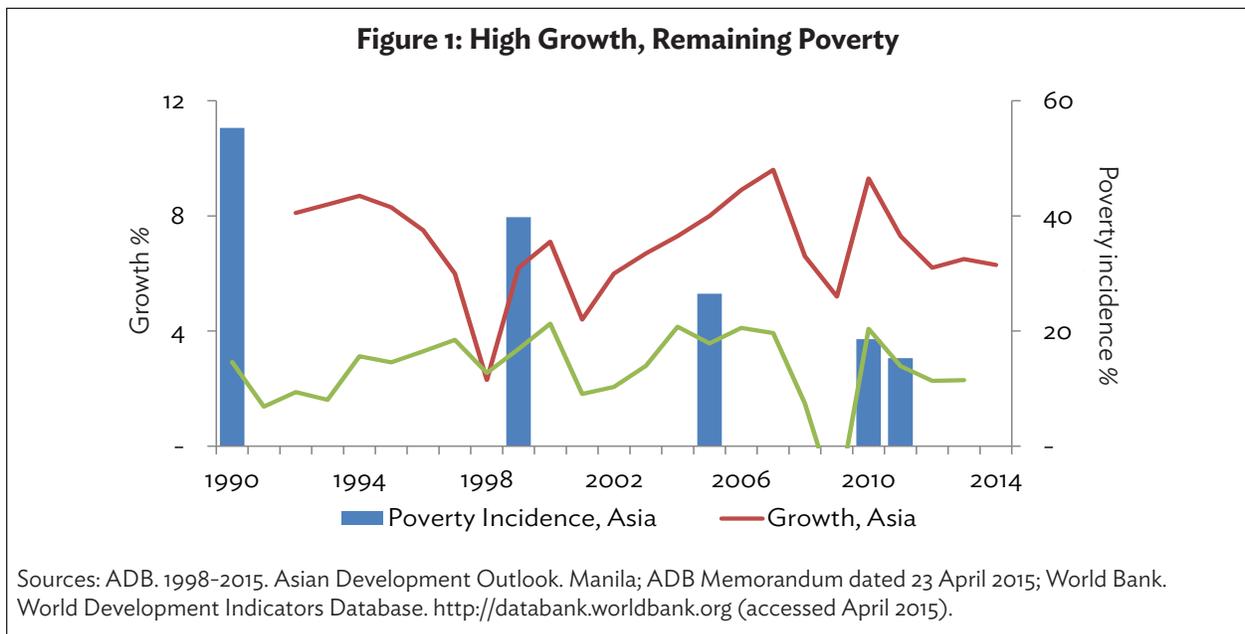
The second part is about doing the right things. The institution is positioned to shift its current infrastructure focus from physical output deliveries to higher outcomes. One way is to aim for far more climate friendly infrastructure blending climate resilient projects and programs together with direct support for an environmentally sustainable Asia and the Pacific. Another is to support more inclusive infrastructure, coupled with greater attention to education, health and social protection.

I. INTRODUCTION

Asia and the Pacific remains the world's fastest growing region with the greatest success in reducing income poverty worldwide. But it also faces tough roadblocks to sustaining progress. The Asian Development Bank, with its 50-year track record of expertise, experience, and effectiveness, has a unique opportunity to support the region in confronting these challenges. The crucial question: how best might the organization scale up operations and contribute to well-being in the region?

The region has grown at 7% in the past two decades, and is projected to grow at over 6% through 2016. Income poverty incidence was cut from an estimated 55% in 1990 to 15% in 2011 (Figure 1). Still, nearly 550 million people live below the \$1.25/day poverty threshold (ADB 2015b). More than a fifth of under-5 children are underweight in Bangladesh, Cambodia, Myanmar, Nepal, Pakistan, Papua New Guinea, and Sri Lanka (ADB 2015a). Since persistent malnutrition has lasting impacts on human capital, hunger perpetuates poverty.

Income disparities widened in 12 countries, making up 80% of the region's population. Gaps between rural and urban areas are large: lower secondary completion rates in rural Lao PDR and Myanmar are about 20%; urban completion rates are about 60% (UNESCO 2015).



To secure and further Asia's competitiveness and growth, sustainable infrastructure needs to keep pace with the region's needs. Prospects for infrastructure financing are strong not only from the established development banks such as ADB and the World Bank but also new entrants, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) of the BRICS countries.

Engineering an integrated and connected Asia will take substantial investments in transport and energy networks (ADB and ADBI 2009). Employment generation is a key challenge, for which it pays to invest in manufacturing output and exports (Felipe 2015). Provision of services and attention to basic needs remain priorities. Across the region, some 700 million people continue to live without electricity. Within

South Asia, where only 71% of the population have access to electricity and only 39% have improved sanitation, infrastructure needs are vast (Andres, Biller and Dappe 2013). Rapid urbanization puts additional pressure on infrastructure. Asia is home to more than half of the world's urban population. From 2014 to 2015, the People's Republic of China (PRC) is expected to add some 290 million more urban dwellers, India 400 million more (UNDESA-Population Division 2014). Lack of urban transport is now reducing productivity in terms of lost time, higher transport costs, and health costs from pollution. Over 70% of India's urban agglomerations seriously fall short of meeting air quality standards, and as a result their populations suffer from intense and chronic respiratory diseases (Greenstone, et al. 2015). Some 200 million live in Asia's urban slums with no access to water and sanitation services.

The region is arguably the most exposed and vulnerable to hazards of nature. The increasing frequency of floods and storms relative to other types of hazards highlights links with climate change. A fundamental challenge is to address climate risks while sustaining economic growth (The Global Commission on the Economy and Climate 2014). Climate mitigation and adaptation, and resilient infrastructure are necessary to secure the region's development gains.

Poor public services, weak institutions, and corruption continue to hold countries and citizens back from realizing their potential. These are among the challenges embodied in the emerging Sustainable Development Goals (UNDESA-Division for Sustainable Development 2014).

Investment and productivity growth go hand in hand as the two sources for generating growth and well-being. At this juncture in Asia, it will pay to strive especially for higher productivity—that is, getting more value from investment—for two reasons. First, productivity improvement can pick up the slack in growth when investment faces constraints. Second, getting more out of a given investment will help inclusion, for example, by lifting the participation and productivity of workers, as well as the environment, from intensive rather than extensive use of land.

The private sector is pivotal to generating strong productivity gains. It pays to strengthen private sector participation in countries by overcoming barriers to private sector growth. Private investments can be enormously helpful in catalyzing inclusive growth. They can incorporate environmental and social concerns and address a triple-bottom-line pattern of growth.

It is in this context that ADB's work must be viewed. In 2013 ADB's financing was \$14 billion. The combination of ordinary capital resources (OCR) and the concessional Asian Development Fund (ADF) can increase annual commitments by over 50% to some \$20 billion, which if matched one-to-one with co-financing can raise lending to \$40 billion (ADB 2015c).

The proposed combination will have multiple benefits for ADB stakeholders, including ADF countries, OCR borrowers, and donors. First, ADF countries would benefit from receiving enhanced financial assistance of concessional loans and grants on the same terms as currently provided. Second, combining ADF resources with OCR would strengthen OCR lending and ADB's risk-bearing capacities. This, in turn, would strengthen ADB preparedness for any natural disaster or economic crisis in the future. Third, the proposal would significantly reduce the future financial burden on ADF donors and would enable larger transfers from OCR to ADF grant operations.

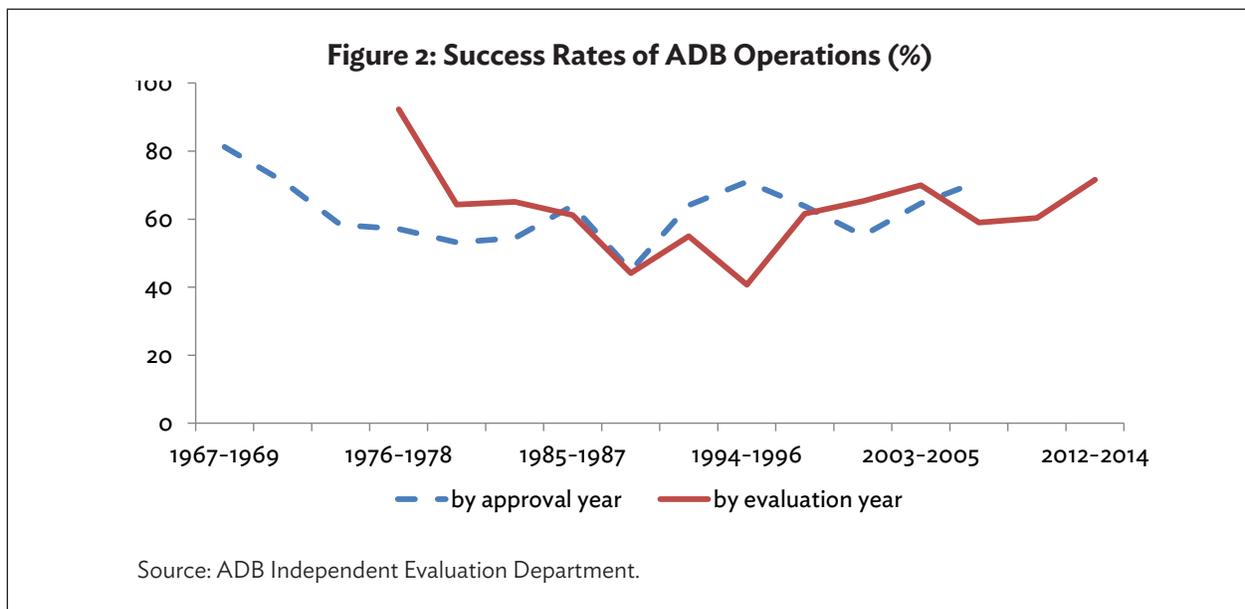
In 2013 ADB's financing accounted for 0.22% of developing Asia's investments of \$6.4 trillion. The development effectiveness, however, can be disproportionately bigger than the investment share. More

than volumes, the ADF-OCR merger is an opportunity to get far greater mileage in leverage and impact from lending. It is important for ADB to not merely use this increased capital base to scale up existing operations, i.e., by doing more of the same, but to use its resources to do better things, for example by linking infrastructure operations more directly to inclusion and climate change resilience. As stressed at this year's Annual Meeting in Baku, with regard ADB's stronger lending capacity—ADB must use it well (Nakao 2015).

Doing so will also help ADB adapt to the changing needs as well as the financial landscape in the region, including work with AIIB and NDB.

II. ADB'S PORTFOLIO RESULTS

ADB's operational portfolio provides a backdrop to the institution's evolving involvement in Asia and the Pacific. The performance of projects and programs is a necessary (though not sufficient) condition for the institution's impact. For the most part, it gives an idea of the organization's success in doing things right. Experience shows substantial ups and downs in measures of success rates—by approval year and by evaluation year (Figure 2). In the most recent 3-year period 2012–2014, success rates improved to 72%, from 59% in 2006–2008 and 60% in 2009–2011.



Country program success rate, on the other hand, was 63% in 2012–2014. Other organizations have also found country program ratings to be below project ones. Separate factors beyond project considerations affect overall effectiveness at the country level. Questions to pursue are:

- Would country programs with a more balanced portfolio perform better?
- Would countries with policy dialogue, knowledge exchange, and technical assistance do better?

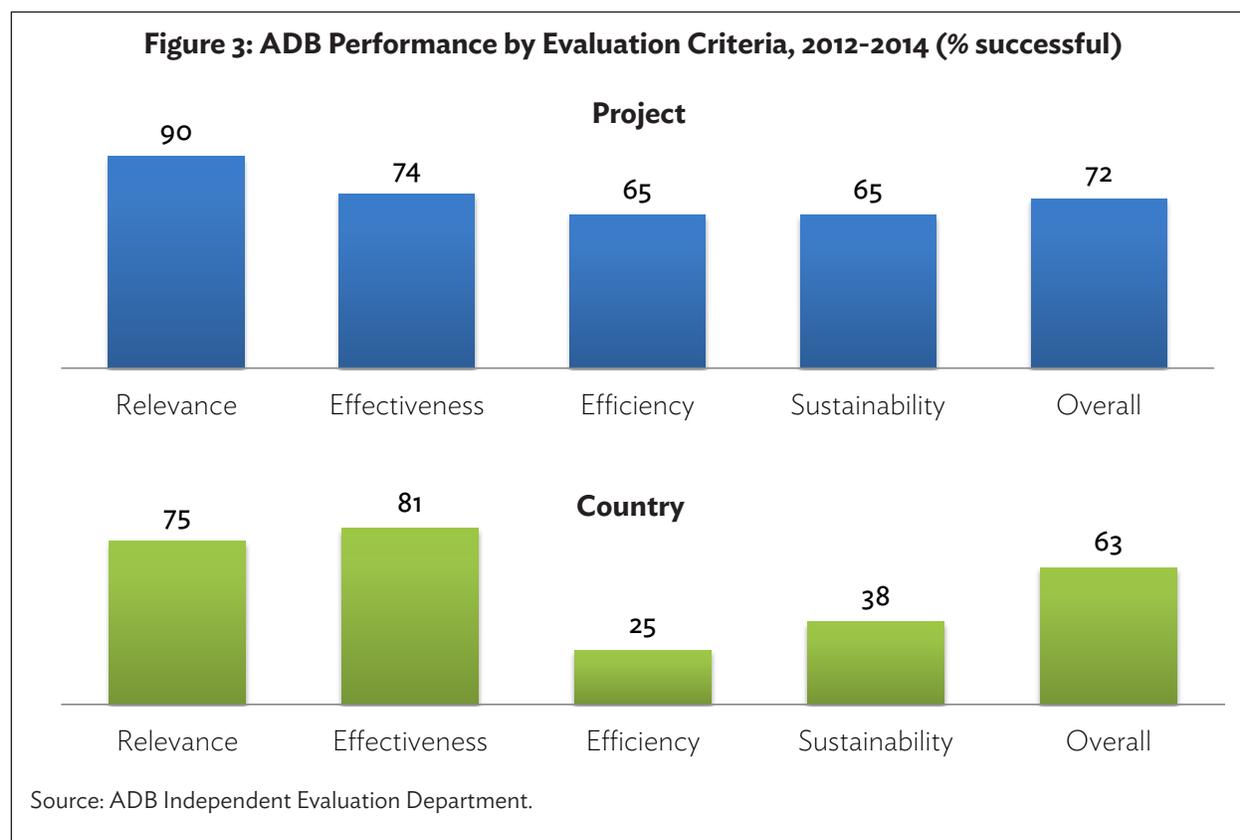
Some lessons from country program assessments can help guide the way:

- Continuity in country programming and government buy-in contribute to effective and sustainable outcomes;
- For regional programs, it must be ensured that they are well-aligned to country programs; and
- Development support for countries must be augmented with knowledge services.

Evaluation disaggregates project and program performance into four categories:

- Relevance (alignment to objectives and design);
- Effectiveness (achievement of outcomes);
- Efficiency (use of resources); and
- Sustainability (outcomes over time).

During 2012-2014, projects and country programs did relatively better in relevance and effectiveness than in efficiency and sustainability (Figure 3). ADB's action plan relating to the midterm review (MTR) of Strategy 2020 is addressing the relatively weak performance in efficiency (ADB 2014d). A similar effort needs to be made on the relatively weak performance in sustainability. Recent country assessments have emphasized the importance of carrying out vulnerability assessments and integrating disaster risk management in country programming and project design.



A. Preparation Makes a Difference

A 2007 study of World Bank's projects concluded that preparation as embodied in measures of the quality at entry of projects is key. It found that project design and preparation matter to project outcomes (World Bank Quality Assurance Group 2008). The evidence from a large sample of projects indicated that unsatisfactory quality at entry was associated with a 40% failure rate in contrast to a 20% failure rate when quality at entry was satisfactory.

A 2011 evaluation of less than successful ADF projects approved from 2001–2010 identified project design issues as the main reasons for project failure in more than two-thirds of the cases (IED 2011). The three most frequent issues in weak projects were:

- Project designs that were not tailored to the country and its institutional and political conditions (61%),
- Overly complex project structures with too many components (46%),
- Lack of stakeholder consultation and buy-in (32%).

The findings also underpin the importance of capacity for implementation, sufficient resources, adequate processing time, and risk assessment and mitigation. Concerns about the quality of project preparation technical assistance (PPTA) and project readiness have emerged due to increasing delays in loan startup. PPTA budgets have declined in real terms in the recent decade, condensing the time and resources to address project feasibility and due diligence requirements. A recent evaluation assesses the needs for strengthening technical assistance, including improvements in its processes, procedures and motivation (IED 2014a).

B. The Importance of Implementation

There are several elements of implementation, one of which is the nexus of operational efficiencies. Cost-effectiveness of delivering services, for example education, is part of what makes up country results. Operational inefficiencies were associated with lack of ownership of ADB interventions in countries and weak coordination among executing and implementing agencies. Lack of institutional capacity was identified as the main implementation issue in 57% of less than successful ADF projects from 2001–2010 (IED 2011).

Efficiency is a concern in ADB's portfolio review. Improvements in the speed of project delivery and its adherence to cost parameters are clearly important. A reminder is that cutting costs must be matched by a concern to raise benefits. Reducing efforts in due diligence, safeguards, and knowledge, for example, can disproportionately reduce benefits and affect project success. Safeguards constitute additional staff costs, but these costs are modest in comparison to the significant and sometimes irreversible environmental and social damages some interventions can cause (IED 2014b, IEG 2010).

Growth concerns press for greater flexibility in how safeguards are implemented. By citing a need to alleviate the burden for borrowers and executing agencies, it is tempting for alterations or new proposals to relax requirements for mitigation when approving a project, and to table these requirements for later. Rather than diluting safeguard policies this way, development banks should adhere to delivering sound safeguards while seeking greater efficiency and speed by reforming internal procedures.

The other concern from the portfolio review is sustainability. In transport, energy, and water and sanitation, financial targets are often not achieved. Evaluations have not focused enough on socioeconomic sustainability (service standards and affordability) and environmental sustainability (resource management and environmental and operational regulations). ADB would do well to engage in planning at the country programming stage to include institutional and financial management reforms, and phased investments and targets for tariffs and services.

The way ADB is organized matters. Decentralizing operations helps meet the diverse demands and priorities of countries. Locating the right type of staff in resident missions can increase client contact and country knowledge. In Nepal and Thailand, assessments found that insufficient staff in resident missions affected project implementation (IED 2015). While the number of staff based within resident missions has increased, the transfer of responsibilities and decision-making authority did not accompany this (IED 2014c). It was appropriate for ADB's action plan to include capacity strengthening of resident missions by establishing regional hubs and a system of having specialists in multiple resident missions within close geographic regions.

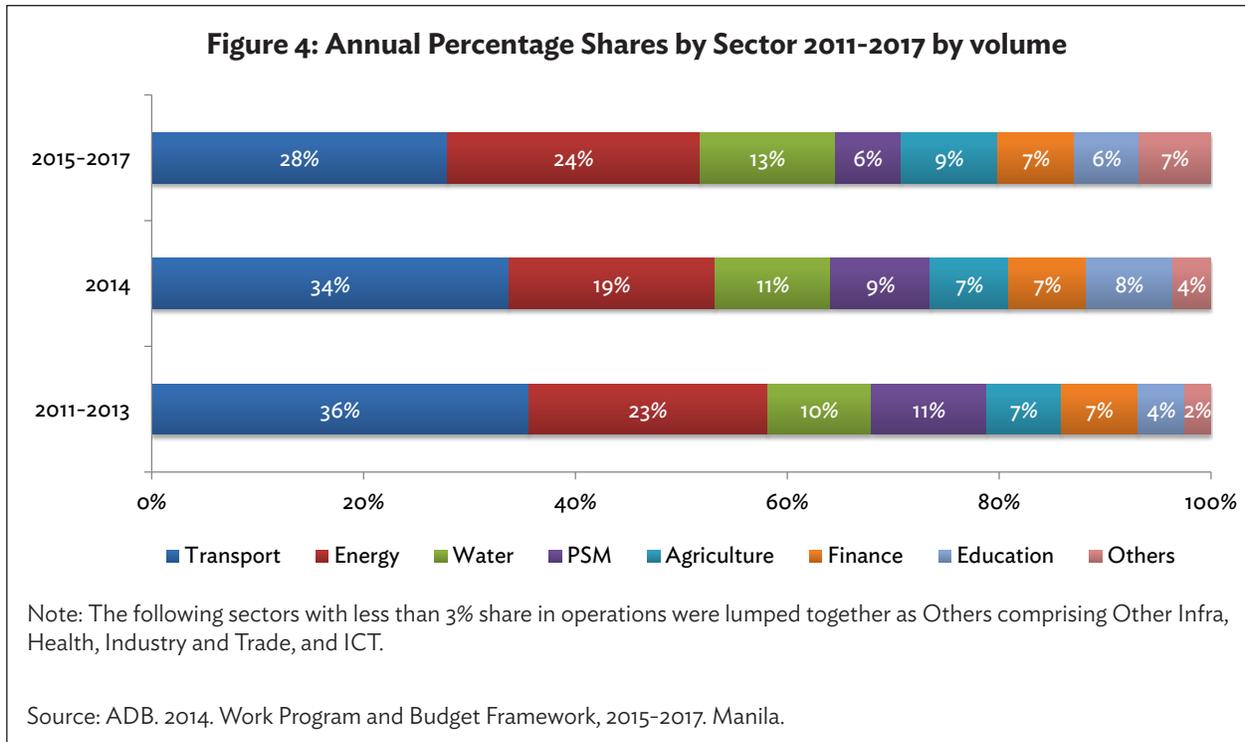
A recent study of what makes projects successful highlights another factor—the role of team leaders (Bulman, Kolkma and Kraay 2015). It shows that their track record, defined as the success rate of the team leader in other projects, is positively correlated with project outcomes. More effort to project manager selection, training, screening, and supervision has payoffs.

C. The Changing Role of Content

While preparation and implementation are essentials in doing things right, the content of the projects and programs drives the nature of the results attained. Operational selectivity improves focus, but the goal has to be better development outcomes. In that sense, selectivity needs to be seen only as a means to getting greater development effectiveness. Engagement at the country level is better driven by a country's desired development outcomes rather than by uniform corporate targets. In setting a target for core areas, specifically infrastructure, some key sectors have been overlooked, thus limiting ADB's impact. ADB needs to do more to complement infrastructure with other sectors to achieve better development outcomes.

Based on the ADB's 2015-2017 work program, the share (by volume) of transport, energy, and water in ADB sovereign operations is projected to decrease from 68% (2011-2013) to 65% (2015-2017), with the most sizeable decrease in transport from 36% (2011-2013) to 28% (2015-2017) (Figure 4) (ADB 2014e). The share of education was estimated to have doubled from 4% (2011-2013) to 8% (2014), and projected to be 6% (2015-2017). The tiny health portfolio (which had a 100% success rate in 2012-2014) is projected to have 2% share in 2015-2017 from less than 1% in 2011-2013.

No clear or lasting pattern in project success emerges across sectors. For example, health (while a small area of focus) outranks energy, transport, and water sectors in recent ratings (Figure 5). Projects with environmental sustainability objectives performed better than those with primarily growth objectives. One lesson is that ADB must not be limited to doing repeat projects and to what is customary and comfortable. High rewards or an improving trend may warrant increased involvement. Comparative advantage is not static, but a dynamic factor within a vibrant organization.

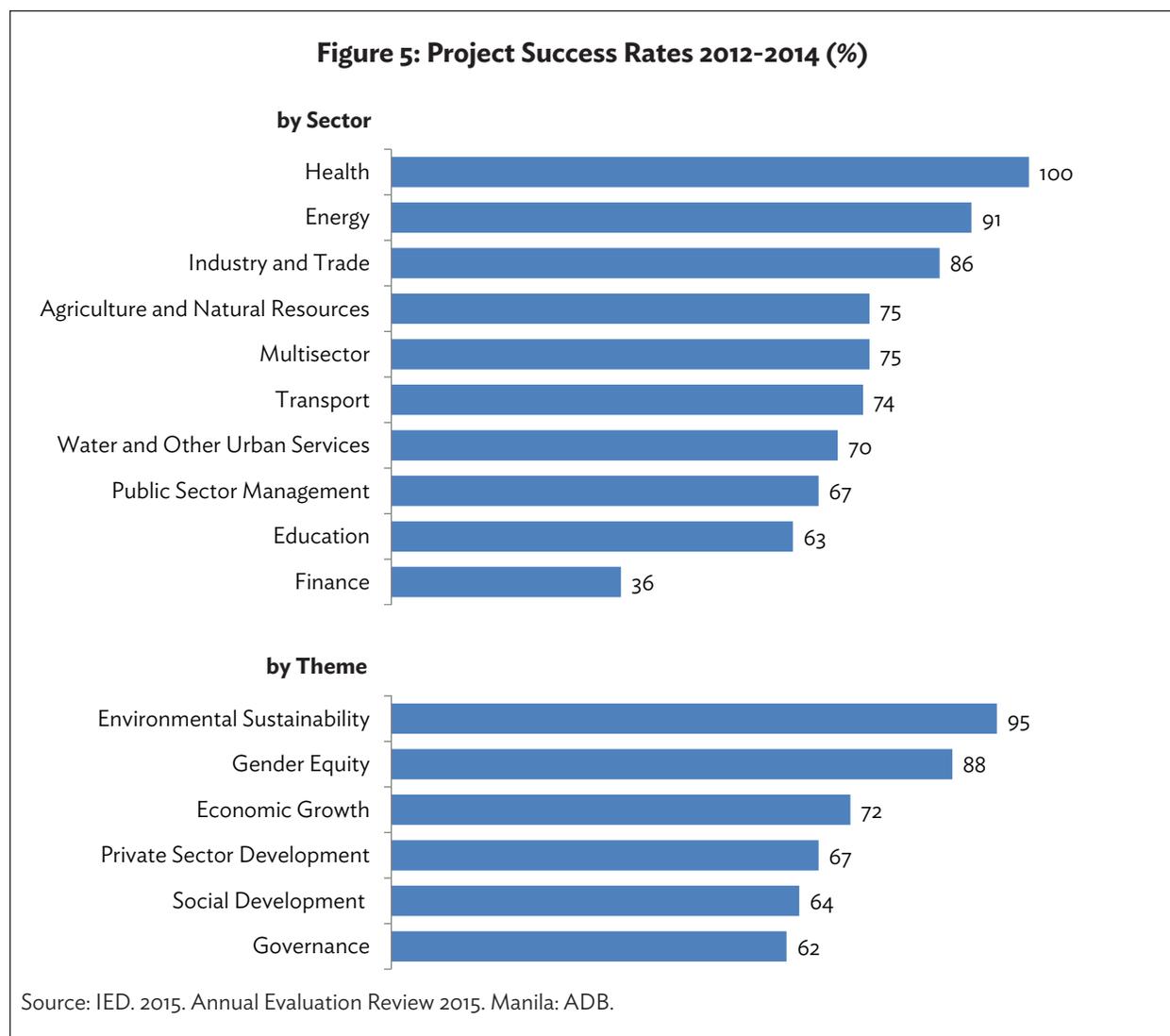


Living in a dynamic world, development banks need to adapt to the highly changeable environment in which they move. The changing needs and challenges of Asia and the Pacific must be matched with the corresponding strategies and capacities. For instance, climate change and rapid urbanization are areas calling for increased attention. Access to improved water source was one of the MDGs. We are now faced with water sustainability problems with pollution, overexploitation of groundwater, rising sea levels, deforestation of watersheds, and droughts.

Emerging potentials and opportunities must also be seized. Financing is clearly a part of the solution. Making full use of knowledge and technological advances are equally vital in breaking down roadblocks and bottlenecks to development. Knowledge applications occur in a range of ways. Policy reforms, for example the slashing of subsidies for fossil fuels or the provision of targeted conditional transfer to the poor, can generate vast returns and their implementation can benefit from knowledge exchange across countries. Program innovations, for example, instituting early warning systems and disaster awareness or the use of cellular phones in social protection programs, also benefit from knowledge exchange.

III. STRATEGIC ALIGNMENT

Doing things right goes beyond the delivery of individual projects and programs to considerations of how things add up. It involves getting more mileage from the portfolio by capitalizing on links and synergies across projects and sectors and seeking collaboration with development partners. These factors are necessary to delivering stronger results.



Evaluations show that an institution performs better when it works with a judicious mix of hard sector investments such as energy and transport and soft sector investments such as education and health. There are notable payoffs from enriching the menu of offerings and finding linkages that raise the returns to investments. More can be done to help countries attract direct private investments. Strategies that help countries move up the ladder in terms of the complexity of exports seem to serve progress in income growth and improvements in well-being (Hausmann, et al. 2013).

Results are also better with engagement in partnerships with development partners who can complement ADB's strengths. Investments in roads, when coupled with electricity, education, and SME credit will improve productivity much better than in isolation. This approach is more effective at promoting inclusive and environmentally sustainable growth than stand-alone projects.

Country preferences are at the forefront of efforts to support more inter-linked than stand-alone projects. Sometimes it is argued that country demand is for narrower interventions. This may indeed be the expression of interest from individual counterparts, but a development bank can rightly work

with broader stakeholders in the country and help bring about a broader focus for greater development effectiveness.

A. Partnerships and Linkages

Partnerships are vital to development effectiveness. Areas such as education and health that receive modest operational focus, but are nonetheless essential for development outcomes, need greater attention going forward involving partners who are doing more in these areas than ADB. An evaluation found that partnerships in health, education, and gender have not flourished as expected in Strategy 2020. ADB's engagement at the country level, as captured in country partnership strategies, ought to be driven by a country's desired development outcomes and by partnership opportunities.

ADB's partnerships with countries is the centerpiece. Countries may mature or may graduate from ADF or OCR resources, but ties and relationships can remain even as they evolve. To prepare countries for graduation ADB can help boost competitiveness and productivity further. Upper middle income countries continue to grapple with inequality. All countries face climate change and disaster risks.

ADB can be a relevant partner for all countries in Asia, regardless of income levels, even as the relation would be in the knowledge side and not in the lending side at higher income levels. ADB can also help build knowledge partnerships across countries for capacity development and sharing of best practices across all income levels

There are examples of partnerships that have helped to lift the game. In the Philippines, ADB, the World Bank, AusAID, and the US Millennium Challenge Corporation, worked together with the social welfare department to support the country's community-driven social protection program KALAHI-CIDSS. ADB provided policy and advisory technical assistance in the conceptualization and design, and supported the capacity building of a local government unit.

By linking with other development institutions, ADB's sphere of influence is increased, especially now with the national implementation of the program targeting over 5 million households. In the same manner, ADB joins other partners in supporting conditional cash transfers that have now expanded to some 4 million households.

In Dhaka's Urban Primary Health Care Project, partnership among various players is exploited to maximize expertise and resources. ADB, the Swedish International Development Agency, and the UK Department for International Development provide financing, UN Population Fund provides technical support, government provides planning and management, and the NGOs run the health centers.

Public-private partnerships would be of special interest. For example, ADB's partnership with the International Chamber of Commerce on the Trade Finance Default Register has made an important contribution to global understanding of the actual risks involved in trade finance, and has influenced better regulatory treatment for the asset class. The default register and its efforts to bring increased awareness regarding the low risk nature of trade finance could have far reaching impacts by encouraging private sector banks to assume more trade finance risk.

B. Synergies and Complementarities

Working across boundaries within the organization fosters synergies and builds complementarities, but this has not always been easy. Evaluations, including the midterm review of Strategy 2020, found that at times, it is even discouraged at department levels. The midterm review seeks to change this.

Of importance is the synergistic aspects of support for private sector development. The share of private sector operations (PSO) related to enabling environment support needs to increase (IED 2013). Regional departments need to focus support for enabling environment in key areas of private sector operations, and to become more involved in project development activities. There is room to adapt the organizational structure, add new staff skills, and vastly strengthen links across the private sector department and regional departments. Direct financing, credit enhancements, risk mitigation guarantees, and innovative new financial instruments as well as PPPs in core operational areas can be stepped up. To strengthen PPP coordination and transaction advisory, ADB set up the Office of Public-Private Partnerships.

Also of importance is the synergic link between financing and knowledge. A case in point is the role in advocating for regional public goods, such as the environment, forestry, and biodiversity. ADB is well-positioned to increase its role as a knowledge broker on climate change. Critical issues where state of the art knowledge is required include carbon sequestration, tradeoffs and linkages between climate change mitigation and adaptation; overlaps and connections between adaptation and disaster risk management; sustainable food, energy and water security; and urban development. There also needs to be far greater motivation to leverage non-ADB funds to finance climate change needs.

Evaluation points to the importance of knowledge services and technology facilitation complementing financial and project services. Assessments for Azerbaijan and Thailand recommended systematic policy advisory support and capacity development in sectors of engagement.

There are examples of links across sectors and themes getting greater impact. Disaster responses have often elicited teamwork across the organization with positive results, for example, in the case of the support for post Typhoon Haiyan disaster response initiated at end 2013. ADB's Countercyclical Support Facility and Trade Finance Facility after the 2008-2009 global economic crisis were highly responsive, but the programs would have been more efficient and effective if there had been greater teamwork across boundaries.

There are cases of stand-alone projects which shifted to cross-sectoral projects with positive outcomes. For example, ADB linked the delivery of quality medical care to water and energy infrastructure projects in Marshall Island's Ebeye Health and Infrastructure Project (ADB 2004). In the case of Armenia's sustainable infrastructure program, stronger linkages were forged across the Ministries of Water, Transport, Economics (for planning), and Finance (for resource mobilization), to mount an inter-disciplinary effort (ADB 2014c). The administrative costs of this effort is much lower and the client benefits much higher.

C. Regional Approaches

There is untapped potential for regional approaches. Regional cooperation and integration being one of ADB's strategic pillars, this chance must be seized.

ADB has provided considerable support for regional integration, primarily by focusing on infrastructure that supports regional physical connectivity. ADB is uniquely positioned to play a significant role in regional public goods in which countries individually tend to underinvest. Regional cooperation and integration operations are projected to reach 25% in 2015–2017, an increase from the 21% share in 2011–2013 (ADB 2014e). To raise its impact on regional cooperation and integration, ADB can move beyond support for cross-border roads and transmission lines, and increase support for regional public goods through lending, knowledge exchange, and policy dialogue. Priority areas include food security and health, trade facilitation, and natural resource management and disaster mitigation.

Energy projects are going beyond electricity access objectives. ADB's Greater Mekong Subregion transmission project enabled Cambodia to import electricity from Viet Nam. This provided affordable electricity to more than 50,000 rural households, and opened up business opportunities in Phnom Penh, where 40,000 new customers are enjoying more reliable electricity (IED 2014f).

The surplus hydropower energy in Bhutan amidst the energy scarcity in neighboring India demonstrates the efficiency benefits of cross-border energy trade. Revenues from the Chhukka and Dagachhu hydropower plants and the energy trade subsidize costly rural electrification and help finance off-grid solar energy in isolated remote areas. That the Dagachhu hydropower plant receives carbon credits is another plus (ADB 2014a). These energy projects are generating environmental, inclusion, and social values by working across borders and tapping synergies.

The vision of Central Asia Regional Economic Cooperation—of economic corridors traversing Central Asia linking Europe, the Middle East, and the rest of Asia—can only be realized with a regional mindset, and the shared resources and expertise of partner development institutions. The thousands of kilometers of roads, railways, and energy networks in this strategic subregion will have vast implications for growth and development. This partnership of ten countries is supported by ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank (CAREC).

Regional programs work in relation to national programs. Regional and national programs need to work together on the policy and institutional changes to facilitate the social or economic integration of countries within regions. Assessments in Armenia, Kyrgyz Republic, Lao People's Democratic Republic, and Thailand found the need for regional cooperation programs to be aligned with national road-planning priorities.

IV. NEW DIRECTIONS

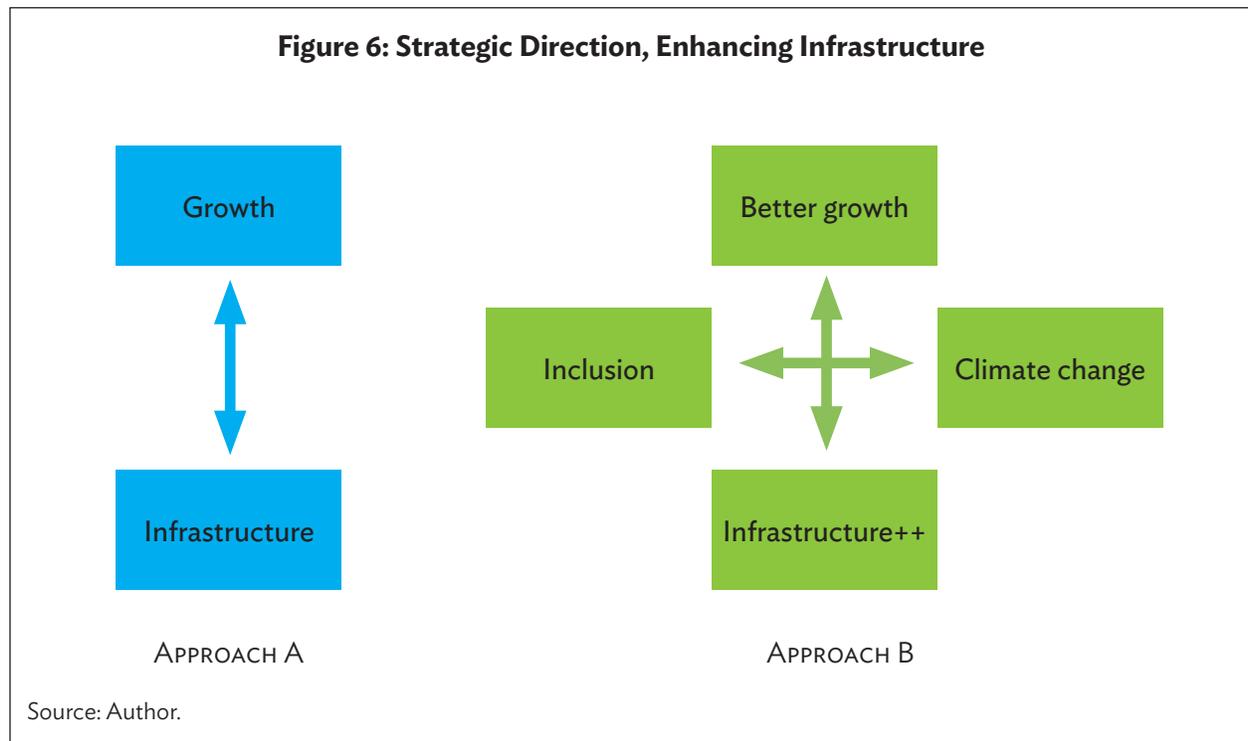
The last two sections considered intra-portfolio and interactive factors in doing things right. The discussion of content also introduced elements of doing the right thing, enhanced further by linkages within and across the portfolio. It is now important to take the discussion further in terms of doing the right things. While evaluations use the past as a guide to the future, there is a limit to extrapolating experiences in rapidly changing environments. Dynamic adjustments anticipating future changes must also be built in.

There is good experience with making such shifts. ADB has adapted and responded to the changing landscapes of the PRC. From 2006, ADB's energy portfolio in PRC moved into clean coal and solar technologies, in addition to energy efficiency. In transport, emphasis moved away from roads and

highways to the more sustainable rail and inland water transport systems. In addition to water supply access, urban demand for wastewater treatment and reuse were supported. The share of projects with environmental objectives increased from less than 50% (1998-2005) to more than 90% (2006-2013).

ADB, with its mandate to support development effectiveness, must respond to the changing times and confront new challenges. The organization has been known to focus on infrastructure projects, but this does not mean that it needs to be confined to the past way of doing things. ADB can be prepared and equipped to respond to the emerging challenges brought about by increasing inequality, climate change, environmental degradation, urbanization, and corruption. Without moving away from infrastructure, it can deepen and broaden its impact on inclusion, sustainability or governance, when projects show the potential or the need for these concerns.

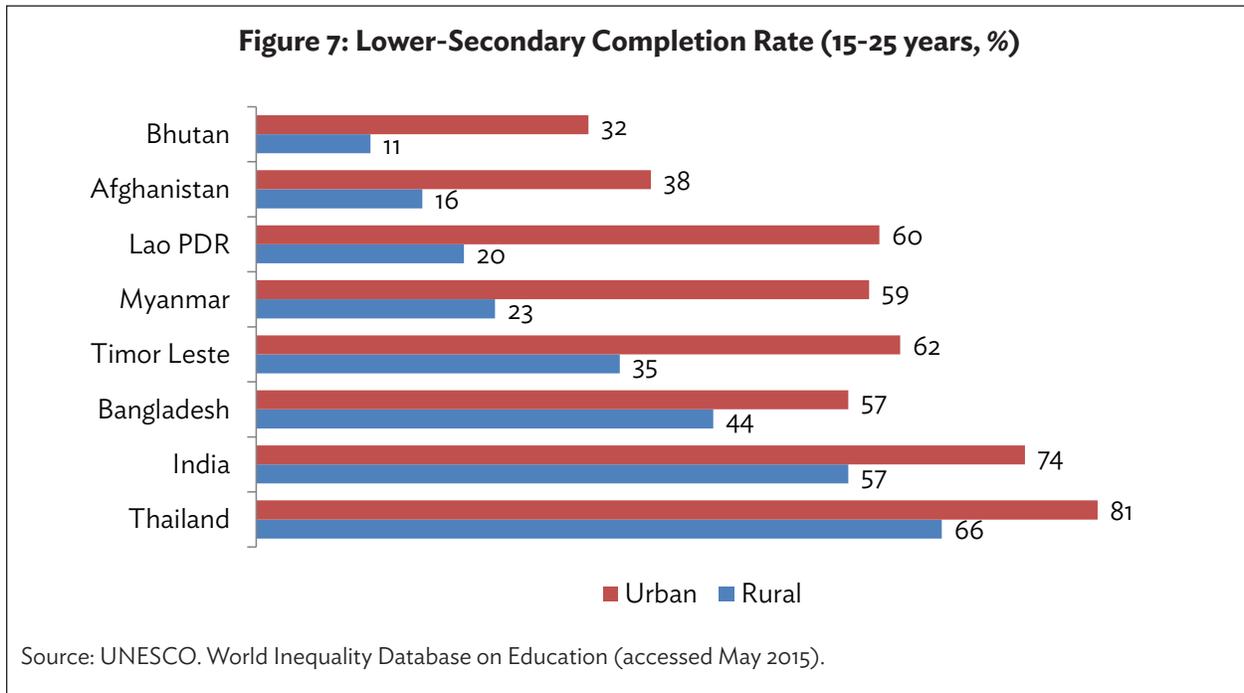
Figure 6 depicts two alternatives: one going directly from infrastructure to growth, and the other building in one or more of the three elements—inclusion, sustainability, and governance—in the path from infrastructure++ to better growth. With respect to inclusion, an IMF study shows that lower net inequality is associated with faster and more durable growth (Ostry, Berg and Tsangarides 2014).



In a crowded field with a great deal of provision for basic infrastructure, the need and demand would be great for a richer portfolio with a strategic thrust on inclusion, sustainability, and governance. With such value addition, the business case for an infrastructure++ approach would be strong in comparison to one of providing more of the same infrastructure.

A. Attending to Inclusion

The Asia and Pacific region faces growing income as well as non-income inequality. Access to basic education has improved markedly, but some countries in the region have out-of-school populations that remain among the highest in the world. Urban-rural gaps remain wide (Figure 7). Women face wide deficits in education and, especially, health. Insufficient antenatal care, and deliveries that are overseen by unqualified medical personnel contribute to high maternal mortality. This is the leading cause of death among adolescent girls across the region, and the major reason for low female life expectancy, particularly in South Asia.



Greater investments in education, health and social protection are needed for a stronger ADB portfolio and development effectiveness. The MTR has goals in this direction, but they need to be attended to with urgency and sufficient support.

A large number of country partners have asked for increased support in the noncore areas of health, agriculture, and integrated disaster risk management. ADB should move away from targets based on the core and noncore distinction.

In relation to ADB's primary emphasis on infrastructure projects, the institution can rebalance the thrust of its portfolio both by seeking greater economic and social inclusion in infrastructure operations, and by increasing support for projects that broaden access to opportunities and support social protection.

Gains from inclusion in infrastructure can be substantial, for example, bridges that connect rural communities to markets, roads that lay the foundation for economic activities and provide access to education and health services, and mass transportation that connects people to opportunities. Infrastructure projects must also improve job creation and access to social services. The projected

increase in the share of operations in improving access to economic opportunities from 43% in 2011-2013 to 54% in 2015-2017 must mean that more of the lower income groups are included (ADB 2014e).

Jamuna Bridge in Bangladesh is an example of an inclusive infrastructure project. Connecting the poorer western side of the country to the main transport and infrastructure network unlocked the potential of more than 30 million people. The poor benefitted from lower transport costs and faster travel times, gaining them access to economic opportunities. Household incomes grew and income inequality was reduced (IED 2014e).

B. Confronting Climate Change

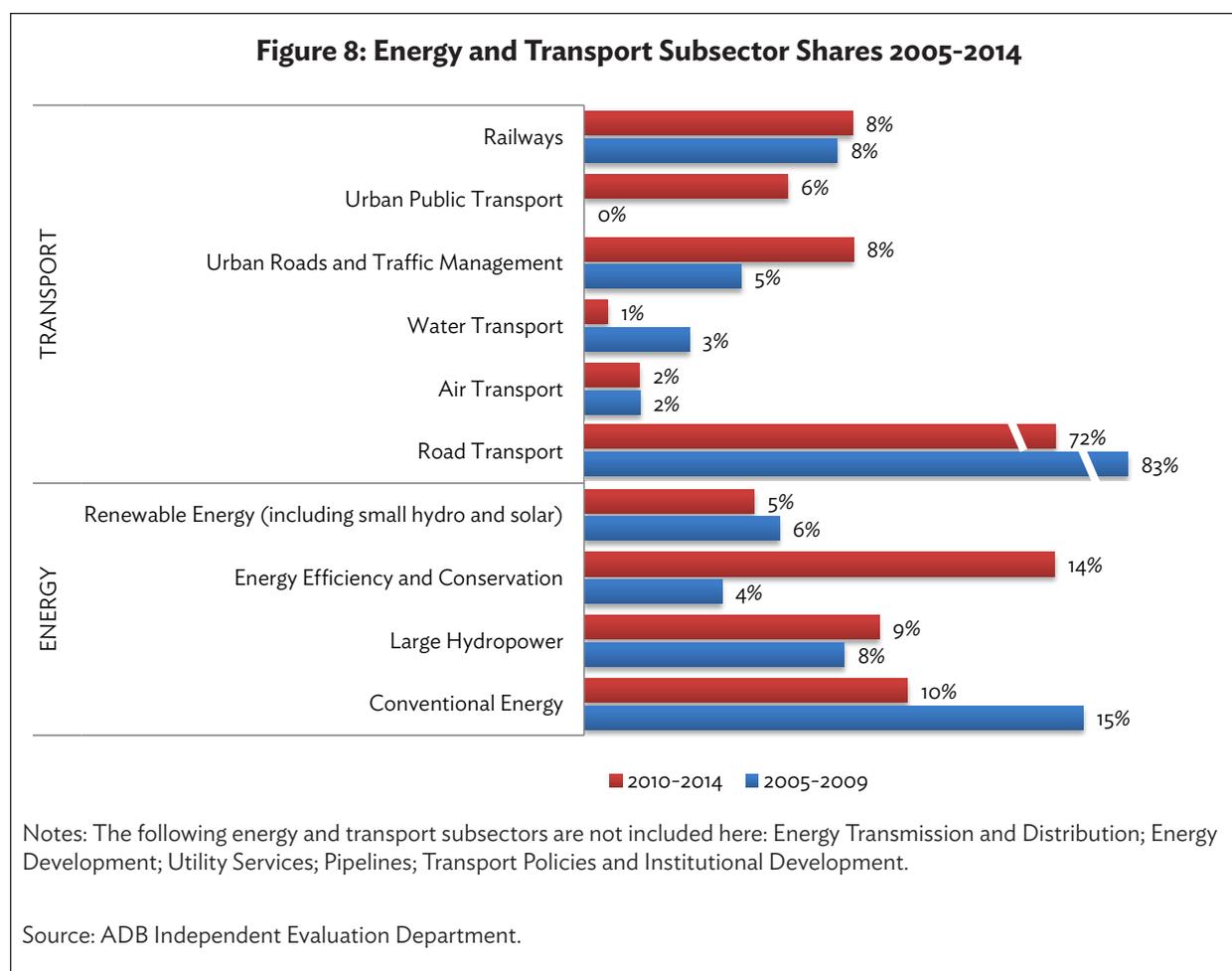
ADB must help Asia meet the crisis on climate change. Atmospheric CO₂ concentrations surpassed 400 ppm for three successive months in 2014 (Tans 2015, Keeling 2015), the hottest year on record since 1880 (NASA. Goddard Institute for Space Studies. 2015). Studies suggest a link between hydrometeorological disasters and climate change (Thomas, Albert and Hepburn 2014). IPCC 2014 reports that the window of opportunity to limit warming to 2°C is closing fast.

ADB has a clear role in climate change mitigation given that 45% of global emissions come from Asia and the Pacific, and with an increasing trend (US Energy Information Administration n.d.). The latest reckoning of the cost of energy subsidies in 2015 is over US\$5 trillion, or over 6 percent of global GDP, exceeding government health spending across the world (in 2013). Half of the global energy subsidies (post-tax) are credited to developing Asia, reflecting huge domestic environmental damages and global warming effect from coal use (Coady, et al. 2015).

With almost 50% of emissions coming from the energy and transport sectors—the two sectors ADB is most active in—ADB holds an advantage and an opportunity to make a difference. It is projected that climate change investments in 2015-2017 will form 13% of sovereign operations (ADB 2014e). ADB's regional and subregional programs give it a special edge in climate efforts where regional solutions work best.

From 2011 to 2013, ADB invested at least \$2 billion in clean energy a year—investments that reduce annual GHG emissions by 7 million tons of CO₂ equivalent (ADB 2014b). In 2014, 51% of projects approved integrated climate change mitigation or adaptation, equivalent to \$3.2 billion in climate financing (ADB 2015d).

The share (by volume) in conventional energy decreased from 15% to 10% between 2005-2009 and 2010-2014, but so did the share in renewables from 6% to 5%. The share of projects in energy efficiency increased from 4% to 14% (Figure 8). In transport, ADB must increase its focus on cleaner alternatives such as rails and waterways. While the share of urban public transport went from 0 to 6%, rural roads continued to dominate transport at 72%. The share of railways remained at 8%.



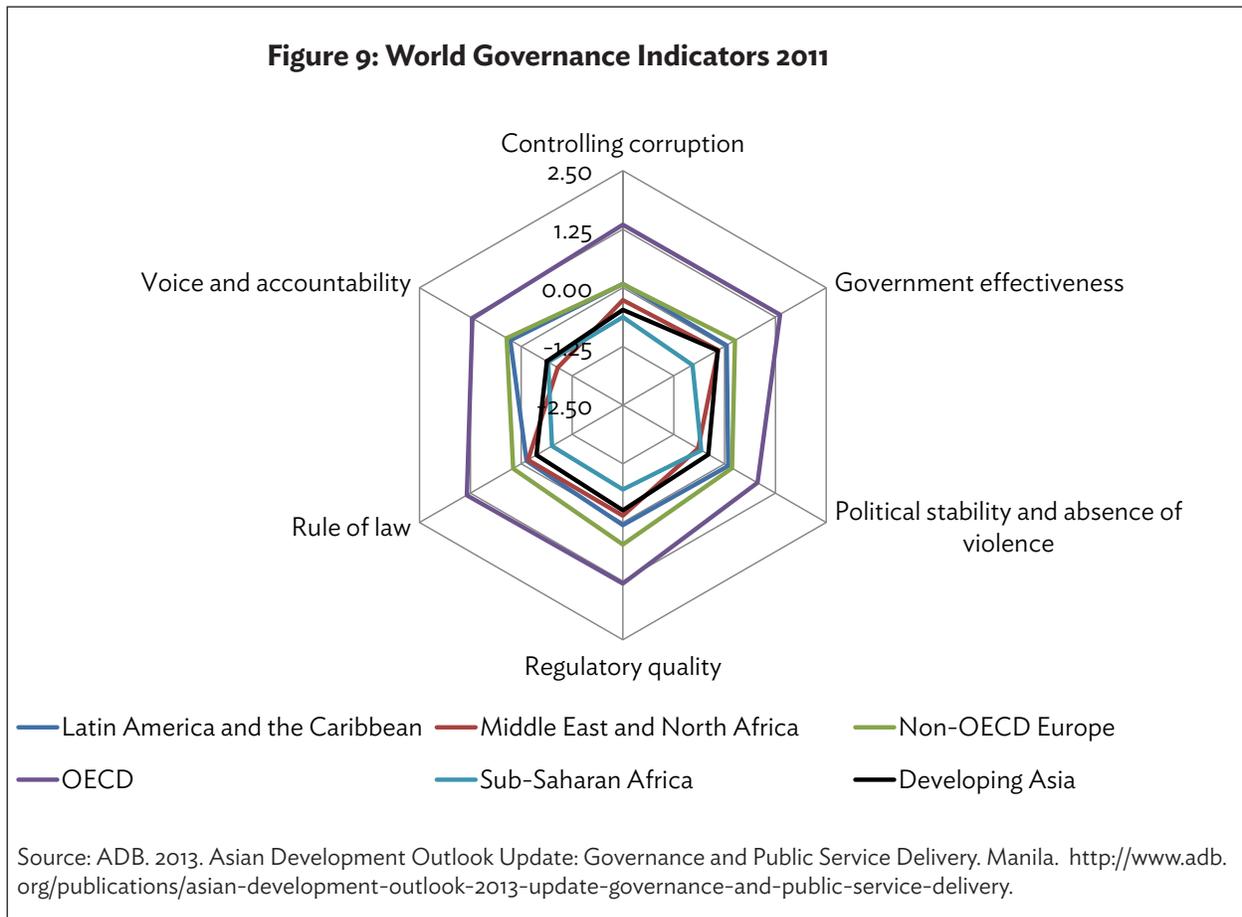
With Asia and the Pacific front and center of climate change and disaster concerns coupled with ADB's infrastructure role in the region, there is a great opportunity for ADB to do far more on the climate-infrastructure axis than currently envisaged in the work programs. All infrastructure projects, in their project justification, could be viewed through the climate lens. The shares in the allocation of resources for climate mitigation and adaptation need to be raised. Climate funds could be accessed more proactively to be mainstreamed in the core programs for countries.

The institution has made sizable disaster response investments in rehabilitation and reconstruction following disasters. It now needs to scale up its contribution to prevention by investing much more in climate change adaptation, climate change mitigation, and disaster risk management.

C. Strengthen Governance

There is general agreement that better governed countries likely make better development progress than poorly governed countries. Recent studies have shown positive correlations between governance on the one side and better service provision, less gender inequality, and better social outcomes on the other (IED 2014d). Stakeholder surveys at ADB consistently rank poor governance and corruption as top threats to the region's development, and ordinary citizens and civil society organizations are becoming increasingly vocal in demanding better governance from their decision makers and public institutions.

Asia and the Pacific region does not rank well in global measures of good governance (Figure 9). Across the region, subregions vary in performance. Southeast Asia fares poorly in its control of corruption, while in East Asia, the gaps are wide for voice and accountability—an indicator that captures perceptions of the extent to which citizens can participate in policy-making processes and the accountability of governments. South Asia, meanwhile, ranks low in political stability.



ADB has committed to helping countries strengthen governance to raise development effectiveness, backing this commitment with a steady program of public sector management (PSM) operations. While ADB's experience demonstrates the difficult and high-risk nature of these operations, the record shows slowly improving performance and many examples of high-impact interventions. In Assam, India, for example, reform efforts in fiscal and governance issues were seen as key to effective national-level fiscal management, helping to reduce the fiscal deficit (IED 2014g).

Achieving higher development dividends from growth will require a transformation in the quality of governance, which for most countries will be an arduous undertaking. Even so, evaluation encourages continued ADB support, with a focus on better results through improved country- and sector-level governance diagnostics, sharper corporate-level guidance for crosscutting PSM operations, and the design and delivery of interventions that carefully consider countries' governance contexts, institutional capacities, and political commitment.

V. CONCLUSION

The Asia and Pacific region continues to grow economically, but also faces daunting challenges. Economic growth remains essential for poverty reduction in a region that is home to more than half of the world's poor. Furthermore, there needs to be attention to growing inequalities, the reality of runaway climate change, and weaknesses in governance—all three in turn threaten to block growth itself.

Taken together, there needs to be greater emphasis on generating more productivity and impact, not just more investment and outputs. Rather than merely using this increased capital base to scale up existing operations, i.e., by doing more of the same, ADB can shift its resources to be responsive to the region's most pertinent needs. Adapting to the changing needs and capacities, ADB could engage with all countries in the region regardless of income levels, even as at higher income levels the relation would be in knowledge and not financing.

This calls for a two-pronged approach as a business proposition. First, continued actions are warranted to improve the efficiency and sustainability of investments. Synergies across sectors and partnerships will help improve impact further. Second, the institution can shift its infrastructure focus from output deliveries to higher outcomes—calling for a move in the way the infrastructure-growth axis is viewed.

One avenue is to capitalize on the infrastructure-climate axis given ADB's role in infrastructure as well as in climate change adaptation and mitigation. The institution can build on its expertise and experience in these areas to sharply shift the portfolio towards climate resilience (for example, transport), prevention (for example, low carbon energy), and response (for example, disaster management).

Another avenue that fits ADB's agenda directly is inclusion, through higher investments in education, health, and social protection. In infrastructure, including the lower income strata in the growth process means generating connections (for example, roads linked to market development) and improving access to services (such as affordable electricity).

Even if there is agreement on these, what might be done differently, by when and by whom?

- Implement the MTR: The MTR actions for greater efficiency of the ADB portfolio are necessary for greater impact, and they need to be implemented well. But the eye needs to be on measures for development effectiveness beyond efficiency measures. Frontline and backline units are equally responsible for implementing the MTR.
- Change motivation for teamwork: Getting the most mileage from the portfolio requires going beyond individual projects and programs to connect the dots across the organization, between lending and knowledge, between public and private sectors, and with development partners. BPMSD can help shape staff assessments to encourage work across boundaries.
- Shift strategy to infrastructure++: The new Work Program and Budget Framework ought to present a more balanced portfolio, with social sectors complementing infrastructure. Budget allocations would show a dynamic shift to inclusive and climate friendly infrastructure (with support from governance), signaling a clear niche for ADB interventions.

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Inspiring ADB's Future: Better Results in a Dynamic Region

The ADB's Strategy 2020 of inclusion, environmental sustainability, and regional integration matches Asia and the Pacific's growing socio-economic challenges. This paper threshes out ways to improve outputs and outcomes and to sustain results over time. Evaluation sees the value of a two-pronged approach going forward. One is by exploiting synergies and partnerships, across sectors and themes, and across lending and knowledge. Another is to shift ADB's focus from physical output deliveries to higher outcomes through climate-resilient and inclusive infrastructure.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to the majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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