



Policy Paper

March 2018

Piloting Results-Based Lending for Programs: Proposed Increase in Resource Allocation Ceiling

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Asian Development Bank

ABBREVIATIONS

| | | |
|-------|---|--------------------------------------------|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| DLI | – | disbursement-linked indicator |
| DMC | – | developing member country |
| DMF | – | design and monitoring framework |
| IED | – | Independent Evaluation Department |
| M&E | – | monitoring and evaluation |
| MDB | – | multilateral development bank |
| OCR | – | ordinary capital resources |
| PAP | – | program action plan |
| PforR | – | program for results |
| RBL | – | results-based lending |
| RRP | – | report and recommendation of the President |
| SPD | – | Strategy, Policy and Review Department |

NOTE

In this report, “\$” refers to United States dollars.

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EXECUTIVE SUMMARY

ADB introduced results-based lending (RBL) for programs as a 6-year pilot from 6 June 2013 to 5 June 2019. RBL aims to strengthen incentive and accountability for results by linking disbursements of financing with achievement of results. Supported by strong demand, ADB has approved 16 RBL programs in 10 countries since June 2013 with a total commitment amount of \$4.2 billion as of 19 March 2018.

ADB has followed a cautious approach to mitigate risks during the pilot phase. In addition to excluding activities that are classified *category A* under ADB's Safeguard Policy Statement (2009) and those with procurement of high-value contracts, ADB limited the resource allocation for RBL programs to 5% of the total ordinary capital resources (OCR) and Asian Development Fund (ADF) resource allocation for the first 3 years of policy effectiveness (from 6 June 2013 to 5 June 2016). The total RBL commitment during the first 3 years of the pilot phase was below the 5% ceiling.

The policy paper entitled *Piloting Results-Based Lending for Programs* (RBL policy) does not stipulate a ceiling for the last 3 years of the pilot phase (between 6 June 2016 and 5 June 2019). It states that Management may propose to the Board to lift the 5% cap if justified by a review of RBL implementation. Two reviews have been completed: (i) the *Midterm Review of Results-Based Lending for Programs* (midterm review) conducted by Management in 2016, and (ii) the *Results-Based Lending at the Asian Development Bank: An Early Assessment* undertaken by the Independent Evaluation Department (IED) in November 2017 (IED assessment).

Midterm review. The review concluded that the RBL policy requirements were followed and implementation was on track. Accountability for development results was enhanced through RBL. The review recommended that ADB undertake additional information sharing and training for ADB staff, Board members, and government officials along with greater use of institutional strengthening disbursement-linked indicators (DLIs) to capitalize on RBL's potential to strengthen systems and institutions. In view of positive early findings, the review suggested raising the RBL ceiling to 15% of total OCR and ADF resource allocation for the last 3 years of the pilot phase.

Independent Evaluation Department assessment. RBL programs were successfully rolled out and have been identified, designed, and managed appropriately to add value. They achieved their intended results and stated program objectives. The design of the RBL modality was assessed to be sound and to have displayed good potential for value addition and effective development partnerships. Learning within ADB has been apparent in such areas as justification for using the RBL modality, program action plan (PAP) monitoring, quality of due diligence, selection and definition of DLIs, and clarity of verification protocols. IED recommended strengthening the quality of ADB due diligence on fraud and corruption-related issues, risk assessments, and design and monitoring of the PAPs. It also recommended excluding activities classified involuntary resettlement *category A* and documenting in the report and recommendation of the President (RRP) the scale of the safeguard-related impacts of RBL programs with legacy, ongoing, or current safeguard issues. IED stressed the need to invest in client M&E capacity, deepen M&E assessment, and increase the use of independent agents to verify the achievement of DLIs.

Building on the findings of the midterm review and the IED assessment, ADB is updating the staff guidance for piloting results-based lending for programs dated November 2013 (RBL staff guidance) to (i) clarify the process for due diligence assessment, (ii) help make risk assessment more realistic, (iii) enhance design and selectivity of PAP actions as well as

monitoring of PAPs, and (iv) deepen M&E assessment. This work is expected to be completed in the third quarter of 2018.

Management plans to expand its training programs to cover such topics as how to (i) select the right modality to achieve development objectives; (ii) define RBL program boundaries; (iii) undertake technical and system assessments; and (iv) set, verify, and modify DLIs. In parallel, the quality assurance process will continue to be strengthened, building on early experience. ADB will further strengthen capacity development activities in DMCs.

On safeguard issues, as recommended by IED, ADB will include information on legacy, ongoing, or current safeguard issues in the RRP. It will also refrain from including activities classified involuntary resettlement *category A* during the remaining years of the RBL pilot phase.

Setting the ceiling at 5% allowed ADB to test the RBL modality while limiting the exposure to risks from introducing a new financing modality. After 4.5 years, because of strong DMC demand, the current headroom for new RBL commitments is limited and the possibility for a higher ceiling needs to be reexamined. A higher ceiling would allow ADB to leverage RBL's high potential for enhancing the development results of ADB operations. Benchmarking shows that similar instruments in other multilateral development banks set the ceiling at a level higher than 5% of total operations.

Based on these considerations, this policy paper recommends setting the ceiling at 10% of the total OCR and ADF resource allocation for the last 3 years (6 June 2016–5 June 2019) of the RBL pilot phase.

I. INTRODUCTION

1. ADB introduced results-based lending (RBL) for programs in June 2013. RBL was conceived and developed in the context of broader efforts by the international development community to expand the use of results-based financing modalities. It aims to strengthen incentive and accountability for results in development assistance operations by linking loan disbursements with results. Multilateral development banks (MDBs) and other agencies have been utilizing elements of results-based financing since the late 1990s through such mechanisms as cash on delivery aid, conditional cash transfers, output-based aid, and performance-based contracts. ADB's Third Primary Education Development Project in Bangladesh approved in July 2011 used a sector-wide approach with ADB financing linked to clearly defined indicators and relying on the government's treasury system for financial management.¹ The World Bank introduced the program-for-results (PforR) financing instrument in January 2012. ADB built on these discussions in developing its version of results-based financing, RBL. Based on the policy paper entitled *Piloting Results-Based Lending for Programs* (RBL policy), ADB introduced this new modality on a pilot basis, from 6 June 2013 to 5 June 2019.²

2. ADB has followed a cautious approach. To mitigate risks during the pilot phase, the RBL policy excludes activities that would (i) be classified *category A* under ADB's Safeguard Policy Statement (2009) and (ii) involve procurement of high-value contracts. ADB has also limited the resource allocation for RBL programs to 5% of the total ordinary capital resources (OCR) and Asian Development Fund (ADF) resource allocation for the first 3 years of policy effectiveness (from 6 June 2013 to 5 June 2016).³ Setting the ceiling at 5% without specifying an annual limit was considered appropriate to provide flexibility for ADB to build the RBL pipeline gradually without rushing to meet annual limits. ADB has carefully managed the growing demand for RBL within the policy ceiling. The RBL policy does not stipulate a specific ceiling for the remaining 3 years of the pilot (from 6 June 2016 to 5 June 2019), but states that Management may propose to the Board to lift the 5% cap if justified by a review of RBL implementation.

3. The policy requires Management to carry out a review of RBL about 3 years after the modality has become effective to take stock of the experience and distill initial lessons. The *Midterm Review of Results-Based Lending for Programs* (midterm review) was completed in 2016.⁴ It assessed (i) demand for the RBL modality, (ii) challenges faced by ADB and developing member countries (DMCs), and (iii) emerging lessons and best practices. Considering growing demand and the positive implementation experience to date, the midterm review recommended that ADB increase the RBL ceiling to 15% of the total OCR and ADF resource allocations for the second half of the pilot period. An assessment by the Independent Evaluation Department (IED), *Corporate Evaluation: Results-Based Lending at the Asian Development Bank: An Early Assessment* (IED assessment), was completed in 2017.⁵ IED found that RBL was successfully rolled out. It noted that if lessons are taken into account and issues identified are addressed, ADB is on solid ground to mainstream RBL at the end of the pilot phase.

4. Now that required assessments have been completed, this policy paper seeks Board consideration to modify the resource allocation ceiling for RBL pilot implementation. The following

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Third Primary Education Development Project*. Manila. (Loan 2761-BAN, \$320 million, Asian Development Fund, approved on 5 July 2011).

² ADB. 2013. *Piloting Results-Based Lending for Programs*. Manila.

³ The compliance with this cap is measured based on the commitment amount.

⁴ ADB. 2016. *Midterm Review of Results-Based Lending for Programs*. Manila.

⁵ Independent Evaluation Department. 2017. *Corporate Evaluation: Results-Based Lending at the Asian Development Bank: An Early Assessment*. Manila: ADB.

sections discuss the experience of the RBL pilot implementation and issues to consider in determining the appropriate resource allocation ceiling for RBL.

II. EXPERIENCE DURING RESULTS-BASED LENDING PILOT PHASE

A. Results-Based Lending Portfolio

5. The RBL portfolio has been growing and diversifying. Supported by strong demand from DMCs, ADB has approved 16 RBL programs for 10 countries since June 2013. The total commitment amount for RBL programs is \$4.2 billion as of 19 March 2018.⁶ The approved RBL programs are listed in Appendix 1.

6. RBL was used mostly for operations in the social sectors, with half of the RBL programs approved to date in the education sector. Most programs aim to enhance youth employability by improving the quality of secondary education or by enhancing skills through technical and vocational education and training. The two health RBL programs aim to fill gaps in health services provided to the urban poor in India and for elderly care in the People's Republic of China. Three energy RBL programs were approved to support improved access to electricity in underserved areas.

7. Total RBL commitment during the first 3 years of the pilot phase (6 June 2013–5 June 2016) reached \$1.8 billion, equivalent to 4% of the total ADF–OCR commitment and below the 5% ceiling set by the policy. The RBL policy does not stipulate a specific ceiling for the remaining 3 years of the pilot. Given the absence of specific Board approval to lift the ceiling, the ceiling was maintained at 5% as an interim measure. The pace of RBL approvals accelerated in the second 3-year period. Total commitment reached \$2.4 billion as of 19 March 2018, already surpassing the total commitment for the first 3-year period in about 21 months. Accordingly, the estimated headroom available for new RBL commitments is about \$400 million.

B. Key Findings of the Midterm Review

8. The midterm review of RBL programs found that early experience was positive. It took stock of the RBL experience, distilled initial lessons, and assessed the future demand for RBL. It concluded that the RBL policy requirements were followed and implementation was on track. Although RBL program processing and disbursements were faster than those of other financing modalities, ADB and DMC clients need to work closely together to achieve the results targets set for disbursement. The midterm review indicated that the nature of engagement under RBL changed from a focus on day-to-day transactional issues to broader support to achieve program results. This required allocation of more staff resources for supervision and interactions during implementation of the RBL programs. Feedback from those who had direct experience with RBL (both DMC officials and ADB staff) was generally positive, with the majority indicating that they would use the modality again soon.

9. The midterm review found that accountability for development results was enhanced through RBL. Most DMC officials and ADB staff using RBL indicated that the RBL instrument helped build up accountability and DMC ownership by placing the responsibility for achieving results on government structures and not on ADB-financed project management units.

⁶ The commitment amount is the financing approved by ADB's Board of Directors or Management for which the legal agreement has been signed by the borrower, recipient, or investee company and ADB. The difference between the approval and commitment amounts represents the lag between the approval and commitment dates.

10. The midterm review stressed the need for additional information sharing and exchange of good practices as well as further guidance and training for ADB staff, members of the Board, and government officials. By the time of the midterm review, ADB had undertaken 14 briefing sessions and RBL training for ADB staff and DMC officials. Effective communication and information sharing with the Board was assessed as critical to promote further learning. The midterm review also recommended greater use of institutional strengthening disbursement-linked indicators (DLIs) to capitalize on RBL's potential to strengthen systems and institutions.

C. Key Findings of the Independent Evaluation

11. The IED assessment found that RBL programs have been successfully rolled out. During the pilot phase, key DMC stakeholders and ADB's development partners considered RBL as an appropriate vehicle to support various sector programs. Feedback from DMC governments indicates that demand for RBL is robust. Overall the IED assessment (i) found that RBL programs have been identified, designed, and managed appropriately, and (ii) noted that RBL programs achieved their intended results and stated program objectives. The design of the RBL modality was assessed to be sound and to have displayed good potential for value addition and effective development partnerships. RBL programs were found likely to work best when (i) ADB is already deeply involved in the sector and agency, and (ii) strong systems for monitoring and evaluation (M&E), safeguards, and fiduciary control are in place.

12. Technical and system assessments in RBL programs were found to be sound. IED reported favorably on the assessment of program soundness as well as the analysis of the expenditure framework and financing. Assessments of fiduciary and safeguard systems were found to be the most thorough, and risks were usually addressed by embedding risk management measures either as DLIs or as actions in the program action plan (PAP). The quality of fiduciary assessments and implementation of mitigating measures give a reasonable assurance of program systems that are functioning well. RBL programs' integrated risk assessments were considered mostly appropriate.

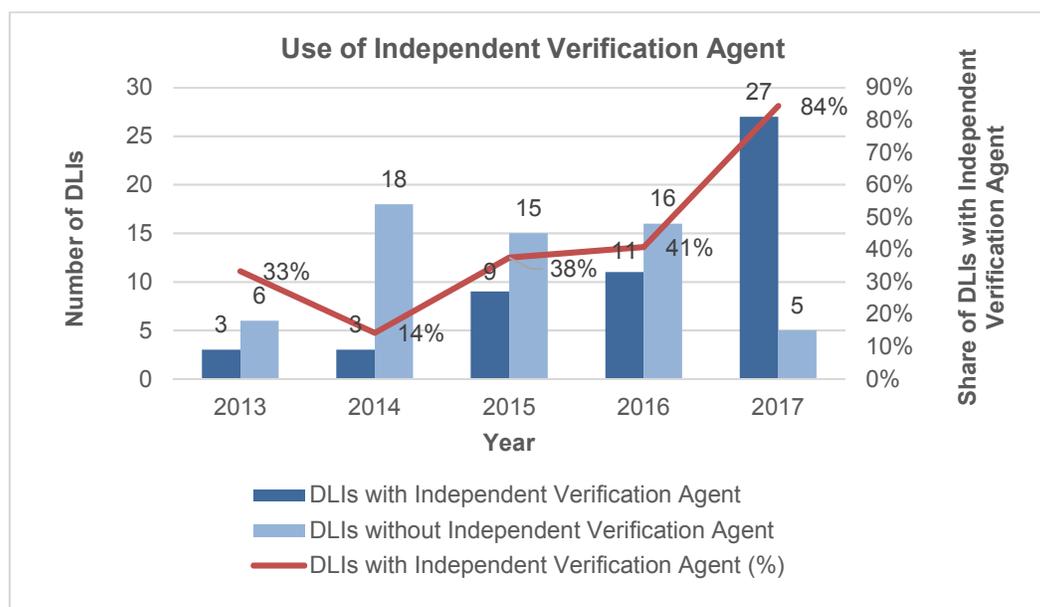
13. The IED assessment highlighted that learning was apparent in areas such as (i) justification for using the RBL modality, (ii) PAP monitoring, (iii) quality of due diligence, (iv) selection and definition of DLIs, and (v) clarity of verification protocols. Management also observes that the use of independent verification agents has increased based on learning during the pilot phase (see box).

14. The IED assessment also identified issues to be addressed in the remaining period of the pilot phase and recommended that ADB strengthen (i) the quality of its due diligence on fraud and corruption-related issues, (ii) risk assessments, and (iii) the design and monitoring of PAPs through updating the *Staff Guidance for Piloting Results-Based Lending for Programs* (RBL staff guidance).⁷ With respect to safeguards, IED recommended the exclusion of involuntary resettlement *category A* activities as is the case for environment *category A* activities. The scale of impacts of legacy, ongoing, or current safeguard issues should also be documented in the report and recommendation of the President (RRP), if applicable.

⁷ ADB. 2013. Staff Guidance for Piloting Results-Based Lending for Programs. Manila (internal).

Use of Independent Verification Agents

The IED assessment notes that one-third of DLIs for RBL programs approved before the end of 2016 included independent third-party verification of DLI achievement and recommends that ADB increase this share. Partly because of ADB-wide efforts, the use of third-party verification agent has been increasing over the years both in terms of the number and share of DLIs. For RBL programs approved in 2016, 41% of DLIs used such a verification mechanism; and for those approved in 2017, the share is 84% (see figure).



ADB = Asian Development Bank, DLI = disbursement-linked indicator, IED = Independent Evaluation Department, RBL = results-based lending.

Source: Asian Development Bank (including Independent Evaluation Department).

15. The IED assessment highlighted the need to invest in client M&E capacity, deepen M&E assessment, and increase the use of independent agents to verify the achievement of DLIs. Verification by the same consultants recruited to build client capacity should also be avoided in light of potential conflict of interests. Further investment in staff and client capacity development was also recommended, particularly in the following areas: (i) determination of appropriate context for deploying the instrument, (ii) program soundness assessment, (iii) DLI selection, (iv) design and monitoring frameworks, (v) results frameworks, (vi) M&E assessment, (vii) DLI verification, (viii) design and monitoring of PAPs, and (ix) program fiduciary assessments.

D. Actions to Address Key Findings

16. ADB will incorporate the midterm review recommendations and the findings of the IED assessment into the updated RBL staff guidance. This update will seek to (i) reflect the staff instructions on integrity due diligence assessment when the executing or implementing agency is not a government ministry or agency;⁸ (ii) give greater emphasis to analyzing not just rules but also actual practice in controlling fraud and corruption and related mitigating measures; (iii) promote greater realism in risk assessment; (iv) enhance design and selectivity of priority actions

⁸ ADB. 2015. *Staff Instruction on Integrity Due Diligence for Sovereign Operations and Cofinancing*. ADB.

for inclusion in the PAP as well as monitoring of PAPs during program implementation; and (v) deepen M&E assessment. It will also provide additional guidance in such areas as RBL program boundary definition, DLI setting, and independent verification system. ADB plans to complete this exercise in the third quarter of 2018.

17. The RBL staff guidance alone will not be sufficient to respond to the broader need for deepening staff knowledge on RBL and will be complemented by targeted training programs. ADB will expand the training programs and knowledge sharing opportunities, targeting regional department staff who are currently involved or expected to be involved in RBL programs. They will cover topics such as how to (i) select the right modality to achieve program objectives; (ii) define RBL program boundaries; (iii) undertake technical and system assessments; and (iv) set, verify, and modify DLIs.

18. Collaboration across departments is needed to ensure the relevance of the training program and to deepen its content on such areas as program boundary definition, DLI setting, fiduciary assessments, and safeguard measures. As a first step, ADB introduced new training programs focusing on the choice of modalities in 2017. ADB plans to conduct more advanced training and knowledge-sharing programs specific to RBL in the second half of 2018. ADB will make further efforts to strengthen capacity development activities in DMCs. Peer-to-peer knowledge-sharing events among representatives from implementing agencies across countries will also be explored.

19. Staff knowledgeable about RBL processing and supervision, particularly staff in the regional departments, the Office of the General Counsel; Procurement, Portfolio, and Financial Management Department; Strategy, Policy and Review Department (SPD); and Sustainable Development and Climate Change Department, will support these efforts and provide inputs. RBL program teams will also be encouraged to consult these staff members on specific challenges they are facing during RBL processing and supervision. SPD will be the focal department to link program teams with the appropriate expertise. Efforts to strengthen the quality assurance mechanism for various modalities (including RBL) will continue (Appendix 2).

20. On activities that involve involuntary resettlement, ADB shares IED's view that such activities warrant careful management of risks. ADB will include information on legacy, ongoing, or current safeguard issues in RRP. On the exclusion of the involuntary resettlement *category A* activities from RBL programs, ADB management will refrain from including such activities in RBL programs during the remaining years of the pilot. This exclusion will be specified in the RBL staff guidance.⁹ The issues of (i) how best to classify risks associated with involuntary resettlement in RBL programs and (ii) how to achieve consistency with the approaches of other MDBs will be revisited following the upcoming IED evaluation on ADB's Safeguard Policy Statement expected to be completed in 2019.¹⁰

⁹ An RBL program is classified *category A* if the most sensitive activity in the program is likely to have significant involuntary resettlement impacts. The involuntary resettlement impacts of an activity are considered significant if 200 or more persons experience major impacts involving (i) physical displacement from housing, or (ii) losing 10% or more of their productive assets (income generating) (para. 238 of the RBL staff guidance).

¹⁰ The World Bank, for example, uses a risk-based approach where it excludes activities from its PforR Program that are likely to have significant adverse impacts on affected people that are sensitive, diverse, or unprecedented. It does not use a specific numeric threshold to exclude involuntary resettlement impacts, nor does it have a separate classification system for involuntary resettlement.

III. CONSIDERATIONS FOR NEW CEILING

21. Setting the ceiling at 5% during the early phase of the pilot allowed ADB to test the RBL modality while limiting the exposure to risks from introducing a new instrument. Since the inception of the pilot, ADB has piloted RBL in 10 countries and seven sectors to accumulate experiences in a wide range of contexts.

22. After 4.5 years, there is limited headroom left for additional RBL commitment and the possibility for a higher ceiling needs to be examined. The new ceiling should be set at a level that (i) continues to limit the risks from introducing a pilot instrument; and (ii) provides sufficient room for ADB and DMCs to continue learning from the RBL experience. There are four aspects to consider when setting the new ceiling.

23. First, a higher ceiling would allow ADB to expand the use of RBL and maintain a strong potential for enhancing the development results of ADB operations. The IED Assessment pointed out that RBL helps strengthen DMC systems and can have positive effects beyond the boundaries of the ADB program. The effects of systemic reforms and institutional strengthening measures adopted through RBL programs in Indonesia, Nepal, Pakistan, and the Philippines went beyond program boundaries. Likewise, RBL programs with geographical boundaries (such as the Electricity Grid Strengthening Program in Sumatra, Indonesia¹¹) generated positive impacts at the national level through the implementation of PAPs. These types of spillover effects are particularly meaningful when engaging with upper middle-income countries where ADB's direct financial contribution is an increasingly small part of the government program.

24. IED assessment also noted that two RBL programs in Sri Lanka (i) sharpened the focus of policy makers and practitioners on the need to achieve results and (ii) encouraged a spirit of inquiry, a willingness to learn and try new approaches, and a greater sense of ownership of the progress achieved. RBL has also proven to be an effective instrument for central coordinating agencies such as ministries of finance. In Nepal and the Philippines, results monitoring covering the entire RBL program provided much greater oversight than in traditional investment projects. RBL's focus on results rather than transactions also makes it easier for development partners to align themselves around a shared results framework, as in the case of the Supporting School Sector Development Plan in Nepal.¹²

25. Second, maintaining the current ceiling would limit ADB's ability to respond to DMCs' needs. The RBL approach gives direct incentives for DMC stakeholders and development partners to work together towards achieving clear targets for results, making it an effective tool to address cross-sectoral and thematic challenges. RBL also offers an effective means to support programs with a large number of small-scale investments, such as demand-side energy interventions and access to infrastructure services for communities spread across broad geographical areas. As noted in the midterm review and the IED assessment, countries generally have favorable views about RBL and their willingness to use it is high; however, regional departments are refraining from developing new RBL programs to comply with the ceiling, even when there are suitable candidates for RBL support. This is a missed opportunity for DMCs and ADB. A gradual increase of the ceiling will provide the necessary headroom to continue with pilot implementation and develop a new pipeline of RBL programs during the remaining period of the pilot phase.

¹¹ ADB. Indonesia: Electricity Grid Strengthening—Sumatra Program. <https://www.adb.org/projects/49080-001/main>.

¹² ADB. Nepal: Supporting School Sector Development Plan. <https://www.adb.org/projects/49424-001/main>.

26. Third, ADB will continue its cautious approach and address the challenges identified in the midterm review and the IED assessment. ADB will maintain the precautionary measures to minimize risks in safeguard- and procurement-related issues by excluding environment *category A* activities and high-value contracts. ADB management will also refrain from including involuntary resettlement *category A* activities in RBL programs for the remainder of the pilot phase. As for high-value contracts, the RBL policy excludes activities that would involve procurement of works, goods, and services under contracts whose estimated value exceeds specified monetary amounts. These threshold amounts were set to harmonize with the amounts applied to the World Bank's program-for-results (PforR) financing instrument.¹³ The World Bank has since changed its policy to allow contracts to be included if (i) they are deemed important to the integrity of the PforR program and (ii) their monetary value in relation to the overall PforR program is modest.¹⁴ ADB plans to keep the original threshold amounts during the remaining years of the pilot phase.

27. Fourth, benchmarking with practices of other MDBs shows that ADB's current ceiling is relatively restrictive. Similar instruments in other institutions with comparative mandates, operations, business processes, and institutional settings are subject to varying limitations. Overall, MDBs appear to set their commitment ceiling at a higher level than 5% of total operations.

- (i) The Inter-American Development Bank (IDB) created the loan based on results—a lending instrument that links disbursements to the attainment of a specific set of development results, and started piloting it in the first half of 2017.¹⁵ No more than 10% of IDB resources allocated for investment lending operations in a given programming year is to be used for the loan based on results.
- (ii) The African Development Bank (AfDB) approved results-based financing on 28 November 2017. The ceiling for AfDB stand-alone operations is set at 5% of the combined African Development Fund and AfDB resources in a given year; an additional 5% headroom is allowed if cofinanced with partners.
- (iii) The World Bank started the PforR financing instrument in January 2012. The initial ceiling was set at 5% of total commitments of the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA) for the first 2 years after board approval. The World Bank management proposed to the board to lift the cap to 15% following a review of implementation experience. The board endorsed the proposal, which remains in effect as of December 2017.

28. The midterm review suggested to set the RBL ceiling at 15% of total OCR and ADF resource allocation based partly on an analysis of demand for the last 3 years of the pilot phase. As the effort to develop now RBL programs has since been restrained to comply with the 5% ceiling, the existing RBL pipeline is smaller. Management considers that an increase of the ceiling to 10% of the total OCR and ADF resource allocation for the last 3 years of the pilot phase (from 6 June 2016 to 5 June 2019) will provide sufficient headroom to accommodate the demand for

¹³ The amounts are \$50 million for works, turnkey and supply, and installation contracts; \$30 million for goods; \$20 million for information technology systems and non-consulting services; and \$15 million for consulting services. The amounts may be changed from time to time, and the thresholds for high-value contracts for RBL for programs will also be changed accordingly.

¹⁴ According to the World Bank directive on PforR financing, unless determined otherwise by the World Bank management, an individual contract is deemed to be modest in relation to the overall PforR program if its estimated monetary value is equal to or less than 25% of the estimated total PforR program expenditures (Section III, para. 6).

¹⁵ In 2003 the IDB created the performance-driven loan—another instrument linked to results, and piloted it for 6 years. The last loan was approved in 2009. The pilot implementation informed the design of the loan based on results.

new RBL programs, opportunity to gain further knowledge about RBL implementation, and predictability to resume the development of the new pipeline. This is also broadly in line with the ceilings adopted by other MDBs.

IV. RECOMMENDATION

29. The President recommends that the Board approve the lifting of the RBL ceiling from 5% of total ADF and OCR resource allocation for the first 3 years of the pilot implementation to 10% during the last 3 years (6 June 2016–5 June 2019).

RESULTS-BASED LENDING PROGRAMS APPROVED AND COMMITTED
(as of 19 March 2018)

| Results-Based Lending Program | Country | Sector | Approval Amount (\$ million) | Commitment Amount (\$ million) |
|------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------|----------------------------------------|------------------------------------------|
| A. First 3-Year Period (6 June 2013–5 June 2016) | | | | |
| 1. Education Sector Development Program | Sri Lanka | Education | 200 | 201 |
| 2. Skills Sector Enhancement Program | Sri Lanka | Education | 100 | 100 |
| 3. Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education | India | Education | 100 | 100 |
| 4. Senior High School Support Program | Philippines | Education | 300 | 300 |
| 5. National Urban Health Mission | India | Health | 300 | 300 |
| 6. Seismic Safety Improvement Program | Armenia | Education | 89 | 89 |
| 7. PLN Electricity Grid Strengthening Program—Sumatra Program | Indonesia | Energy | 575 | 575 |
| 8. Guizhou Vocational Educational Development Program | People's Republic of China | Education | 150 | 150 |
| 9. Sustainable Transport Infrastructure Improvement Program | Solomon Islands | Transport | 21 | 21 ^a |
| Subtotal | | | 1,835 | 1,816^a |
| B. Second 3-Year Period (6 June 2016–5 June 2019) | | | | |
| 10. Supporting School Sector Development Program | Nepal | Education | 120 | 116 |
| 11. Access to Clean Energy Investment Program | Pakistan | Energy | 325 | 325 |
| 12. Public–Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei | People's Republic of China | Health | 50 | 50 |
| 13. Integrated Participatory Development and Management of Irrigation Program | Indonesia | Agriculture | 500 | 500 |
| 14. Affordable Rural Housing Program | Uzbekistan | Finance | 500 | 500 |
| 15. PLN Sustainable Energy Access in Eastern Indonesia—Electricity Grid Development Program | Indonesia | Energy | 600 | 600 |
| 16. Guangxi Modern Technical and Vocational Education and Training Development Program | People's Republic of China | Education | 250 | 250 |
| Subtotal | | | 2,345 | 2,362^a |
| Total | | | 4,180 | 4,177 |

Note: Numbers may not sum precisely because of rounding.

^a The Transport Infrastructure Improvement Program was approved on 27 May 2016 (within the first 3-year period) and committed on 1 July 2016 (within the second 3-year period). The subtotals for commitments reflect this.

Source: Asian Development Bank.

IMPROVING THE QUALITY OF REPORTS AND RECOMMENDATIONS OF THE PRESIDENT

1. Since March 2016, ADB has taken measures to strengthen the quality of reports and recommendations of the President (RRPs) for sovereign operations. These measures were developed and implemented through collaboration across departments, including the Strategy, Policy and Review Department (SPD); the regional departments; the Sustainable Development and Climate Change Department; and the Office of the General Counsel. The measures under this initiative covered a broad range of RRP, focusing on the multitranche financing facility (MFF), policy-based lending (PBL), and results-based lending (RBL). The key measures implemented under this initiative are summarized below.

A. Enhanced Quality Assurance Measures

2. The key approaches emphasized in this effort are as follows:

- (i) **Quality assurance arrangements in regional departments.** The regional departments continue to have primary responsibility for ensuring the quality of RRP they produce. They are required to put in place and strengthen their own quality assurance arrangements. SPD's role is to facilitate information sharing across regional departments through respective quality assurance focal staff on concerns raised during Board discussions, good practices, lessons, and ADB-wide efforts to enhance RRP quality.
- (ii) **Systematization of SPD review in business processes.** SPD reviews project concept papers and RRP for MFF, PBL, RBL, and other complex loan proposals to ensure that
 - (a) the choice of modality is consistent with applicable policies, particularly for MFF, PBL, and RBL; and
 - (b) the problem–rationale–result linkages and the design and monitoring frameworks (DMFs) meet quality standards.
- (iii) **Enhancement in interdepartmental review process.** Project concept papers and RRP for sovereign operations are reviewed by departments across ADB. Reviewers are required to specify the severity of issues raised by classifying each comment as either fundamental or advisory. A fundamental comment holds up loan, grant, and technical assistance processing until the issue is sufficiently addressed. This helps the regional departments address the most pressing issues efficiently.
- (iv) **Additional training and staff guidance.** As part of its regular tasks, SPD provides additional training and guidance on the choice of modality, DMF, and checklists for quality assurance.

3. Efforts to develop new concept paper and RRP templates for different modalities were led by an interdepartmental working group established in late 2016. The first template for project and sector lending was issued in early 2017 and has served as a basis for developing other templates. The new template includes additional staff guidance to help staff develop a concrete and logical rationale for the proposed project in the concept paper. It also adds flexibility to allow a fuller presentation of information on the project, including justification for modality choice, problem–rationale–result linkages, and the estimated cost of climate mitigation and/or adaptation.

4. New guidance on MFF business processes and the MFF RRP template were issued in January 2018. A new template for PBL was issued in October 2017. For RBL, the scope of template modification is being assessed as part of the effort to update the RBL staff guidance and strengthen the training and knowledge sharing on RBL.

B. Quality Assurance for Results-Based Lending

5. Ensuring the quality of RBL proposals and implementation has been a priority since the initial phase of the RBL pilot program. This was later integrated into ADB's broader efforts to improve operational effectiveness across modalities. As a first step, an ADB-wide RBL advisory group was formed in 2014 to (i) disseminate information on RBL; (ii) train staff and DMC officials; (iii) review proposed RBL programs on a peer review basis, and (iv) compile and share program experiences. As envisaged in the RBL policy, the group operated as a network of representatives from different departments providing support as needed.

6. Key support provided during the early years of the pilot phase included (i) the dissemination and training on RBL with support from the Department of Communications (videos, publications, and website); Budget, Personnel, and Management Systems Department; regional departments; and RBL practitioners; (ii) the review of RBL proposals by regional and other department representatives; and (iii) the compilation of experiences in the RBL midterm review and staff guidance update from staff across ADB with experience in processing and supervising RBL programs. The review of RBL proposals typically involves document review and continuous interactions with program teams. In addition to providing suggestions to strengthen the proposals, reviews have resulted in a decision not to pursue RBL as the choice of modality in cases where the rationale for using RBL was considered inadequate. On safeguard-related matters, the Sustainable Development and Climate Change Department reviews RBL proposals and issues safeguard policy compliance memos.

7. The quality assurance measures started in 2016 (paras. 2–4) are consistent with these RBL-specific measures. For RBL, the 2016 initiative introduced a process for staff in multiple departments to review draft RBL RRPs. This review, which was coordinated by SPD, focused on (i) the justification for choosing RBL as the preferred modality; (ii) the explanation of RBL program scope and boundary as well as ADB value addition; (iii) the clarity of results and the robustness of the results chain; (iv) the rationale for DLIs and their target levels; (v) more outcome and institution-strengthening DLIs; and (vi) the clarity of the verification protocol. The IED assessment concluded that some learning was apparent in some of these areas, including (i) the justification of the RBL modality, (ii) the selection and definition of DLIs, and (iii) the clarity of verification protocols (para. 176 of the IED assessment). Since January 2017, SPD systematically reviews all concept papers and RRPs for RBL programs as required under business processes.

8. ADB plans to continue improving the quality of RBL proposals by implementing its enhanced approach for quality assurance. ADB will also address the challenges identified by the midterm review and the IED assessment by updating the RBL staff guidance; expanding its training programs and other knowledge-sharing opportunities; and supporting DMC institutions to strengthen their capacity. These efforts will be implemented as part of ADB's broader efforts for quality assurance across modalities and will be pursued through collaboration among departments across ADB.