Asian Development Bank Profile

ASIAN DEVELOPMENT BANK

The Asian Development Bank’s development assistance is financed via 4 main channels: (1) Ordinary Capital Resources (OCR): loans offered at near-market terms to better-off borrowing countries. (2) The Asian Development fund (ADF), offering loans at very low interest rates and grants to ADB’s poorest borrowing countries. (3) Technical Assistance (mostly grants). And (4) Innovation and Efficiency Initiative (IEI) which are new financing instruments intended to provide ADB clients and operational teams with additional alternatives to help finance development projects. This profile will mainly deal with the Asian Development Fund, augmented by information on TA operations where relevant (ADB, 2007a).

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance

<table>
<thead>
<tr>
<th>Asian Development Fund (ADF)</th>
<th>2001</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Disbursements (US$ mn)</td>
<td>811.6</td>
<td>1,019.9</td>
</tr>
<tr>
<td>Gross Disbursements (US$ mn)</td>
<td>1,030.9</td>
<td>1,488.3</td>
</tr>
</tbody>
</table>

Source: OECD/DAC database table 2, 2006 data

ADB’s combined loan approvals have stagnated around $US 5.2bn for the past ten years when the response to the 1997-98 financial crisis is factored out. Sovereign loans excluding multitranche financing facilities amounted to US$ 6.1 billion in 2007. ADF loans consistently accounted for just under $1.9 billion of this amount (ADB, 2008a, table 1). ADF Net ODA disbursements grew by 25% between 2001 and 2006. The DAC figures do not include grants for TA that fall outside of the ADF financing framework and thus underestimate total ADB concessional financing. In 2007, TA approvals stood at US$ 243 million.

1.2. Future Quantity Intent

Under the terms of the 2008 ADF replenishment (ADF X), thirty donors will provide US$ 11.3 billion to the ADF over the four-year period from 2009-2012, a 61% increase over the last ADF replenishment in 2004. 60% is expected to come from internal sources, 36% is expected to come from new donations, and the remaining 4% will come from Ordinary Capital Resources (OCR) (see 2.1) (ADB, 2008d).

2) KEY AGENCIES/MECHANISMS

2.1 Agencies and Structures (ADB, 2007a, 2007d)

The ADB is a multilateral development bank owned by 67 member countries aimed at improving the welfare of people in Asia and the Pacific. 48 of the members are from within the region, and 19 developed countries from outside the region. Of the regional members, Singapore, Hong Kong (China), Taipei (China), and the Republic
of Korea have graduated from the ADB’s eligibility criteria and are thus no longer
eligible for borrowing. The remainder can borrow from either its Ordinary Capital
Resources (OCR) or the Asian Development Fund (ADF), depending on the criteria
outlined in section 3.2.1. ADB’s headquarters are in Manila, Philippines, and it has
26 other offices around the world.

*Asian Development Fund (ADF)*
The ADF is funded by member countries and issues grants and concessional loans to
the Bank’s poorest borrowing countries (see section 3.2.1 for a description of the
ADB’s categorization of countries).

*Other Funds*
Next to the ADF, the main concessional financing instrument of the ADB are grants
for projects in the least developed recipient countries and technical assistance (TA).
ADB manages a number of special funds and trust funds of which the larger ones at
the end of 2007 included US$ 30.0 million in grants and US$ 2.0 million in TA for
the Pakistan Earthquake Fund, US$ 22.0 million in grants and US$ 43.1 million in
TA for the Japan Fund for Poverty Reduction / Japan Special Fund, and US$ 101.3
million in TA for the Technical Assistance Special Fund (ADB, 2008a).

2.2 Key Policies and Documents
ADB’s central objective is to improve the welfare of the people in Asia and the
Pacific, particularly its poorest inhabitants. It is guided in large part by the 1966
charter agreement which established the bank (ADB, 1967). Many of its core policies
are available in the Operations Manual (ADB, 2007e), which “collects ADB’s
operational policies known as Bank Policies (BPs) which are short, focused
statements that follow from the Agreement Establishing the Asian Development Bank
(the Charter), the Regulations of the Asian Development Fund, the Regulations of
Ordinary and Special Operations, and operational policies adopted by the Board of
Directors” . The ADB annual reports give a good overview of the latest thinking in
the ADB (for the latest version see ADB, 2008a).

*Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank
2008-2020 (ADB, 2008c)*
The Long-Term Strategic Framework (LTSF) refocuses the ADB’s operations on
three objectives: Inclusive economic growth, environmentally sustainable growth, and
regional integration. To these ends, by 2012 the Bank will focus lending almost
exclusively on infrastructure, environment, regional cooperation and integration,
financial sector development, and education. By 2020, 50% of operations will be in
private sector development, 30% in regional cooperation, and the remaining 20% will
be dedicated to funding sector-specific or humanitarian assistance.

*Medium Term Strategy II (2006-2008) (ADB, 2006a)*
MTS II guides the operations of the ADB for the period 2006-2008. Within the broad
framework of the LTSF, which was also the framework of MTS I, and based on an
assessment of recent important developments in the region, MTS II has adopted five
strategic priorities to further strengthen the poverty reduction impact of ADB’s
operations: (i) catalyzing investment, (ii) strengthening inclusiveness, (iii) promoting
Regional Cooperation and Integration, (iv) managing the environment, and (v)
improving governance and preventing corruption. The strategy does not include
targets on Paris beyond the 2005 Declaration, even though the principles are well entrenched in the document.

*Aid Harmonization and Alignment Action Plan* (ADB, 2007f)
This regularly updated action plan provides a wealth of information on the ADB’s country specific efforts to better harmonise and align its aid.

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

Table 3.1a: Top 10 Recipients of ADF loans in 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>US$ mn</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vietnam</td>
<td>515</td>
<td>27.2%</td>
</tr>
<tr>
<td>2</td>
<td>Bangladesh</td>
<td>466</td>
<td>24.6%</td>
</tr>
<tr>
<td>3</td>
<td>Pakistan</td>
<td>455</td>
<td>24.0%</td>
</tr>
<tr>
<td>4</td>
<td>Sri Lanka</td>
<td>115</td>
<td>6.1%</td>
</tr>
<tr>
<td>5</td>
<td>Tajikistan</td>
<td>72</td>
<td>3.8%</td>
</tr>
<tr>
<td>6</td>
<td>Armenia</td>
<td>67</td>
<td>3.5%</td>
</tr>
<tr>
<td>7</td>
<td>Indonesia</td>
<td>50</td>
<td>2.6%</td>
</tr>
<tr>
<td>8</td>
<td>Papua New Guinea</td>
<td>40</td>
<td>2.1%</td>
</tr>
<tr>
<td>9</td>
<td>Uzbekistan</td>
<td>30</td>
<td>1.6%</td>
</tr>
<tr>
<td>10</td>
<td>Cambodia</td>
<td>27</td>
<td>1.4%</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>1893</strong></td>
<td><strong>96.9%</strong></td>
</tr>
</tbody>
</table>

Source: ADB, 2007 data

The top 3 recipient countries of ADF resources in 2007 were Vietnam, Bangladesh and Pakistan, together accounting for almost 25% of total ADF net disbursements (table 3.1a). Several countries not receiving ADF loans are still large recipients of ADB loans and grants. India, the People’s Republic of China, and Indonesia are significant recipients of OCR loans. Afghanistan and Nepal both received over US$100 million in grants in 2007.

In terms of regional allocation, by definition all ADB operations take place in Asian and Pacific countries. In 2006, 45.2% of net disbursements were to LDCs, reflecting the fact that most LDCs are in Africa. Including other LICs however, the total percentage is as high as 83.1% (table 3.1b).

Table 3.1b: Distribution among different groups of recipients (% total ODA):

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least Developed Countries (LDCs)</td>
<td>45.2%</td>
</tr>
<tr>
<td>Other Low Income Countries (OLICs)</td>
<td>37.9%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: OECD/DAC database table 2, 2006 data.

27 of 31 eligible countries received funding approvals under ADF VIII and IX – exceptions being Georgia and Palau, who have only recently become members, and
Nauru and Vanuatu, whose country strategy decisions have limited funding to TA (ADB, 2007c).

3.2. Allocation Criteria

3.2.1. Pre-selection criteria

The ADB divides its developing member countries into three groups (A, B and C) based on the countries’ GNP and its debt repayment capacity. Group A countries are eligible only for ADF financing, while Group C countries can only receive OCR financing. Group B countries are eligible for a blend of ADF and OCR financing (ADB, 2008e). To be in group A, a country must have a per capita GNI below $1,065 (2006 dollars) and weak debt repayment capacity as measured by factors such as its level of savings and investments, ability to generate export earnings, levels of international reserves, outstanding external debt, and debt service burden. Group B countries must be adequately credit-worthy for OCR or market-based lending. ‘Graduation’ to Group C status occurs when a country achieves GNI per capita of $6,275 (2006 dollars), gains access to available capital flows on ‘reasonable terms’, and meets a standard on a number of development indicators. Countries normally graduate from all ADB assistance within 5 years of entering Group C.

As of June 2008, the countries in group A are: Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao PDR, Maldives, Mongolia, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Timor-Leste, Tonga, Tuvalu, and Vanuatu; Group B: Armenia, Azerbaijan, Bangladesh, Georgia, India, Marshall Islands, Federated States of Micronesia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam; and Group C: Cook Islands, P.R. of China, Fiji Islands, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, and Turkmenistan. Four countries have graduated from ADB assistance: Hong Kong (China), the Republic of Korea, Singapore, and Taipei (China).

3.2.2. Allocation criteria:

The allocation of ADF resources is guided by a policy of Performance Based Allocation. ADB conducts a Country Performance Assessment of each developing member country based on the coherence of its macroeconomic and structural policies, the quality of its governance and public sector management, the degree to which its policies and institutions promote equity and inclusion, and the portfolio quality. This performance score is then combined with the country’s need, based on GNI per capita, and the country’s size, based on population to determine the allocation shares for ADF borrowers (ADB, 2007g).

4) AID POLICIES

4.1. Concessionality

Loans from ADF have long been concessional, though not as concessional as the concessional windows of the African Development Bank and World Bank. The grant elements of the loans vary from 69.2% to 78.3%.
Terms of ADF loan commitments:

<table>
<thead>
<tr>
<th>Grant element</th>
<th>Projects</th>
<th>Programmes</th>
<th>Emergency</th>
</tr>
</thead>
<tbody>
<tr>
<td>69.2</td>
<td>64.4</td>
<td>78.3</td>
<td></td>
</tr>
<tr>
<td>Maturity</td>
<td>32</td>
<td>24 years;</td>
<td>40*</td>
</tr>
<tr>
<td>Grace period</td>
<td>8</td>
<td>8 years</td>
<td>10</td>
</tr>
<tr>
<td>Interest rate</td>
<td>1% during grace period; 1.5% during amortization period</td>
<td>1% during grace period; 1.5% during amortization period</td>
<td>1%</td>
</tr>
<tr>
<td>Commitment fee</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

* repaying 2% a year for 10 years followed by 4% thereafter

All ADF technical assistance is provided as grants. In addition, project grants were introduced in ADF IX and are expected to comprise 21% of ADF financing for 2005-08 or $1.47 billion (ADB, 2004). Originally, ADF IX grants were to be allocated 14% to technical assistance, 76% to poor debt-stressed (Lao PDR, Cambodia, Nepal and Kyrgyz Republic) or post-conflict (Afghanistan, Tajikistan, Timor Leste, Solomon Islands and Sri Lanka) countries, and 10% to HIV/AIDS and other infectious diseases (ADB, 2004, p34). However, since 2007, grants have been allocated only on the basis of the risk of debt distress of the country, on the same basis as IDA (ADB, 2007c).

4.2. Types of Assistance

ADB provides project and programme assistance (as loans or grants) and technical assistance (only grants for ADF). Development projects are in sectors and areas agreed upon by both ADB and the member Government. Programme and sector support promotes policy, sector, and institutional reforms. The way the ADB delivers programme support is well explained in Programme Lending (ADB, 2003a). There is a ceiling of 22.5% of overall ADF commitments for programme support. The ADB does not provide general budget support, focussing on sector support (but including multi-sector programmes). The ADB distinguishes three types of programme support:

(i) standard programme support is used in normal situations where relatively short-term incidences of adjustment costs are expected. Disbursements are relatively quick (about 3 years).

(ii) cluster programme support extends standard programme support, in order to address policy and institutional reforms over a longer time frame (4–7 years).

(iii) special programme support (see section 4.5).


For the 10 countries with ADB assistance covered in the Paris declaration, best practice on programme based arrangements (Indicator 9) can be found in Papua New Guinea where all ADB resources are in the form of PBAs, Indonesia (79%) and the Philippines (77%). Technical Assistance is 100% co-ordinated with country-led plans in Afghanistan, Papua New Guinea, Kyrgyz Republic and Vietnam (Indicator 4).

4.3. Channels of Assistance

As a general rule, ADB works directly with member governments, so all of its funds go through government budgets. However, the HIV/AIDS trust fund, established by the government of Sweden and managed by ADB, is able to give grants and loans directly to NGOs. The ADB also seeks to act as a catalyst for local and foreign funding for private sector activities (ADB, 2007h). It does this through equity
investments, loans, guarantees, and complementary financing schemes (see also table in section 4.2.).

4.4. Sectors and Projects
2007 sectoral distribution of ADF approvals (loans and grants combined)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount ($m)</th>
<th>% of ADF funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Natural Resources</td>
<td>59.1</td>
<td>2.5%</td>
</tr>
<tr>
<td>Education</td>
<td>203.0</td>
<td>8.4%</td>
</tr>
<tr>
<td>Energy</td>
<td>107.0</td>
<td>4.4%</td>
</tr>
<tr>
<td>Finance</td>
<td>85.0</td>
<td>3.5%</td>
</tr>
<tr>
<td>Health, Nutrition and Social Protection</td>
<td>77.0</td>
<td>3.2%</td>
</tr>
<tr>
<td>Industry and Trade</td>
<td>65.0</td>
<td>2.7%</td>
</tr>
<tr>
<td>Law, Economic Management and Social Policy</td>
<td>173.8</td>
<td>7.2%</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>666.0</td>
<td>27.6%</td>
</tr>
<tr>
<td>Water Supply, Sanitation &amp; Waste Management</td>
<td>734.3</td>
<td>30.4%</td>
</tr>
<tr>
<td>Multisector</td>
<td>242.0</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2412.2</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: ADB (2008b)

The ADF is present in all major sectors, with specific choice of sector depending on country-demand and the ADF’s comparative advantage in the sector, as discussed and agreed in Country Strategy Programmes (ADB, 2003b).

However, based on evaluation of its success rates of projects in different sectors, as well as regional and national priorities in development programmes and for reaching the MDGs, ADF has indicated that it will focus increasingly on education and infrastructure in future commitments (up to a level of around 60% in current 2009-10 allocation plans). ADF is also intending to increase its support to country strategies for preventing and adapting to climate change (ADB 2007j).

ADF also wants to exploit to the full its comparative advantage in supporting regional (as opposed to national) programmes. ADF X has raised the proportion of operations funding earmarked for regional and sub-regional projects from 5% to 10% of the ADF budget (ADB, 2008d).

4.5. Flexibility
The main ADB instrument for crisis/contingency financing is the special programme loan (the third of the ADB’s programme lending products see also section 4.2), which is used for emergency lending to a DMC in times of crisis and is characterized by its short-term time horizon, large size, quick disbursement (up to 3 years), more concessional lending terms (see section 4.1), and focus on actions to reduce the severity of the crisis. This instrument is used in macroeconomic crises of the type that swept through Asia in 1997-1998 (ADB, 2003a), and separate facilities exist for emergency assistance (see ADB, 2007e, for more information).

4.6. Predictability
The ADB’s Country Strategy Programme covers a 5-year period, and it can make indicative ADF allocations over the period of each replenishment (4 years), and firm commitments over its two year allocation/programming cycle which was introduced in 2008 for ADF X. It tries to align where possible with the partner-countries planning cycle (ADB, 2003b).

6
According to Paris indicator 7, predictability (as measured by the ratio of disbursements recorded by Government over aid scheduled by donors) is highest in Indonesia (100%), Bangladesh (94%), Kyrgyz Republic (91%) and Lao (91%).

4.7. Conditionality
The ADB uses special loan covenants as a conduit for its conditionalities. They are designed according to the socioeconomic conditions of the specific country, and may cover institutional and staffing arrangements; acquisition of land; allocation of resources; institutional development and training; review of tariffs, rates, charges and prices; among other conditions (ADB, 2003c). For programme lending, the operations manual stipulates that conditions related to different tranches of the loan, “must be formulated with a view to optimizing the sequencing of reform steps, as well as minimizing short-term costs of adjustment” (ADB, 2007d).

4.8. Policy Dialogue
ADB is strongly involved in policy dialogue, as it is seen as an important means of influencing governments to reorient their policies, where need be, not only to maximize the returns on Bank investments, but also to introduce reforms in the sectors concerned. ADB’s involvement in policy dialogue is generally sector-based, but can also be macro-economically based where it provides programme support (ADB, 1999).

5) AID PROCEDURES

5.1 Conditions Precedent
The ADB’s programming cycle through the development of Country Strategy Programmes (CSPs) is well described in ADB (2003b).

A 2005 ADB evaluation study on PIUs concludes that around 90% of ADB’s investment projects have some kind of PIUs and that only in energy projects this is significantly less (ADB/OED, 2005). This is not borne out by the Paris survey indicator 6, which indicates that of the 10 countries surveyed only the Kyrgyz Republic and Cambodia have PIUs. In general, ADB does not mention rationalization of PIUs as a particular implementation aim of its Paris commitments. In the exhaustive report of all of ADB’s country-specific harmonisation and alignment initiatives, the phasing out of PIUs is only mentioned in the context of Mongolia, whilst PIUs are jointly set-up with other donors in Tajikistan and Kazakhstan (ADB, 2007f).

5.2 Disbursement Methods
The ADB offers six different disbursement methods, three of which (numbers 4, 5, and 6 below) require prior approval from ADB (ADB, 2003d).

1) Direct Payment involves ADB paying a supplier, contractor or consultant directly upon the submission by the borrowing member country of a withdrawal application.

2) Reimbursement involves the borrower first making the payments, then requesting reimbursement from ADB.
3) Commitment involves opening a commercial letter of credit to pay a foreign supplier. The agreement is usually between a commercial bank in the importer’s country and one in the supplier’s country, with ADB acting only to assure payment from the loan proceeds to the paying bank.

4) An Imprest Fund can be used when the executing agency finds it difficult to prefinance payments or to meet operational expenses, and involves ADB providing the agency with funds in advance, which can subsequently be replenished if necessary.

5) The Statement-of-Expenditure procedure involves the executing agency submitting a statement of expenditures in lieu of the usual supporting documentation; this is generally used when it is overly burdensome to supply the full documentation, such as in the case of multiple small contracts.

6) The Force Account procedure is used when ADB and the borrower agree that the executing agency should use its own work force, equipment and other resources. As the usual invoices, bills, and receipts are not available, ADB requires the periodic submission of certifications of progress.

5.3 Disbursement Procedures
On Accounting and auditing practices and standards related to ADB projects, the ADB’s policy is in general to try and use local systems, even where standards are not entirely adequate: “ADB recognizes that, given the varying levels of DMC development, it will take time to improve financial reporting practices to international standards and best practices. In this regard, ADB requires revenue-earning executing agencies to follow national accounting standards and practices, with the eventual objective of moving towards IAS-compliant accounting standards, as capacity allows and the situation warrants. In such cases, the variances between national standards and IAS, or IPSAS for nonrevenue-earning executing agencies, are to be quantified and disclosed in the notes to the financial statement and in the auditor's report” (ADB, 2003e).

This is more or less confirmed by Paris indicator 5a, with best practice in Afghanistan, Bangladesh (where 100% of ADB resources use local Public Financial Management systems), and Nepal (96%),

5.4 Procurement Procedures
ADB’s procurement policy requires that (ADB, 2006b):

(i) the proceeds of ADB loans, ADB-financed grants, and ADB administered funds be used only for procurement in member countries of goods and services supplied from and produced in member countries;

(ii) the proceeds of loans or grants from Special Funds resources be used only for procurement in the territories of all contributors and all developing member countries of goods and services supplied from and produced in such territories;

Insofar as procurement is limited to ADB members it is partly tied. There is no indication that the ADB is planning to change this policy.

The ADB uses partner country procurement procedures most in Afghanistan (100%), Nepal (96%) and Bangladesh (76%) according to Paris indicator 5b.

5.5 Coordination
ADB has been very active in coordinating with the other Multilateral Development Banks to harmonise its procedures and policies (MDB Working Group on
Harmonization, 2007). The Bank seeks close coordination at the project level if other agencies are active in the sector. It also coordinates closely with the World Bank on macroeconomic and sector issues, operational policies and programmes, project-specific issues, and project performance and post-evaluation issues.

As of September 2007, the ADB’s published policies on coordination arrangements with international organizations and bilateral sources were under review. ADB (2006c) gives a good overview of the ADF’s coordination policies.

ADB is strongly committed to mobilising co-financing for projects wherever possible, and in 2005 mobilised co-financing equivalent to 85% of its own funding disbursements.

ADB is strongly committed to implementing the Paris Declaration and has recently produced a report assessing its own performance frankly (ADB 2007k). A more in-depth country-specific source for all ADB’s alignment and harmonization initiatives, which is also regularly kept up to date, is ADB (2007f).

In line with its commitment to implement the Paris Indicators, all of ADB’s missions and analytical work were done jointly in Papua New Guinea and in the Kyrgyz Republic, all of the analytical work was done jointly. However, the other surveyed countries had a very small proportion of coordinated missions, all below the 40% target.

**Key Sources** *(all internet sources were accessed in October 2008)*


ADB (2007i) “How are ADF resources used”, accessed at www.adb.org/ADF/faq.asp


